From:	Bruno Amara
To:	John Kim
Subject:	2017 05 02 OFHP Summary v03 1.pptx
Date:	Wednesday, May 03, 2017 9:07:02 AM
Attachments:	2017 05 02 OFHP Summary v03 1.pptx

Minor suggested edits in attached

And w.r.t. to the chart and label for arrows going to and from Trust and IESO. Wondering if it's simplifying too much if these were just labelled "cash" (top arrow) and "regulatory asset" (bottom arrow)

Or

top arrow one could change wording around to match the arrow

"OPG SPV/Trust cash purchase of regulatory asset from IESO" rather than "Sale of regulatory asset to OPG SPV/Trust for cash"

bottom arrow

Is wording on arrow below explaining too much?. I.e., is it also explaining the payment from IESO to PGs.

Or

Just leave as is

Ontario's Fair Hydro Plan

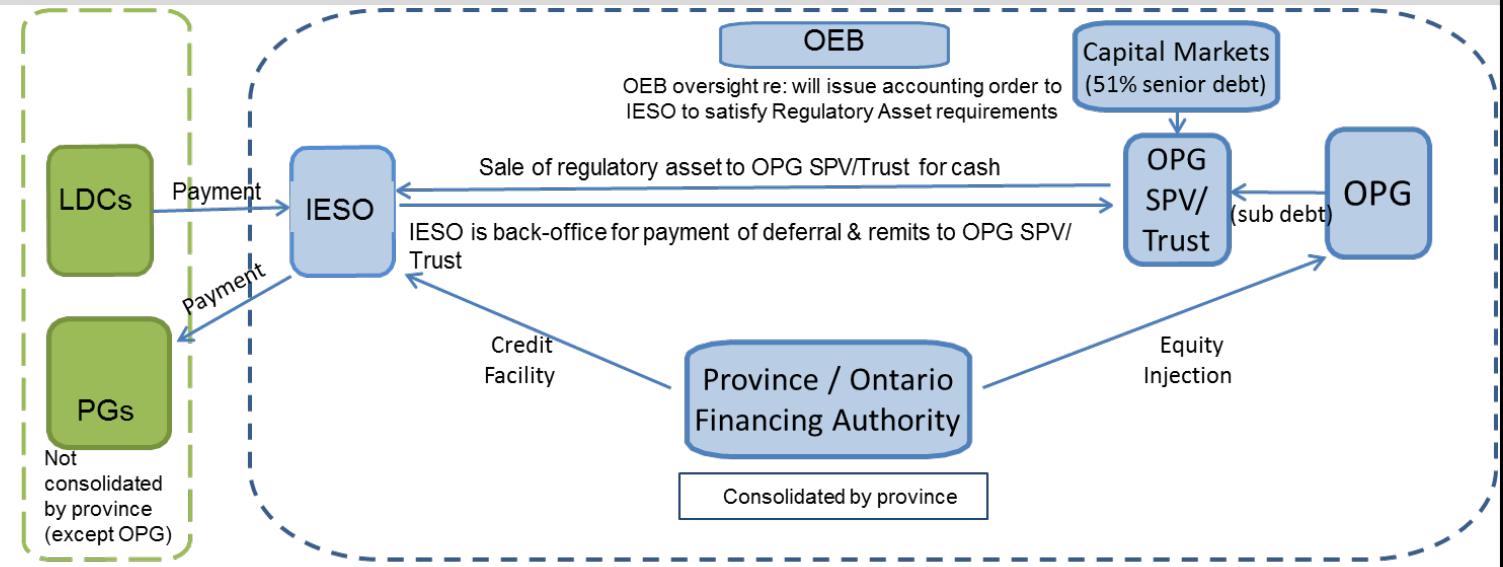
Context

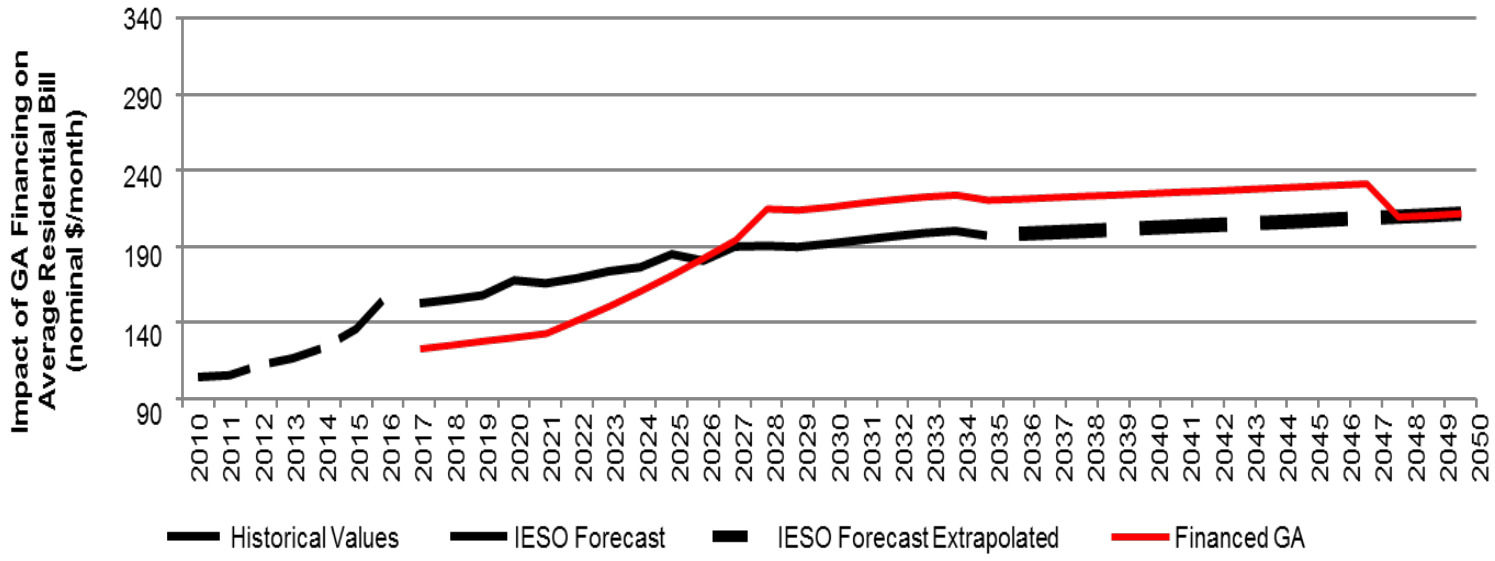
- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. Up to 500,000 small businesses and farms would also benefit.
- Any rate increases for typical residential consumers over the next four years would be held to inflation
- To implement the OFHP, ENERGY has prepared legislation (Ontario Fair Hydro Plan Act) in close collaboration with the OEB, Independent Electricity System Operator (IESO), Ontario Power Generation (OPG), partner ministries (TBS, MOF and MAG), external advisors.

OFHP Act Overview

- The Legislation balances ratepayer interests, accounting objectives, market expectations and legal considerations
- Built around core principle that costs incurred to move to a clean, reliable system creates benefits across generations, and that costs ~~that~~ should be spread more fairly. Pre-defined terms (see definitions) form the building blocks for this structure
- Roles and responsibilities are established in legislation:
  - Minister of Energy: sets Fair Allocation Amounts for all periods, at the beginning of the plan
  - OPG: Financial Services Manager, sets the Financing Plan, establishes financing entities, purchases assets from IESO, and will drive invoice amounts to customers
  - IESO: creates funding shortfall / regulatory asset, sells to OPG SPV/Trust, acts as agent to collect from ratepayers and fund initial interest costs
  - OEB: sets customer rates, establishes regulatory asset for IESO, reviews OPG's admin. costs
- Large part of legislation designed to ensure the financeability of the program
- Key considerations
  - Legislation sets the first Fair Allocation Adjustment and end date of 2047; amounts for intervening years set in regulation
  - Several Provincial guarantees to be negotiated to enable financing without imposing undue cost / risk on Province
  - Province's role constrained once the program underway (e.g. cannot remove OPG as financial services manager)
  - Modelling underway to ensure principle of cost / benefit alignment underlying the program is justifiable
  - Energy has received approval to provide monthly equity injections to OPG to fund sub-debt (see diagram)
  - OFA working with IESO to provide an additional credit facility (see diagram)

GA Financing Overview





	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly residential bill w GA financing impact and tax *($/month)*	104	105	112	116	124	136	158	123	126	128	131	133	142	151	161	172	183	195	215	214	216	219	221	223	224	221	222	222	223	224	225	226	227	228	229	230	230	231	210
Year-over-year change in bill *(%)*	-	1.0	6.7	3.9	6.1	9.8	16.7	-22.1	2.0	2.0	2.0	2.0	6.5	6.5	6.5	6.5	6.5	6.5	10.5	-0.4	0.9	1.2	1.0	0.8	0.6	-1.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-9.3
Impact of GA financing pre-tax *($/month)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-26.1	-26.1	-26.2	-32.8	-28.7	-23.9	-19.9	-13.5	-11.8	2.0	4.2	21.8	21.8	21.7	21.7	21.5	21.4	21.3	21.0	20.9	20.8	20.7	20.6	20.5	20.4	20.4	20.3	20.2	20.1	20.0	19.9	0.0
Total Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	5.1	7.9	11.4	14.6	17.8	20.8	23.2	25.6	26.7	27.7	26.8	26.0	25.1	24.1	23.1	22.0	20.9	19.7	18.5	17.2	15.9	14.4	12.9	11.3	9.7	7.9	6.1	4.2	2.1	0.0	0.0
Total Change in Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.6	2.8	3.5	3.2	3.2	2.9	2.4	2.4	1.1	0.9	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Ontario's Fair Hydro Plan (cont'd)

Electricity Support to Help the Most Vulnerable

Rural / Remote Electricity Rate Protection	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	0	454	450	446
Overview	Expand the existing program and harmonize distribution rates for customers in the top 1/8 of distribution rate classes, and shifting costs to the tax base			
Updates	Amend S. 79 of OEBA to provide through regulation classes of customer costs to be shifted to tax base, and create distribution rate protection program to complement RRRP			
Next Steps	Amend regulation to prescribe H1's R2 customers as receiving RRRP & prescribe by regulation program details/customers eligible for broadened distribution rate protection			

Ontario Electricity Support Program	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	0	178	239	290
Overview	Improve the existing program to enhance benefits and increase uptake through streamlined applications and expanded eligibility to include additional households			
Updates	Shift program funding to tax base and authority to allow data sharing between OEB/MCSS to support participation of Ontario Works/Ontario Disability and Support Program clients			
Next Steps	Move to tax base once variance account depleted (exp. fall 2017), with legislation to be proclaimed via OIC at that time to ensure OEB authorities while ratepayer funding is used			

On-Reserve First Nations Delivery Credit	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	0	20	20	20
Overview	Establish a credit to remove delivery charges for 21,500 on-reserve First Nations residential customers			
Updates	Establish authority to create delivery credit and provide for tax-based funding			
Next Steps	Regulatory amendments with details - class of customers eligible, determine what is considered on-reserve and determine the method of calculating the delivery credit			

Affordability Fund	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	100	Up to 100 additional		
Overview	Fund has been established through local distribution companies to help consumers in need to make energy efficiency improvements			
Updates	Advisory committee established and has recommended reps. from Hydro One, Alectra and Thunder Bay Hydro to act as trustees; 2 social services trustees to be selected soon			
Next Steps	Report back to TB/MBC in June 2017 with final program details and a performance management framework; LDCs begin to apply to the Trust for funds in summer 2017			

Other Elements / Considerations

- Industrial Conservation Initiative: Program expanded to include greenhouses. Energy working with CME and OCC on outreach campaigns on benefits of ICI and other conservation initiatives
- Bill Presentment: Targeting a re-design of the bill for Fall 2017. For the interim period the Ministry plans to include bill inserts describing the program
- Auditor General (AG) / Financial Accountability Officer (FAO): The Ministry has met with both offices and is circulating information in response to follow up requests. The AG also engaged with IESO through its IT value-for-money audit

From:	Ken Kandeepan
To:	Montgomery, Kaitlin (MOF)
Cc:	Mike Manning; James Devine; Carlos Yep; John Kim
Subject:	2017 06 06 Outstanding Business Issues Ontario Fair Hydro Plan - v04.docx
Date:	Thursday, June 08, 2017 12:52:45 PM
Attachments:	2017 06 06 Outstanding Business Issues Ontario Fair Hydro Plan - v04.docx

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Hi Kaitlin

Pls find attached, my edits are limited to item 4.

Thanks

Ken k

Outstanding Business Issues – Ontario Fair Hydro Plan

Briefing Note

PURPOSE

Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Provincial Support Agreement Term Sheet (Performance and Payment Guarantees)**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA have discussed a draft term sheet and the OFA, MOF and Blakes will work together to provide comments
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July.

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - Provincial staff, with OPG's concurrence, recommends minimizing, to the extent possible, the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers.
   - The Province is considering regulation changes to exempt from PILs the income arising to the OPG financing vehicle / OPG as a consequence of the Fair Hydro Plan.
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity.
   - **Next Steps:**
     - The MOF, OFA and OPG are working together to determine required regulation changes.
     - Torys prepared a memo on the item
     - Timing: MOF will be setting up a call with tax policy, OPG and Torys to discuss a memo Torys prepared on the item in the next few days

3. **Fair Hydro Plan - Master Subscription Agreement Term Sheet (Equity Injection Process)**
    - OPG will require equity injections on a monthly basis, to match the timing of the purchase of the IESO regulatory asset, as applicable, in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province.
    - The Ministry of Energy received appropriation for a fiscally-neutral operating asset expenditure of $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT.
    - **Next Steps:**
        - ~~The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process, which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.~~Approval of the draft term sheet (see note).
        - Once term sheet is approved, this will serve as the basis for the Master Subscription Agreement between OPG/ENE and OFA
        - OFA and ENE to develop Service Level Agreement for monthly cash management services
        - Amendment to OPG articles required to facilitate issuance of new class of shares
        - Timing: OPG will require the ability to issue equity in ~~July~~August, so mechanics and agreements should be finalized in ~~June~~July.

4. **Management Fees**
    - OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
    - The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations, which are currently in development.
    - ~~OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements.~~
    - There are two components to the management fee model proposed by OPG:
        - Base fee: the structure will allow OPG to earn a commercial fee, an accounting consolidation requirement, with periodic OEB review of the commercial basis of that fee. OEB and OPG are in discussions in order to develop a model that satisfies the accounting requirements and is consistent with OEB's processes.
        - Performance ~~management~~ fee: OPG has the ability to gain or lose depending on the actual financing cost relative to a benchmark, which would be shared equally between ratepayers and OPG. Gain/loss ~~is~~ is applicable only to OPG's investment in the Trust from external borrowing

(5% of the funding requirement) and capped at 1% of the related annual incremental issuance amount.

- **Next Steps:**
  - Base fee: OEB to provide comments on OPG's proposed base fee framework.
  - Performance Fee: ~~OPG and OEB will bring forward a recommended framework for developing management fees.~~Approval of the draft framework (see note).
  - Timing: ~~TBD~~For incorporation into the June 27th regulations

5. **Subordinated Debt Loan Agreement**
   - OPG will lend the equity injection from the Province to the Fair Hydro Trust by way of subordinated debt
   - Based on monthly funding requirements of the GA asset, the Trust will use short term financing and take out bonds once short term funding reaches certain levels
   - OPG and OFA are working on a Debt Loan Arrangement that would establish the interest rates on the subordinated debt
   - **Next Steps:**
     - OPG and OFA will bring forward a recommended framework for determining interest rates
     - Timing: TBD

6. **IESO – Increased OFA Credit Facilities**
   - THE OPG financing entity is not expected to be immediately operational, so the IESO will need to have transitional financing in place to manage the difference in the payments to generators and other service providers vs payments from loads / LDCs.
   - There may also be on-going monthly cash flow timing differences that the IESO will need a credit facility for.
   - In addition, the OPG financing entity has the right to purchase the regulatory asset from IESO but is not required to purchase it.
   - IESO is working with the OFA to increase the credit facilities in the event that the OPG financing entity does not purchase the regulatory asset
   - **Next Steps:**
     - OFA is drafting a new agreement for a $2 billion credit facility for the OFA to lend funds to IESO for FHP purposes. Concurrently, the OFA is seeking the Minister's approval for an LRC submission to approve an OIC for an additional $2 billion in borrowing capacity, as well as a Directive from the Minister of Finance, which are both necessary for the OFA to lend funds to IESO under the requested new Credit Facility.

- Timing: The OIC is scheduled for the June 27, 2017 LRC meeting. The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017

7. OPG Indemnity

- OPG (and IESO) are asking for the Province to indemnify the IESO, OPG (the entities) and their respective directors, officers and employee in order to allow them to carry out their roles in implementing the Ontario Fair Hydro Plan and primarily the Global Adjustment refinancing.
- Indemnification will need to ensure separation between the Province and OPG is maintained
- **Next Steps:**
  - Staff in Ministry of Finance and Treasury Board Secretariat have received initial documents and are currently reviewing.
  - Depending on the structure of the indemnity requested, an OIC may be required to provide authority to the Minister of Finance
  - Timing: If an OIC is required this would be included in the June 27th, 2017 submission

From:	John Kim
To:	Ronald Kwan
Cc:	Deena Padamadan; Bruno Amara
Subject:	5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc
Date:	Wednesday, May 03, 2017 1:58:35 PM
Attachments:	5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc

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Hi Ron,

Pls. see attached. We're checking a couple of delta numbers still as we checked the numbers again.

Thanks,

John

TAB 3

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

~~Prepared based on draft submission~~

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I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence.

The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan ~~(Board-approved?)~~ to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets.
  - Provincial borrowing would be offset by an increase in an investment asset in OPG.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged
    - ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)~~
  - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
  - ~~In addition, the Province's net debt position should remain unchanged (Check is OFA)~~

Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments from the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget, and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan. ~~Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authriy, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.~~

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have an one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province ~~may~~ make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018~~7~~.

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Commented [BA1]: Also added MoF changes for IFRS risk

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - 2017 Budget projections were based on t~~T~~he figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $2994M in 2016-17 and $556M in 2017-18 compared to the 2016 Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of ~~Ontario~~ n~~N~~uclear ~~Funds Agreement~~asset retirement obligations-related IFRS risks, followed by an increase of $121~~1~~M in 2018-19 ~~and a decrease of $14M in 2019-20~~ versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

  - ~~The figures in the OPG Board approved 2017-2019 Business Plan, along with OFA forecast updates for OFHP (TBC), show a decrease in earnings before tax of $84M in 2017-18 and $89M in 2017-18, followed by increases of $59M in 2018-19 and $120M in 2019-20 over the estimates in the 2016 Budget..~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4633~~6~~M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA a~~n~~nd MOF adjustments, is p~~rojected~~lanned to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as

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Commented [JK3]: There is a delta in the latest information used for the fiscal plan.

continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and

investment and due diligence processes for its pension fund and nuclear funds.

- OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
- OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing)~~,~~ and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~Regulatory risks: Potential disallowance of recovery of OPG's current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.~~

~~Accounting risks: Any change in the basis of accounting used for consolidation of OPG on the Province's financial statements could result in potentially significant fiscal impacts.~~

~~Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

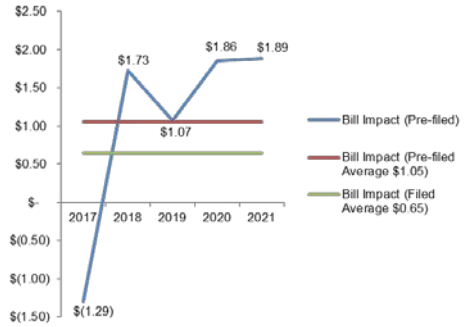
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

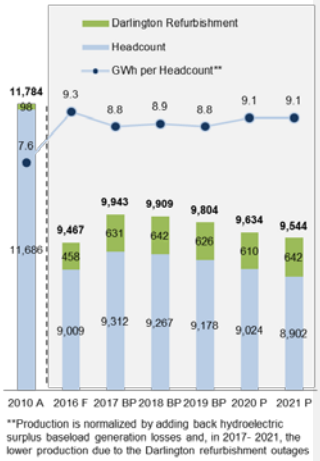
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



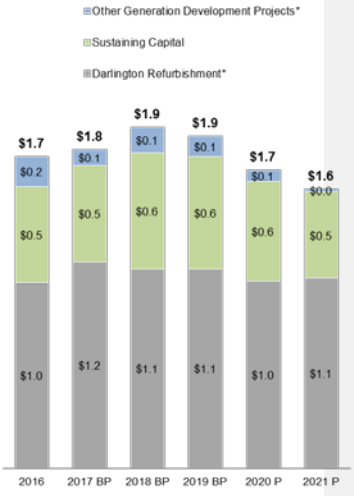
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

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	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Ontario Budget				
Ontario Power Generation				
Net Income	304	97	732	825
Income Tax	92	92	135	170
Adjustments to OPG BP Net Income				
OPG Head Office*		222		
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	1754	5499	99153
OPG Head Office*		222		
Income Tax				
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

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Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget				
Net Income	471	586	673	-
Income Tax	224	159	182	-
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income	-	-	-	-
OPG 2017-19 Business Plan	349	702	678	726
Adjustments	-	-	-	-
OPG Update[1]	30	-	-	-
IFRS Risk adjustment[2]	-75	-400	-	-200
related OPG Head Office Sale[3] (reported under Sales & Rentals)	-	-222	-	-
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)	-	17	54	99
Nuclear Funds fair value adjustment[4]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax	-	-	-	-
OPG 2017-19 Business Plan	96	166	135	170
Adjustments	-	-	-	-
OPG Update[1]	-4	-	-	-
related OPG Head Office Sale[3] (reported under Sales & Rentals)	-	-74	-	-
Income tax 2017 Budget	92	92	135	170
2017 Budget vs. 2016 Budget				
Net Income	-379167	-494489	-53859	-
Income taxes	-132-92	-67-92	-47	-

1. OPG February 2017 ~~Financials~~Monthly Update
2. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
3. For Budget reporting projected net impacts of Province asset optimization strategy are reported under Sales and Rentals
4. Provincial consolidation adjustments for unrealized earnings on decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

~~Revenue ($millions)~~	~~2016-17~~	~~2017-18~~	~~2018-19~~	~~2019-20~~
~~2016 Ontario Budget~~				
~~Ontario Power Generation~~				

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Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	111	184	154	189
2017 Ontario Budget				
Ontario Power Generation				
Net Income	387	497	732	825
Income Tax	?	?	?	?
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(84)	(89)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?	?	?	?
TOTAL OF OPG CHANGES	?	?	?	?

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update[, combined with a summary of net income and income tax PILs in the above table].

Commented [JK5]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

Table below to be updated – OFA

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2016-18 OPG Business Plan				
Combined Other PILs & Other GRC[2]	353	358	366	
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	215	220	220	
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	135	140	140	
OPG Monthly Update (August 2016)				
Net Income	361	-	-	
Income Tax PILs to OEFC	98	-	-	

1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.
2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.
3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241

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Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
~~Net Income (including OPG Head Office sale)~~	~~379~~	~~702~~	~~678~~	~~726~~
~~2017 Budget Adjustments~~				
~~ONFA adjustment~~	~~8~~			
~~OPG Trust Interest Revenue - TBC~~		~~17~~	~~54~~	~~99~~
~~OPG IFRS consolidation risk reflected in fiscal plan~~	~~(75)~~	~~(400)~~	~~-~~	~~(200)~~
~~Income Tax PILs to OEFC~~	~~92~~	~~166~~	~~135~~	~~170~~

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

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From: John Kim
To: Bruno Amara
Subject: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc
Date: Wednesday, May 03, 2017 1:45:42 PM
Attachments: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc

TAB 3

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

~~Prepared based on draft submission~~

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I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence.

The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan ~~(Board-approved?)~~ to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets.
  - Provincial borrowing would be offset by an increase in an investment asset in OPG.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged
    - ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)~~
  - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
  - ~~In addition, the Province's net debt position should remain unchanged (Check is OFA)~~

Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments from the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget, and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan. ~~Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authriy, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.~~

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have an one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province ~~may~~ make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018~~7~~.

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Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - 2017 Budget projections were based on t~~T~~he figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $2994M in 2016-17 and $556M in 2017-18 compared to the 2016 Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of ~~Ontario~~ n~~N~~uclear ~~Funds Agreement~~asset retirement obligations-related IFRS risks, followed by an increase of $121~~1~~M in 2018-19 ~~and a decrease of $14M in 2019-20~~ versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

  - ~~The figures in the OPG Board approved 2017-2019 Business Plan, along with OFA forecast updates for OFHP (TBC), show a decrease in earnings before tax of $84M in 2017-18 and $89M in 2017-18, followed by increases of $59M in 2018-19 and $120M in 2019-20 over the estimates in the 2016 Budget..~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4633~~6~~M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA a~~n~~nd MOF adjustments, is p~~rojected~~lanned to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.

  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.

  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as

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Commented [JK2]: There is a delta in the latest information used for the fiscal plan.

continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and

investment and due diligence processes for its pension fund and nuclear funds.

- OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
- OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing)~~,~~ and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~Regulatory risks: Potential disallowance of recovery of OPG's current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.~~

~~Accounting risks: Any change in the basis of accounting used for consolidation of OPG on the Province's financial statements could result in potentially significant fiscal impacts.~~

~~Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

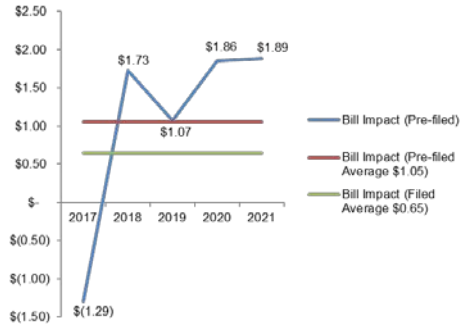
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

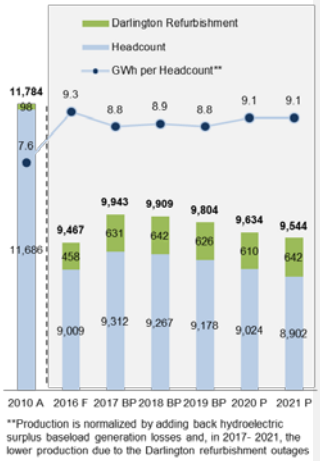
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



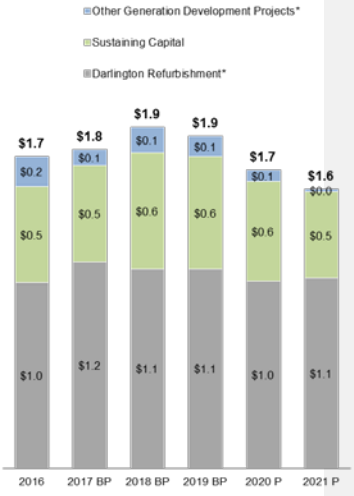
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

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	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Ontario Budget				
Ontario Power Generation				
Net Income	304	97	732	825
Income Tax	92	92	135	170
Adjustments to OPG BP Net Income				
OPG Head Office*		222		
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	1754	5499	99153
OPG Head Office*		222		
Income Tax				
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

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Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget				
Net Income	471	586	673	-
Income Tax	224	159	182	-
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income	-	-	-	-
OPG 2017-19 Business Plan	349	702	678	726
Adjustments	-	-	-	-
OPG Update[1]	30	-	-	-
IFRS Risk adjustment[2]	-75	-400	-	-200
related OPG Head Office Sale[3] (reported under Sales & Rentals)	-	-222	-	-
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)	-	17	54	99
Nuclear Funds fair value adjustment[4]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax	-	-	-	-
OPG 2017-19 Business Plan	96	166	135	170
Adjustments	-	-	-	-
OPG Update[1]	-4	-	-	-
related OPG Head Office Sale[3] (reported under Sales & Rentals)	-	-74	-	-
Income tax 2017 Budget	92	92	135	170
2017 Budget vs. 2016 Budget				
Net Income	-379167	-494489	-53859	-
Income taxes	-132-92	-67-92	-47	-

1. OPG February 2017 ~~Financials~~Monthly Update
2. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
3. For Budget reporting projected net impacts of Province asset optimization strategy are reported under Sales and Rentals
4. Provincial consolidation adjustments for unrealized earnings on decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

~~Revenue ($millions)~~	~~2016-17~~	~~2017-18~~	~~2018-19~~	~~2019-20~~
~~2016 Ontario Budget~~				
~~Ontario Power Generation~~				

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Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	111	184	154	189
2017 Ontario Budget				
Ontario Power Generation				
Net Income	387	497	732	825
Income Tax	?	?	?	?
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(84)	(89)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?	?	?	?
TOTAL OF OPG CHANGES	?	?	?	?

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update[, combined with a summary of net income and income tax PILs in the above table].

Commented [JK4]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

Table below to be updated – OFA

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2016-18 OPG Business Plan				
Combined Other PILs & Other GRC[2]	353	358	366	
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	215	220	220	
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	135	140	140	
OPG Monthly Update (August 2016)				
Net Income	361	-	-	
Income Tax PILs to OEFC	98	-	-	

1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.
2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.
3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241

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Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
~~Net Income (including OPG Head Office sale)~~	~~379~~	~~702~~	~~678~~	~~726~~
~~2017 Budget Adjustments~~				
~~ONFA adjustment~~	~~8~~			
~~OPG Trust Interest Revenue - TBC~~		~~17~~	~~54~~	~~99~~
~~OPG IFRS consolidation risk reflected in fiscal plan~~	~~(75)~~	~~(400)~~	~~-~~	~~(200)~~
~~Income Tax PILs to OEFC~~	~~92~~	~~166~~	~~135~~	~~170~~

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

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From: Bruno Amara
To: John Kim
Subject: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup2.doc
Date: Wednesday, May 03, 2017 12:21:31 PM
Attachments: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup2.doc

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See suggestion for pages 12 and 13

TAB 3

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

~~Prepared based on draft submission~~

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I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence.

The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan ~~(Board-approved?)~~ to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets.
  - Provincial borrowing would be offset by an increase in an investment asset in OPG.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged
    - ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)~~
  - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
  - ~~In addition, the Province's net debt position should remain unchanged (Check is OFA)~~

Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments from the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget, and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan. ~~Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authriy, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.~~

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have an one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province ~~may~~ make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018~~7~~.

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Commented [BA1]: Also added MoF changes for IFRS risk

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - The figures in the OPG Board approved 2017-2019 Business Plan show a decrease in earnings before tax of $294M in 2016-17 and $556M in 2017-18 [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by an increase of $11M in 2018-19 and a decrease of $14M in 2019-20 versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

  - ~~The figures in the OPG Board approved 2017-2019 Business Plan, along with OFA forecast updates for OFHP (TBC), show a decrease in earnings before tax of $84M in 2017-18 and $89M in 2017-18, followed by increases of $59M in 2018-19 and $120M in 2019-20 over the estimates in the 2016 Budget..~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4633~~6~~M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA a~~n~~nd MOF adjustments, is projected~~lanned~~ to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.

  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.

  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower

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Commented [JK2]: There is a delta in the latest information used for the fiscal plan.

than 2017 levels in 2021.

OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100

trips annually, while Darlington accounts for 45% and is expected see increases.

- OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing)~~,~~ and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~Regulatory risks: Potential disallowance of recovery of OPG's current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.~~

~~Accounting risks: Any change in the basis of accounting used for consolidation of OPG on the Province's financial statements could result in potentially significant fiscal impacts.~~

~~Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

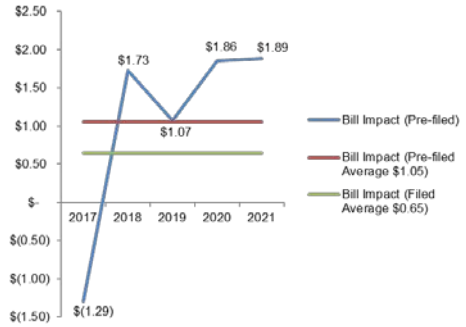
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

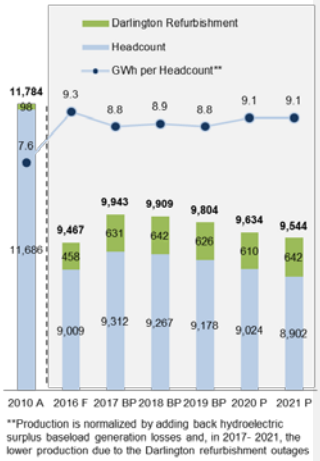
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



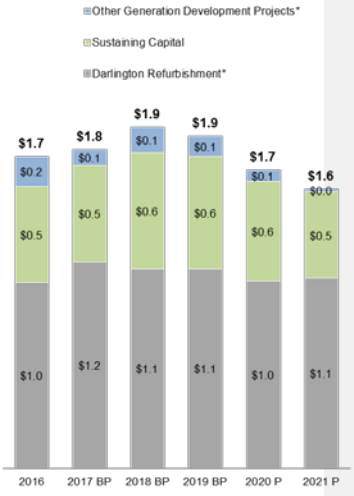
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

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	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Ontario Budget				
Ontario Power Generation				
Net Income	304	97	732	825
Income Tax	92	92	135	170
Adjustments to OPG BP Net Income				
OPG Head Office*		222		
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	1754	5499	99153
OPG Head Office*		222		
Income Tax				
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

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Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget				
Net Income	471	586	673	-
Income Tax	224	159	182	-
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income	-	-	-	-
OPG 2017-19 Business Plan	349	702	678	726
Adjustments	-	-	-	-
OPG Update[1]	30	-	-	-
IFRS Risk adjustment[2]	-75	-400	-	-200
related OPG Head Office Sale[3] (reported under Sales & Rentals)	-	-222	-	-
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)	-	17	54	99
Nuclear Funds fair value adjustment[4]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax	-	-	-	-
OPG 2017-19 Business Plan	96	166	135	170
Adjustments	-	-	-	-
OPG Update[1]	-4	-	-	-
related OPG Head Office Sale[3] (reported under Sales & Rentals)	-	-74	-	-
Income tax 2017 Budget	92	92	135	170
2017 Budget vs. 2016 Budget				
Net Income	-379167	-494489	-53859	-
Income taxes	132-92	67-92	47	-

1. OPG February 2017 Financials
2. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
3. For Budget reporting projected net impacts of Province asset optimization strategy are reported under Sales and Rentals
4. Provincial consolidation adjustments for unrealized earnings on decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

~~Revenue ($millions)~~	~~2016-17~~	~~2017-18~~	~~2018-19~~	~~2019-20~~
~~2016 Ontario Budget~~				
~~Ontario Power Generation~~				

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Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	111	184	154	189
2017 Ontario Budget				
Ontario Power Generation				
Net Income	387	497	732	825
Income Tax	?	?	?	?
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(84)	(89)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?	?	?	?
TOTAL OF OPG CHANGES	?	?	?	?

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update[, combined with a summary of net income and income tax PILs in the above table].

Commented [JK4]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

Table below to be updated – OFA

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2016-18 OPG Business Plan				
Combined Other PILs & Other GRC[2]	353	358	366	
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	215	220	220	
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	135	140	140	
OPG Monthly Update (August 2016)				
Net Income	361	-	-	
Income Tax PILs to OEFC	98	-	-	

1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.
2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.
3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241

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Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
~~Net Income (including OPG Head Office sale)~~	~~379~~	~~702~~	~~678~~	~~726~~
~~2017 Budget Adjustments~~				
~~ONFA adjustment~~	~~8~~			
~~OPG Trust Interest Revenue - TBC~~		~~17~~	~~54~~	~~99~~
~~OPG IFRS consolidation risk reflected in fiscal plan~~	~~(75)~~	~~(400)~~	~~-~~	~~(200)~~
~~Income Tax PILs to OEFC~~	~~92~~	~~166~~	~~135~~	~~170~~

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

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From: Bruno Amara
To: John Kim
Subject: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup.doc
Date: Wednesday, May 03, 2017 11:32:15 AM
Attachments: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup.doc

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Needs a couple of footnotes but see page 12. Is that clearer?

TAB 3

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

~~Prepared based on draft submission~~

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I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence.

The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan ~~(Board-approved?)~~ to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets.
  - Provincial borrowing would be offset by an increase in an investment asset in OPG.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged
    - ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)~~
  - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
  - ~~In addition, the Province's net debt position should remain unchanged (Check is OFA)~~

Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments from the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget, and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan. ~~Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authriy, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.~~

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have an one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province ~~may~~ make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018~~7~~.

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Commented [BA1]: Also added MoF changes for IFRS risk

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - The figures in the OPG Board approved 2017-2019 Business Plan show a decrease in earnings before tax of $294M in 2016-17 and $556M in 2017-18 [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by an increase of $11M in 2018-19 and a decrease of $14M in 2019-20 versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

  - ~~The figures in the OPG Board approved 2017-2019 Business Plan, along with OFA forecast updates for OFHP (TBC), show a decrease in earnings before tax of $84M in 2017-18 and $89M in 2017-18, followed by increases of $59M in 2018-19 and $120M in 2019-20 over the estimates in the 2016 Budget..~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4~~63~~6M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA a~~n~~nd MOF adjustments, is p~~l~~rojected~~anned~~ to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.

  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.

  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower

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Commented [JK2]: There is a delta in the latest information used for the fiscal plan.

than 2017 levels in 2021.

OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100

trips annually, while Darlington accounts for 45% and is expected see increases.

- OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing)~~,~~ and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~Regulatory risks: Potential disallowance of recovery of OPG's current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.~~

~~Accounting risks: Any change in the basis of accounting used for consolidation of OPG on the Province's financial statements could result in potentially significant fiscal impacts.~~

~~Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

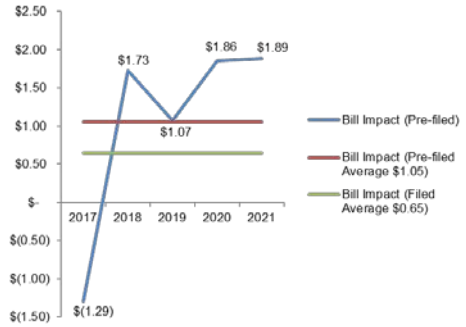
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

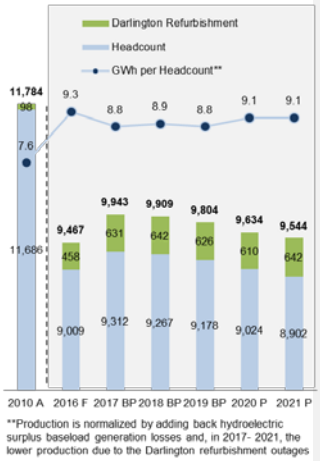
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



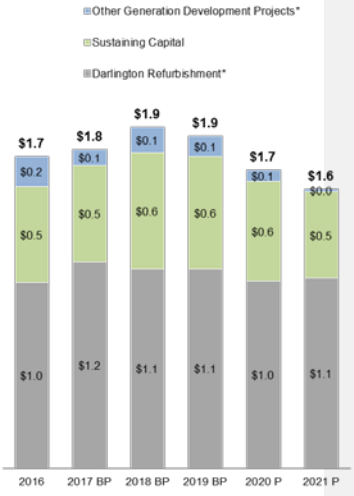
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

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	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Ontario Budget				
Ontario Power Generation				
Net Income	304	97	732	825
Income Tax	92	92	135	170
Adjustments to OPG BP Net Income				
OPG Head Office*		222		
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	1754	5499	99153
OPG Head Office*		222		
Income Tax				
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

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Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

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OPG Net Income and Income tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget				
Net Income	471	586	673	-
Income Tax	224	159	182	-
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income	-	-	-	-
OPG 2017-19 Business Plan	349	702	678	726
Adjustments	-	-	-	-
OPG Update	30	-	-	-
IFRS Risk adjustment	-75	-400	-	-200
related OPG Head Office Sale (reported under Sales & Rentals)	-	-222	-	-
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)	-	17	54	99
Net Income 2017 Budget	304	97	732	625
Income Tax	-	-	-	-
OPG 2017-19 Business Plan	96	166	135	170
Adjustments	-	-	-	-
OPG Update	-4	-	-	-
related OPG Head Office Sale (reported under Sales & Rentals)	-	-74	-	-
Income tax 2017 Budget	92	92	135	170
2017 Budget vs. 2016 Budget				
Net Income	-379	-494	-538	-
Income taxes	132	67	47	-

~~Revenue ($millions)~~	~~2016-17~~	~~2017-18~~	~~2018-19~~	~~2019-20~~
~~2016 Ontario Budget~~				
~~Ontario Power Generation~~				

Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	111	184	154	189
2017 Ontario Budget				
Ontario Power Generation				
Net Income	387	497	732	825
Income Tax	?	?	?	?
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(84)	(89)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?	?	?	?
TOTAL OF OPG CHANGES	?	?	?	?

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update[, combined with a summary of net income and income tax PILs in the above table].

Commented [JK4]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

~~Table below to be updated – OFA~~

~~Revenue ($millions)~~	~~2016-17~~	~~2017-18~~	~~2018-19~~	~~2019-20~~
~~2016 Ontario Budget~~				
~~Combined Other PILs & Other GRC~~	~~342~~	~~351~~	~~359~~	
~~Other PILs (GRC to OEFC, Proxy Property Tax)~~	~~213~~	~~223~~	~~232~~	
~~Other GRC (to MOF & Niagara Parks Commission)[1]~~	~~129~~	~~128~~	~~137~~	
~~2016-18 OPG Business Plan~~				
~~Combined Other PILs & Other GRC[2]~~	~~353~~	~~358~~	~~366~~	
~~Other PILs (GRC to OEFC, Proxy Property Tax)[3]~~	~~215~~	~~220~~	~~220~~	
~~Other PILs (GRC to MOF & Niagara Parks Commission)[3]~~	~~135~~	~~140~~	~~140~~	
~~OPG Monthly Update (August 2016)~~				
~~Net Income~~	~~361~~	~~-~~	~~-~~	
~~Income Tax PILs to OEFC~~	~~98~~	~~-~~	~~-~~	

~~1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.~~
~~2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.~~
~~3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)~~

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241

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Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
Net Income (including OPG Head Office sale)	379	702	678	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue - TBC		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	(75)	(400)	-	(200)
Income Tax PILs to OEFC	92	166	135	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

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From: John Kim
To: Bruno Amara
Subject: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup.doc
Date: Wednesday, May 03, 2017 10:04:08 AM
Attachments: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup.doc

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Could you take a look and call me over? I reformatted but the 299 vs. 295, I recall we talked about.

TAB 3

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE: 2017-2019 Business Plan for Ontario Power Generation

~~Prepared based on draft submission~~

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I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence.

The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan ~~(Board-approved?)~~ to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets.
  - Provincial borrowing would be offset by an increase in an investment asset in OPG.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged
    - ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)~~
  - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
  - ~~In addition, the Province's net debt position should remain unchanged~~ ~~(Check is OFA)~~

Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments from the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget, and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan. ~~Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authriy, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.~~

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have an one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province ~~may~~ make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018~~7~~.

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Commented [BA1]: Also added MoF changes for IFRS risk

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - The figures in the OPG Board approved 2017-2019 Business Plan show a decrease in earnings before tax of $294M in 2016-17 and $556M in 2017-18 [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by an increase of $11M in 2018-19 and a decrease of $14M in 2019-20 versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

  - ~~The figures in the OPG Board approved 2017-2019 Business Plan, along with OFA forecast updates for OFHP (TBC), show a decrease in earnings before tax of $84M in 2017-18 and $89M in 2017-18, followed by increases of $59M in 2018-19 and $120M in 2019-20 over the estimates in the 2016 Budget..~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4~~63~~6M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA a~~n~~nd MOF adjustments, is projected~~lanned~~ to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.

  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.

  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower

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Commented [JK2]: There is a delta in the latest information used for the fiscal plan.

than 2017 levels in 2021.

OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100

trips annually, while Darlington accounts for 45% and is expected see increases.

- OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing)~~,~~ and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~Regulatory risks: Potential disallowance of recovery of OPG's current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.~~

~~Accounting risks: Any change in the basis of accounting used for consolidation of OPG on the Province's financial statements could result in potentially significant fiscal impacts.~~

~~Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

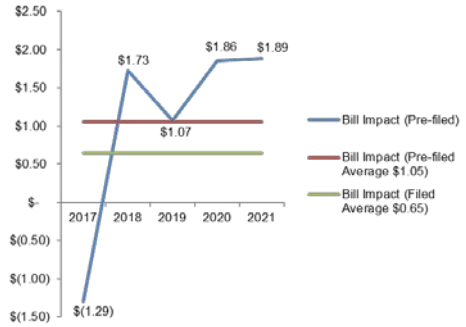
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

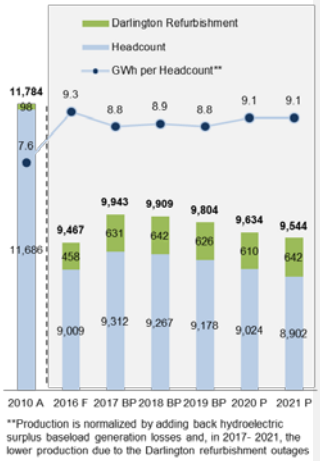
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



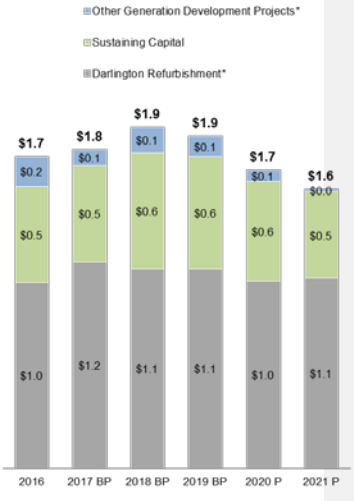
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

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	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Ontario Budget				
Ontario Power Generation				
Net Income	304	97	732	825
Income Tax	92	92	135	170
Adjustments to OPG BP				
Net Income				
OPG Head Office*		222		
~~Net Income (before IFRS Risk)~~	~~379~~	~~480~~	~~678~~	~~726~~
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed~~,~~ to offset IOD)	~~17~~	~~1754~~	~~5499~~	~~99153~~
~~OPG Head Office*~~		222		
Income Tax				
~~Net Income~~	~~304~~	~~97~~	~~732~~	~~825~~
~~Income Tax~~	~~92~~	~~92~~	~~135~~	~~170~~
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

- Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

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Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	111	184	154	189
2017 Ontario Budget				
Ontario Power Generation				
Net Income	387	497	732	825
Income Tax	?	?	?	?
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(84)	(89)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?	?	?	?
TOTAL OF OPG CHANGES	?	?	?	?

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update[, combined with a summary of net income and income tax PILs in the above table].

Commented [JK4]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

~~Table below to be updated – OFA~~

~~Revenue ($millions)~~	~~2016-17~~	~~2017-18~~	~~2018-19~~	~~2019-20~~
~~2016 Ontario Budget~~				
~~Combined Other PILs & Other GRC~~	~~342~~	~~351~~	~~359~~	
~~Other PILs (GRC to OEFC, Proxy Property Tax)~~	~~213~~	~~223~~	~~232~~	
~~Other GRC (to MOF & Niagara Parks Commission)[1]~~	~~129~~	~~128~~	~~137~~	
~~2016-18 OPG Business Plan~~				
~~Combined Other PILs & Other GRC[2]~~	~~353~~	~~358~~	~~366~~	
~~Other PILs (GRC to OEFC, Proxy Property Tax)[2]~~	~~215~~	~~220~~	~~220~~	
~~Other PILs (GRC to MOF & Niagara Parks Commission)[2]~~	~~135~~	~~140~~	~~140~~	
~~OPG Monthly Update (August 2016)~~				
~~Net Income~~	~~361~~	~~-~~	~~-~~	
~~Income Tax PILs to OEFC~~	~~98~~	~~-~~	~~-~~	

~~1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.~~
~~2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.~~
~~3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)~~

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241

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Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
Net Income (including OPG Head Office sale)	379	702	678	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue - TBC		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	(75)	(400)	-	(200)
Income Tax PILs to OEFC	92	166	135	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

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From:	Bruno Amara
To:	John Kim
Subject:	5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup5.doc
Date:	Wednesday, May 03, 2017 4:39:21 PM
Attachments:	5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup5.doc OPG Table_v02.xlsx

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TAB 3

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE: 2017-2019 Business Plan for Ontario Power Generation

~~Prepared based on draft submission~~

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I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence.

The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan ~~(Board-approved?)~~ to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would be financed by OPG raising a targeted up to 5% from capital markets, with the remaining~~include~~ 44-49% ~~debt or~~ equity injection [and/or debt financing] from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) ~~with OPG raising the remaining 5% from capital markets~~.
  - Provincial borrowing for an equity injection would be offset by an increase in an investment asset in OPG, so the Province's net debt position would remain unchanged.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income.
  - ~~In addition, the Province's net debt position should remain unchanged~~
  - ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)~~
  - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
  - ~~In addition, the Province's net debt position should remain unchanged (Check is OFA)~~

The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan.

Financial figures from the OPG Business Plan are included and supplemented with more recent forecast adjustments from the Ontario Financing Authority, MOF, for more recent OPG in-year forecast updates, and for estimated OFHP implications, as part of Province's finalized fiscal plan for the 2017 Budget. Also identified, ~~and for~~ are risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. ~~The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan. Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authriy, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the~~

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Commented [BA1]: Also added MoF changes for IFRS risk

~~fiscal, financial and operational strategies laid out in the business plan.~~

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a~~n~~ one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province ~~may~~ make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018~~7~~.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - 2017 Budget projections were based on t~~T~~he figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $291~~9~~4M in 2016-17 and $556M in 2017-18 compared to the 2016 Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of ~~Ontario n~~Nuclear ~~Funds Agreement~~asset retirement obligations-related IFRS risks, followed by an increase of $12~~1~~M in 2018-19 ~~and a decrease of $14M in 2019-20~~ versus ~~-~~the estimates in the 2016 Budget. ~~The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.~~

  - ~~The figures in the OPG Board approved 2017-2019 Business Plan, along with OFA forecast updates for OFHP (TBC), show a decrease in earnings before tax of $84M in 2017-18 and $89M in 2017-18, followed by increases of $59M in 2018-19 and $120M in 2019-20 over the estimates in the 2016 Budget..~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4633~~6~~M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA an~~m~~d MOF adjustments, is p~~rojected~~~~lanned~~ to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.

    Also, ~~I~~in early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    ~~These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.~~ The first table in Appendix ~~G~~E shows the OPG 2017-19 Business Plan fiscal impact changes to the Province's Budget

Commented [JK2]: Still being checked.

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Commented [JK3]: There is a delta in the latest information used for the fiscal plan.

2016 fiscal plan.

- Key Operational Metrics:
  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

    OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and, as approved by Cabinet, the execution of the Darlington refurbishment consistent with an approved budget of $12.8 billion (including assumed inflation escalation and interest), is now under way. First unit refurbishment, Unit 2, began in October 2016~~, Unit 2~~ and is assumed to be returned to service in February 2020, with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., ~~U~~upgrades at Sir Adam Beck and upgrades to DeCew II, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021, submitted in [month] 2016. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per

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year

- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Performance risks: […]

Commented [RK4]: Could list nuclear performance, financial market risk on the performance of the nuclear funds.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~Regulatory risks: Potential disallowance of recovery of OPG's current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.~~

~~Accounting risks: Any change in the basis of accounting used for consolidation of OPG on the Province's financial statements could result in potentially significant fiscal impacts.~~

~~Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

Commented [RK5]: Could contemplate removing this requirement going forward, say replacing it with a direction for the Ministry to continue to consult with the MOF and OFA on OPG's draft and approved business plans and in-year financial updates.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

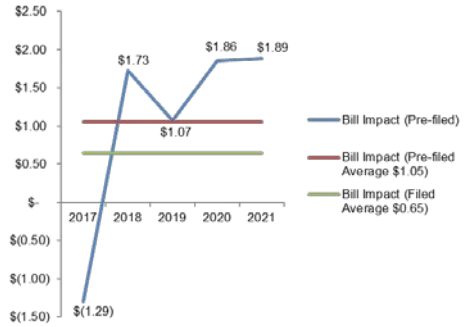
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

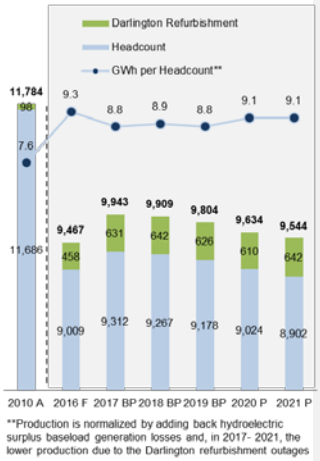
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



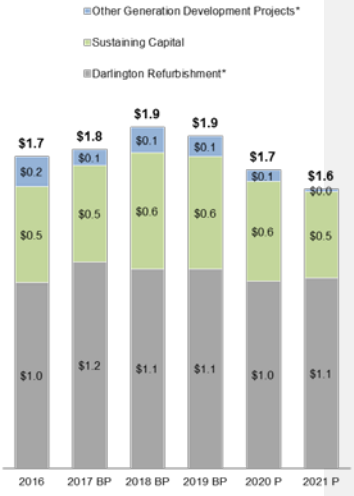
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

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	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Ontario Budget				
Ontario Power Generation				
Net Income	304	97	732	825
Income Tax	92	92	135	170
Adjustments to OPG BP Net Income				
OPG Head Office*		222		
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	1754	5499	99153
OPG Head Office*		222		
Income Tax				
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

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Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget[1]*				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income				
OPG 2017-19 Business Plan	349	702	678	726
Adjustments				
OPG Update[2]	30			
IFRS Risk adjustment[3]	-75	-400		-200
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		-222		
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)		17	54	99
Nuclear Funds fair value adjustment[5]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax				
OPG 2017-19 Business Plan	96	166	135	170
Adjustments				
OPG Update[2]	-4			
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		-74		
Income tax 2017 Budget	92	92	135	170
2017~~6~~ Budget vs. 2017~~6~~ Budget (including IFRS and sales &rental adjustments)				
Net Income	~~-379~~167	~~-494~~489	~~-538~~59	
Income taxes	~~-132-92~~	~~-67-92~~	-47	
2016 Budget vs. 2017 Budget (Before IFRS and sales &rental adjustments)				
Net Income	-84	133	59	200
Income taxes	-132	7	-47	0

1. 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 2016 multi-year business plan was approved and submitted following the timeframe for locking the numbers for the early 2016 Budget.
2. OPG February 2017 Monthly Update
3. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
4. For public Budget reporting, projected net impacts of Province asset optimization strategy including, OPG Head Office sale, are reported under Sales and Rentals for commercial confidentiality. OPG proceeds estimate updated per 2017 Budget.
5. Provincial consolidation adjustments for unrealized earnings on decommissioning and

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used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

* 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 206 multi-year business plan was approved and submitted following the timeframe for locking the numbers for the early 2016 Budget.

Monthly Updatepublic , for commercial confidentiality.

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Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	111	184	154	189
2017 Ontario Budget				
Ontario Power Generation				
Net Income	387	497	732	825
Income Tax	?	?	?	?
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(84)	(89)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?	?	?	?
TOTAL OF OPG CHANGES	?	?	?	?

OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update[, combined with a summary of net income and income tax PILs in the above table].

Commented [JK8]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

Table below to be updated – OFA

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2016-18 OPG Business Plan				
Combined Other PILs & Other GRC[2]	353	358	366	
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	215	220	220	
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	135	140	140	
OPG Monthly Update (August 2016)				
Net Income	361	-	-	
Income Tax PILs to OEFC	98	-	-	

1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.
2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.
3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241

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Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
~~Net Income (including OPG Head Office sale)~~	~~379~~	~~702~~	~~678~~	~~726~~
~~2017 Budget Adjustments~~				
~~ONFA adjustment~~	~~8~~			
~~OPG Trust Interest Revenue - TBC~~		~~17~~	~~54~~	~~99~~
~~OPG IFRS consolidation risk reflected in fiscal plan~~	~~(75)~~	~~(400)~~	~~-~~	~~(200)~~
~~Income Tax PILs to OEFC~~	~~92~~	~~166~~	~~135~~	~~170~~

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

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OPG Net Income and Income tax ($ Millions)	
	2016-17
2016 Budget	
Net Income	471
Income Tax	224
2017-2019 OPG Business Plan	
Net Income	349
Income Tax	96
2017 Budget	
Net Income	
OPG 2017-19 Business Plan	349
Adjustments	
OPG Update[1]	30
IFRS Risk adjustment[2]	-75
related OPG Head Office Sale[3] (reported under Sales & Rentals)	
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)	
Nuclear Funds fair value adjustment[4]	8
Net Income 2017 Budget	312
Income Tax	
OPG 2017-19 Business Plan	96
Adjustments	
OPG Update[1]	-4
related OPG Head Office Sale[3] (reported under Sales & Rentals)	
Income tax 2017 Budget	92
2017 Budget vs. 2016 Budget	
Net Income	-159
Income taxes	-132
2016 Budget vs. 2017 Budget (Before IFRS and sales &rental adjustments)	
Net Income	-84
Income taxes	-132

2017-18	2018-19	2019-20
586	673	
159	182	
702	678	726
166	135	170
702	678	726
-400		-200
-222		
17	54	99
97	732	625
166	135	170
-74		
92	135	170
-489	59	
-67	-47	
133	59	
7	-47	

From: Bruno Amara
To: John Kim
Subject: 5 2017-05-09 RAN OPG Business Plan v2_Markup2 (002).doc
Date: Tuesday, May 02, 2017 11:26:45 AM
Attachments: 5 2017-05-09 RAN OPG Business Plan v2_Markup2 (002).doc
Electricity Sector Outlook- March 2017_70%_April_03_(Sent)with IFRS risk to 19_20.xlsx

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A few more edits with backup file

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

Prepared based on draft submission

I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence. The concurrence letter from the Minister to the company will note key elements of the business plan,

how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its 2017-2019 Business Plan (Board-approved?) to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO.~~,~~ It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets. ~~financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending~~ (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)
  - Provincial borrowing would be offset by an increase in an investment asset in OPG.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged (Check is OFA)

Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments~~changes~~ ~~for~~ from the Ontario Financing Authority and~~,~~ MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards.~~.~~ The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.

Commented [RK1]: "from"?

Commented [BA2]: Also added MoF changes for IFRS risk

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province may make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 201~~7~~8.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - The figures in the OPG Board approved 2017-2019 Business Plan~~, along with OFA forecast updates for OFHP (TBC),~~ show a decrease in earnings before tax of $~~84M~~ 2~~9~~49M in 201~~6~~-17~~-18~~ and $~~89M~~-556M in 2017-18 [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by an increase~~s~~ of $~~59M~~-11~~2~~M in 2018-19 and a decrease of $14~~120M~~-18~~62~~M in 2019-20 versus ~~over~~ the estimates in the 2016 Budget. The 2019-20 decrease largely reflects an

Commented [JK3]: Added to address Ron's comment.

Commented [BA4R3]: Check figures

IFRS-related consolidation risk of $200M) as described above.~~,~~

OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4~~63~~6M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

Net income in 2018 and 2019, (before OFA and MoF adjustments) is p~~l~~rojected~~anned~~ to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
- The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
- Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

  OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

  OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering

Commented [RK5]: I'd say separate out the differences related to the business plan from the Provincial consolidation adjustment for IFRS.

Commented [BA6]: Edit 463

(e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.

Accounting risks: A~~ny~~ change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected~~could~~ to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

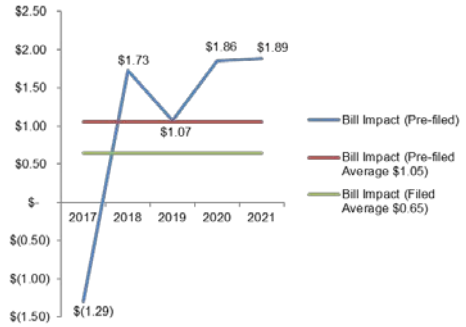
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

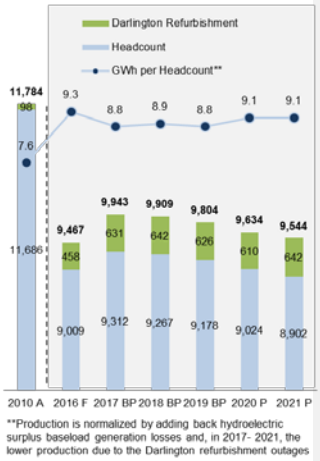
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



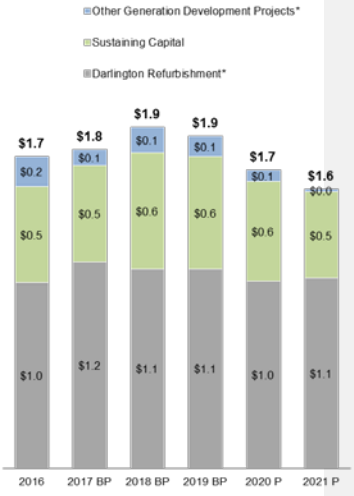
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	~~705~~
Income Tax	224	159	182	~~108~~
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	~~111~~96	~~184~~166	~~154~~135	~~189~~170
2017 Ontario Budget				
Ontario Power Generation				
Net Income (before IFRS Risk)	379	480	678	726
~~ONFA-related~~ IFRS ~~Risk~~Consolidation Adjustment	(75)	(400)		(200)?
GA – OPG Trust ~~Interest Revenue~~Net Income Impact (assumed, to offset IOD)	17	54	99	153
OPG Head Office*		222		
Net Income	~~387~~304	~~497~~97	732	825
Income Tax	?92	?92	?135	?170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	~~(84)~~(167)	~~(89)~~(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?(132)	?(67)	?(47)	?6
TOTAL OF OPG CHANGES	?(299)	?(556)	?212	?182

- Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

Commented [RK7]: I thought a small amount (100?) was ultimately included here too -- CHECK

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Table below to be updated – OFA

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2017~~6~~-1~~9~~8 OPG Business Plan				
Combined Other PILs & Other GRC[2]	~~353~~329	350~~8~~	363~~6~~	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218~~5~~	232~~20~~	243~~20~~	241
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	~~135~~110	118~~40~~	124~~0~~	121
~~OPG Monthly Update (August 2016)~~				
Net Income (including OPG Head Office sale)	~~361~~379	702~~-~~	678~~-~~	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	-75	-400	-	-
Income Tax PILs to OEFC	~~98~~92	166~~-~~	135~~-~~	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017~~1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.~~

~~2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.~~

~~3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)~~

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Electricity Sector Outlook

March 2017

Disclosure:

All information contained in this workbook are confidential and commercially sensitive

All projected numbers are estimates and subjected to change, and the focus is on OPG and Hydro One projections

This workbook and all information or analysis contained in it is property of the Ontario Financing Authority,
any disclosure or share of information should be first consulted with the owner.

Commercially Sensitive and Confidential Advice to Cabinet for Consideration of Options for Discussion Purposes Only

Commercially Sensitive and Confidential Advice to Cabinet for Consideration of Options for Discussion Purposes Only

Electricity Sector Outlook
Line Items for Consolidatior

Electricity Summary - On De

For Discussion

Type	Ministry Pickup	Line
Expense	MOF (OEFC)	38
Expense	MOF (OEFC)	40
Expense	MOF (OEFC)	41
Expense	MOF	17
Expense	MOF (OEFC)	42
Revenue	ENE	7
Revenue	ENE	8
Revenue	ENE	10
Revenue		11
Revenue	MOF (OEFC)	26
Revenue	MOF (OEFC)	29
Revenue	MOF (OEFC)	30
Revenue	MOF (OEFC)	31
Revenue	MOF (OEFC)	34

Electricity Summary - Budge

For Discussion

Type	Ministry Pickup	Line
Expense	MOF (OEFC)	38
Expense	MOF (OEFC)	40
Expense	MOF (OEFC)	41
Expense	MOF	17
Expense	MOF (OEFC)	42
Revenue	ENE	7
Revenue	ENE	8
Revenue	ENE	10
Revenue	MOF (OEFC)	25
Revenue	MOF (OEFC)	29
Revenue	MOF (OEFC)	30
Revenue	MOF (OEFC)	31
Revenue	MOF (OEFC)	34

Electricity Summary - Chang

Type	Ministry Pickup	Line
Expense	MOF (OEFC)	37
Expense	MOF (OEFC)	39
Expense	MOF (OEFC)	40
Expense	MOF	16
Expense	MOF (OEFC)	41
Revenue	ENE	7
Revenue	ENE	8
Revenue	ENE	10
Revenue	MOF (OEFC)	25
Revenue	MOF (OEFC)	28
Revenue	MOF (OEFC)	29
Revenue	MOF (OEFC)	30
Revenue	MOF (OEFC)	3

* Outlook reflects revenues from OPG, Hydro C

*

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	Plan ($ Millions)			
Item	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Power Supply Contract Costs	(739)	(292)	(325)	(301)
Demand Management Support Costs6	(10)	(10)	-	-
Provision for Electricity Sector	342	125	-	-
Provision for Electricity Sector4	(342)	(125)	-	-
Other (Finance)	(6)	(6)	(6)	(6)
OPG Income1	304	97	732	625
OPG - ONFA and other Fair Value Adjustments2	8	-	-	-
HOI Income3	516	520	562	603
Brampton Income	15	-	-	-
Electricity Payments-in-Lieu of Taxes (PILs), including CIT	373	405	476	538
Electricity Debt Retirement Charge5	625	623	-	-
Power Supply Contract Recoveries	739	292	325	301
Net Reduction of Power Purchase Contracts	129	74	41	30
Miscellaneous	-	-	-	-
Sub-Total	**1,954**	**1,703**	**1,805**	**1,791**
add IOD expense (picked up by OFA)				
Public Debt Interest - Electricity Sector	(492)	(492)	(492)	(492)
Interest on Debt	(532)	(422)	(374)	(342)
Impact on Surplus/Deficit	**930**	**789**	**939**	**957**
check	**-**	**-**	**-**	**-**

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	Plan ($ Millions)			
Item	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Power Supply Contract Costs	(643)	(463)	(396)	(276)
Demand Mangement Support Costs6	(10)	(10)	0	0
Provision for Electricity Sector	138	706	0	0
Provision for Electricity Sector	(138)	(706)	0	0
Other (Finance)	(6)	(6)	(6)	(6)
OPG Income1	471	586	673	705
OPG - ONFA and other Fair Value Adjustments2	0	0	0	0
HOI Income3	578	612	674	713
Electricity Payments-in-Lieu of Taxes (PILs), including CIT	515	480	532	481
Electricity Debt Retirement Charge5	625	623	0	0
Power Supply Contract Recoveries	643	463	396	276
Net Reduction of Power Purchase Contracts	129	74	41	30
Miscellaneous	5	5	5	5
Sub-Total	**2,307**	**2,364**	**1,919**	**1,928**
add IOD expense (picked up by OFA)				
Public Debt Interest - Electricity Sector	(492)	(492)	(492)	(492)

Interest on Debt	(635)	(657)	(617)	(633)
Impact on Surplus/Deficit	**1,180**	**1,215**	**810**	**803**
check	**-**	**-**	**-**	**-**

ge

			($ Millions)	
Item	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Power Supply Contract Costs	**(96)**	**171**	**71**	**(25)**
Demand Management Support Costs	**-**	**-**	**-**	**-**
Provision for Electricity Sector	**205**	**(582)**	**-**	**-**
Provision for Electricity Sector	**(205)**	**582**	**-**	**-**
Other (Finance)	**-**	**-**	**-**	**-**
OPG Income	**(167)**	**(489)**	**59**	**(79)**
ONFA and other Fair Value Adjustments	**8**	**-**	**-**	**-**
HOI Income	**(48)**	**(93)**	**(112)**	**(109)**
Electricity Payments-in-Lieu of Taxes (PILs)	**(141)**	**(75)**	**(56)**	**57**
Electricity Debt Retirement Charge	**-**	**-**	**-**	**-**
Power Supply Contract Recoveries	**96**	**(171)**	**(71)**	**25**
Net Reduction of Power Purchase Contracts	**-**	**-**	**-**	**-**
Miscellaneous	**(5)**	**(5)**	**(5)**	**(5)**
Sub-Total	(353)	(661)	(114)	(137)
add IOD expense (picked up by OFA)				
Public Debt Interest - Electricity Sector	-	-	-	-
Interest on Debt	103	235	243	291
Impact on Surplus/Deficit	**(250)**	**(426)**	**129**	**154**
check	***0***	**-**	***0***	**-**

)ne, OEFC and PILS from MEUs, and

2020-21
(273)
-
-
-
(6)
1,066
-
652
-
679
-
273
28
-
2,418
(492)
(250)
1,676
-

2020-21
(248)
0
0
0
(6)
734
0
737
565
0
248
28
5
2,063
(492)

(627)
944
-

2020-21
(25)
-
-
-
-
332
-
(86)
114
-
25
-
(5)
355
-
377
732
-

Track Changes in Surplus/Deficit

$ Millions

		2016-17
	Budget Outlook	930
	Current Outlook	930

Date	Description of Update	Expense / Revenue	Impacts by FY →

	Update impact: copy as values above	0

2017-18	2018-19	2019-20	2020-21
789	939	1,157	1,676
789	939	957	1,676
0	0	-200	0

Further Explanation of Change

Electricity Sector Outlook (PSAB)

($ millions)	Budget 2015-16	2016-17	2017-18	Plan 2018-19	2019-20	2020-21
Approved Revenue Outlook as of Budget 2016						
Electricity Revenues						
Income from Investment in Government Business Enterprises[1]	330	1,049	1,198	1,347	1,417	1,471
Taxation Revenue						
Electricity Payments-in-Lieu of Taxes	3,232	515	480	532	481	565
Other Revenue						
Electricity Debt Retirement Charge	868	625	623	-	-	-
Power Supply Contract Recoveries	784	643	463	396	276	248
Net reduction of Power Purchase Contracts[2]	172	129	74	41	30	28
Miscellaneous	5	5	5	5	5	5
Total Electricity Revenue[3]	5,391	2,966	2,843	2,321	2,209	2,317

Notes:

1. Includes provincial consolidation adjustments for OPG's nuclear funds

2. Reflects the effective elimination of above-market NUG liability over a number of years starting January 1, 2005 (on a predetermined schedule).

3. Total reflects revenues from OPG, Hydro One, OEFC and PILS from MEUs, and excludes OPA and IESO and OEB.

Revenue Items On Deck - Changes Compared to Budget 2016

($ millions)	Budget 2015-16	2016-17	2017-18	Plan 2018-19	2019-20	2020-21
OPG March 2017 Financial Outlook[1]	21	(302)	(556)	11	(15)	453
ONFA and other Fair Value Accounting Adjustments[2]	(69)	8	0	0	0	0
Hydro One March 2017 Financial Outlook Update[3]	430	(55)	(106)	(126)	(123)	(98)
MEUs PILs	2	0	5	5	5	5
Other OEFC FS / Public Accounts Updates						
Electricity Debt Retirement Charge	(9)	0	0	0	0	0
Miscellaneous	4	(5)	(5)	(5)	(5)	(5)
Power Supply Contract Recoveries[5]	91	96	(171)	(71)	25	25
Total Revenue Items On Deck	471	(258)	(832)	(185)	(112)	380

Notes:

1. OPG's 2015-16 outlook reflected its reported earnings. Out-years reflect OPG's 2017-19 business plan, November monthly update, and long-term outlook to 2019-20 (as fiscalized by OPG). 2020-21 estimates are based on OPG's calendar year-based long-term projections from the November business plan and fiscalized by CEFD staff. OPG Business Plan projections are also adjusted to remove amounts related to asset optimisation amounts (for real estate sales, to avoid double-counting) that are reflected in the fiscal plan under sales and rentals.

1. OPG Net Income is also adjusted for assumed equity return on Provincial equity injection to partially finance the Global Adjustment deferral -- designed to match FTD estimated IOD to finance the equity injection. See OPG Worksheet for annual breakdown.

2. Reflects provincial adjustment as at December 31, 2016, for net unrealized earnings in the decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated fund. Adjustment for 2014-15 also includes non-ONFA financial instruments.

3. Reflects CEFD forecasts based on latest available public information and modelling. Reflects an 70% Provincial share ownership, with impacts of future share sales incorporated into the asset optimisation projection in Other Non-Tax Revenues, Sales and Rentals

5. Reflects retroactive payment to applicant NUGs under the Global Adjustment lawsuit, based on payment in October 2016. Reflect updated forecast from 2016-17 to 2020-21, with the latest forecast from February 2017.

On Deck Revenue Outlook as of March 2017	Budget 2015-16	2016-17	2017-18	Plan 2018-19	2019-20	2020-21
Electricity Revenues						
Income from Investment in Government Business Enterprises	719	842	617	1,294	1,229	1,717
Taxation Revenue	3,228	373	405	476	538	679
Electricity Payments-in-Lieu of Taxes						
Other Revenue						
Electricity Debt Retirement Charge	859	625	623	-	-	-
Power Supply Contract Recoveries	875	739	292	325	301	273
Net reduction of Power Purchase Contracts	172	129	74	41	30	28
Miscellaneous	9	-	-	-	-	-
Total Electricity Revenue	5,862	2,709	2,011	2,136	2,098	2,697
Check Calculation:						
Revenue	5,862	2,708	2,011	2,136	2,097	2,697
Expense	2,006	1,779	1,222	1,197	1,141	1,021
Net	3,856	930	789	939	956	1,676
Electricity Summary - On Deck	3,856	930	789	939	957	1,676
	ok	ok	ok	ok	ok	ok

($ millions)	2016-17 Changes		
Revenue Items On Deck - Changes Compared to Budget 2	Net Income	PILs	Total
OPG March 2017 Financial Outlook	(167)	(135)	(302)
ONFA and other Fair Value Accounting Adjustments	8		8
Hydro One March2017 Financial Outlook	(48)	(6)	(55)
MEU PILs		80	80
	(207)	(61)	(269)

Electricity Sector Outlook (PSAB)

Expenditure Outlook as of Budget 2016						
($ millions)	Actual	Plan				
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Electricity Expenditures						
Finance - Own Account	7	6	6	6	6	6
Interest on Debt	1,248	1,178	1,159	1,127	1,149	1,109
Electricity Consumer Price Protection Fund	-	-	-	-	-	-
Power Supply Contract Costs	1,296	950	784	643	463	396
Total Electricity Expenditures	2,551	2,134	1,949	1,776	1,618	1,511

Details on Change in Expenditure Outlook						
($ millions)	Actual	Plan				
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Public Accounts						
Finance - Own Account	-	-	(43)	(103)	(235)	(243)
Interest on Debt	-	-	-	-	-	-
Power Supply Contract Costs	-	-	91	96	(171)	(71)
Total Updates:	-	-	48	(7)	(406)	(314)

On Deck Expenditure Outlook as of March 2017						
($ millions)	Actual	Plan				
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Electricity Expenditures						
Finance - Own Account	7	6	7	6	6	6
Interest on Debt	1,248	1,178	1,116	1,024	914	866
Power Supply Contract Costs	1,296	950	875	739	292	325
Total Electricity Expenditures	2,551	2,134	1,998	1,769	1,212	1,197

Expense Items On Deck						
($ millions)	Actual	Plan				
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Finance - Own Account*	-	-	-	-	-	-
Interest on Debt*	-	-	-	-	-	-
Power Supply Contract Costs*	-	-	-	-	-	-
Total Expense Items "On Deck":	-	-	-	-	-	-

* Updated based on OEFC audited financial statements.

On Deck Expenditure Outlook as of March 2017						
($ millions)	Actual	Plan				
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Electricity Expenditures						
Finance - Own Account	7	6	7	6	6	6
Interest on Debt	1,248	1,178	1,116	1,024	914	866
Power Supply Contract Costs	1,296	950	875	739	292	325
Demand Management Support Costs	-	9	8	10	10	-
Total Electricity Expenditures	2,551	2,143	2,006	1,779	1,222	1,197

Additional Expenditure Risks						
($ millions)	Actual	Plan				
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Finance - Own Account						
Interest on Debt						
Power Supply Contract Costs						
Total Additional Risks:	-	-	-	-	-	-

Risk Based Expenditure Outlook						
($ millions)	Actual	Plan				
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Electricity Expenditures						
Finance - Own Account	7	6	7	6	6	6
Interest on Debt	1,248	1,178	1,116	1,024	914	866
Power Supply Contract Costs	1,296	950	875	739	292	325
Total Electricity Expenditures	2,551	2,134	1,998	1,769	1,212	1,197

Electricity Sector Outlook (PSAB)

($million)	Interim 2015-16	2016-17	2017-18	Plan 2018-19
Budget 2016 Outlook as of January 2016				
Income from Investment in Government Business Enterprises				
OPG Income[1]	257	471	586	673
OPG - ONFA and other Fair Value Adjustments[2]	241	-	-	-
Hydro One - Unrealized Gains Adjustment	-	-	-	-
HOI Income[3]	(168)	578	612	674
Total OPG and HOI Income	**330**	**1,049**	**1,198**	**1,347**
Other Fees and Licences	**127**	**127**	**125**	**123**
Electricity Expenses of the Province				
Provision for Electricity Sector[4]	-	(138)	(706)	-
Public Debt Interest - Electricity Sector	(508)	(492)	(492)	(492)
Subtotal	(508)	(630)	(1,198)	(492)
Public Debt Interest - Impact of ONFA				
Amortization of Deferred Revenue re profit on sale of H1 notes				
Total Electricity Expenses of the Province	**(508)**	**(630)**	**(1,198)**	**(492)**
OEFC Income				
Taxation Revenue				
Electricity Payments-in-Lieu of Taxes (PILs), including CIT	3,232	515	480	532
Other Revenue				
Electricity Debt Retirement Charge[5]	868	625	623	-
Power Supply Contract Recoveries	784	643	463	396
Net Reduction of Power Purchase Contracts	172	129	74	41
Other Fees and Licences	(127)	(127)	(125)	(123)
Miscellaneous	5	5	5	5
Expenses				
Interest on Debt	(651)	(635)	(657)	(617)
Power Supply Contract Costs	(784)	(643)	(463)	(396)
Electricity Consumer Price Protection Fund	-	-	-	-
Demand Mangement Support Costs[6]	(9)	(10)	(10)	-
Provision for Electricity Sector	-	138	706	-
Other (Finance)	(6)	(6)	(6)	(6)
Total OEFC Income	**3,485**	**634**	**1,090**	**(168)**
Impact on Surplus/(Deficit)	**3,433**	**1,180**	**1,215**	**810**

Notes: All the Hydro One ownership broadening impacts, other than the initial IPO in 2015, are in the asset optimisation line (Sales and Rental) and not in the current Outlook file.

Notes:

1.Reflects OPG October 2015 report for 2015-16. Out-years reflect OPG's 2015 business plan and long-term outlook to 2018-19 (as fiscalized by OPG, received February 11, 2015). 2019-20 and 2020-21 estimates are preliminary and based on OPG's long-term model provided in 2015 and fiscalized by CEFD staff, to be updated.

2. Provincial consolidation adjustments for unrealized earnings on the decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds, as of the end of December 2015.

3. Hydro One 2015-16 to 2020-21 projections are based on its 2015 Business plan, adjusted for latest information, including its 2015-17 distribution rate decIsion, adjustments to forecast ROEs based on current interest rate outlook and estimated Hydro One IPO impacts.

4. Provision for electricity sector reflects OPG and Hydro One reported net income, excluding provincial consolidation adjustments, minus the interest costs to OEFC. The provision is currently assumed to end once the DRC ends on a legislated fixed end date of April 1, 2018.

5. Reflects April 23, 2014 announcement announcement that DRC will be eliminated for residential users, after December 31, 2015. The end date of DRC for remaining users is legislated to be on April 1, 2018. Estimates are subject to change based on actual consumption.

6. Offset by incremental Debt Retirement Charge revenues related to the Industrial Electricity Incentive program.

Expenses	2015-16	2016-17	2017-18	2018-19
Power Supply Contract Costs	784	643	463	396
Demand Management Support Costs	9	10	10	-
Provision for Electricity Sector	-	(138)	(706)	-
Other (Finance)	6	6	6	6
SUBTOTAL - OEFC Consolidation	**799**	**521**	**(228)**	**402**
Provision for Electricity Sector (Dedicated Earnings)	**-**	**138**	**706**	**-**

2) DETAIL LINES

REVENUE	2015-16	2016-17	2017-18	2018-19
CONSOLIDATED OPG/HOI NET INCOME	**330**	**1,049**	**1,198**	**1,347**
Public Debt Interest - Electricity Sector exp	*508*	*492*	*492*	*492*
equals ampount above $520M (not incl ONFA)	*0*	*138*	*706*	*0*
*of which: ONFA Adjustments***	*241*	*0*	*0*	*0*
check total	*749*	*630*	*1,198*	*492*
CONSOLIDATED REVENUE - OEFC				
Other Fees and Licences				
Provision for Electricity Sector				
Electricity Payments-in-Lieu of Taxes (PILs)	3,232	515	480	532
Electricity Debt Retirement Charge	868	625	623	0
Power Supply Contract Recoveries	784	643	463	396
Net Reduction of Power Purchase Contracts	172	129	74	41
Other Fees and Licences				
Miscellaneous	5	5	5	5
SUBTOTAL	**5,391**	**2,966**	**2,843**	**2,321**
EXPENSE				
CONSOLIDATED OEFC EXPENSE				
Provision for Electricity Sector				
Power Supply Contract Costs	784	643	463	396
Demand Mangement Support Costs	9	10	10	0
less provision	0	(138)	(706)	0
Other OEFC Expenses	6	6	6	6
SUBTOTAL	**799**	**521**	**(228)**	**402**
FINANCE				
Provision for Electricity Sector	0	138	706	0
Public Debt Interest - Electricity Sector (Treasury Program)	508	492	492	492
SUBTOTAL	**508**	**630**	**1,198**	**492**
TREASURY PROGRAM - EXPENSE				
OEFC Debt interest	1,344	1,326	1,337	1,282
interest payments to OEFC from Other than Province	(185)	(199)	(188)	(173)
interest to OEFC from Province	(508)	(492)	(492)	(492)
SUBTOTAL	**651**	**635**	**657**	**617**
Impact on Surplus/(Deficit)	**3,433**	**1,180**	**1,215**	**810**

Electricity Sector Outlook (PSAB)			614	412	
($million)	**Actual 2014-15**	**Actual 2015-16**	**2016-17**	**2017-18**	**Plan 2018-19**
On Deck Outlook as of March 2017					
Income from Investment in Government Business Enterprises					
OPG Income[1]	817	291	304	97	732
OPG - ONFA and other Fair Value Adjustments[2]	239	172	8	-	-
Hydro One - Unrealized Gains Adjustment	(8)	-	-	-	-
HOI Income[3]	741	236	516	520	562
Brampton Income		20	15	-	-
Total OPG and HOI Income	**1,789**	**719**	**842**	**617**	**1,294**
Other Fees and Licences	**131**	**127**	**122**	**102**	**91**
Electricity Expenses of the Province					
Provision for Electricity Sector[4]	(1,038)	(3)	(342)	(125)	
Public Debt Interest - Electricity Sector	(520)	(520)	(492)	(492)	(492)
Subtotal	(1,558)	(523)	(834)	(617)	(492)
Public Debt Interest - Impact of ONFA					
Amortization of Deferred Revenue re profit on sale of H1 notes					
Total Electricity Expenses of the Province	**(1,558)**	**(523)**	**(834)**	**(617)**	**(492)**
OEFC Income					
Taxation Revenue					
Electricity Payments-in-Lieu of Taxes (PILs), including CIT	180	3,228	373	405	476
Other Revenue					
Electricity Debt Retirement Charge[5]	956	859	625	623	-
Power Supply Contract Recoveries	950	875	739	292	325
Net Reduction of Power Purchase Contracts	217	172	129	74	41
Other Fees and Licences	(131)	(127)	(122)	(102)	(91)
Miscellaneous	9	9	-	-	-
Expenses					
Interest on Debt	(658)	(596)	(532)	(422)	(374)
Power Supply Contract Costs	(950)	(875)	(739)	(292)	(325)
Electricity Consumer Price Protection Fund	-	-	-	-	-
Demand Management Support Costs[6]	(9)	(8)	(10)	(10)	-
Provision for Electricity Sector	1,038	3	342	125	-
Other (Finance)	(6)	(7)	(6)	(6)	(6)
Total OEFC Income	**1,596**	**3,533**	**800**	**687**	**46**
Impact on Surplus/(Deficit)	**1,958**	**3,856**	**930**	**789**	**939**

Notes: The Hydro One net income outlook above (2016-17 to 2020-21) reflects the Province's current 70% ownership share, after the initial IPO in 2015 [and the secondary offering in April 2016]. Net estimated fiscal impacts from future Hydro One offerings are reported along with other planned Asset Optimization proceeds under "Sales and Rentals" in the Provinces Revenue outlook.

Notes:

1.OPG's 2015-16 outlook reflected its reported earnings. 2016-17 outlook reflected OPG's November monthly update. Out-years reflect OPG's preliminary 2017-19 business plan and long-term outlook to 2019-20 (as fiscalized by OPG). 2020-21 estimates are based on OPG's calendar year-based business plan projections and as fiscalized by CEFD staff.

2. Provincial consolidation adjustments for unrealized earnings on the decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds, as of the end of December 2016.

3. Hydro One 2015-16 income reflects its reported net income, adjusted for Hydro One IPO impacts. 2016-17 to 2020-21 projections are based on CEFD projections based on latest public information and modelling, including its 2015-17 distribution rate decision, adjustments to forecast ROEs based on current interest rate outlook and estimated Hydro One IPO and secondary share offering impacts.

4. Provision for electricity sector reflects OPG and Hydro One reported net income, excluding provincial ONFA consolidation adjustments, minus the interest on debt payable ~~costs~~ to OEFC. The provision is currently assumed to end once the DRC ends on a legislated fixed end date of April 1, 2018.

5. Reflects April 23, 2014 announcement that DRC will be eliminated for residential users, after December 31, 2015. The end date of DRC for remaining users is legislated to be on April 1, 2018. Estimates are subject to change based on actual consumption.

6. Offset by incremental Debt Retirement Charge revenues related to the Industrial Electricity Incentive program.

Expenses	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Power Supply Contract Costs	950	875	739	292	325
Demand Management Support Costs	9	8	10	10	-
Provision for Electricity Sector	(1,038)	(3)	(342)	(125)	-
Other (Finance)	6	7	6	6	6
SUBTOTAL - OEFC Consolidation	**(73)**	**887**	**412**	**183**	**331**
Provision for Electricity Sector (Dedicated Earnings)	**1,038**	**3**	**342**	**125**	**-**

2) DETAIL LINES

REVENUE	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
CONSOLIDATED OPG/HOI NET INCOME	**1,789**	**719**	**842**	**617**	**1,294**
Public Debt Interest - Electricity Sector exp	*520*	*520*	*492*	*492*	*492*
equals amount above $520M (not incl ONFA)	*1,038*	*3*	*342*	*125*	*0*
*of which: ONFA Adjustments***	*239*	*172*	*8*	*0*	*0*
check total	*1,797*	*695*	*842*	*617*	*492*
CONSOLIDATED REVENUE - OEFC					
Other Fees and Licences					
Provision for Electricity Sector					
Electricity Payments-in-Lieu of Taxes (PILs)	180	3,228	373	405	476
Electricity Debt Retirement Charge	956	859	625	623	0
Power Supply Contract Recoveries	950	875	739	292	325
Net Reduction of Power Purchase Contracts	217	172	129	74	41
Other Fees and Licences					
Miscellaneous	9	9	0	0	0
SUBTOTAL	**4,101**	**5,862**	**2,709**	**2,011**	**2,136**
EXPENSE					
CONSOLIDATED OEFC EXPENSE					
Provision for Electricity Sector					
Power Supply Contract Costs	950	875	739	292	325
Demand Management Support Costs	9	8	10	10	0
less provision	(1,038)	(3)	(342)	(125)	0
Other OEFC Expenses	6	7	6	6	6
SUBTOTAL	**(73)**	**887**	**412**	**183**	**331**
FINANCE					
Provision for Electricity Sector	1,038	3	342	125	0
Public Debt Interest - Electricity Sector (Treasury Program)	520	520	492	492	492
SUBTOTAL	**1,558**	**523**	**834**	**617**	**492**
TREASURY PROGRAM - EXPENSE					
OEFC Debt interest	1,385	1,319	1,216	1,090	1,027
interest payments to OEFC from Other than Province	(207)	(203)	(192)	(176)	(161)
interest to OEFC from Province	(520)	(520)	(492)	(492)	(492)
SUBTOTAL	**658**	**596**	**532**	**422**	**374**
Impact on Surplus/(Deficit)	**1,958**	**3,856**	**930**	**789**	**939**

Electricity Sector Outlook (PSAB)

(294) (556) 11 (14)

($million)	Actual 2014-15	2015-16	Plan 2016-17	2017-18	2018-19	2019-20	2020-21	Explanation of Change
Changes from Budget 2016 as of March 2017								
Income from Investment in Government Business Enterprises								
OPG Income	-	34	(167)	(489)	59	(79)	332	The explanation for the drop of OPG's Income are related to a number of OEB regulatory risks related to the pe application for the 5-year period starting in 2017. Budget 2016 figures were primarily based on OPG's 2015-17 Plan as its board-approved multi-year business plan had not yet been approved and provided when the 2016 Bu plan was locked. OPG's revenues are projected to improve over time as the regulated rate increases on the ba custom incentive regulation approach, and the first refurbished Darlington unit will return to service in February
ONFA and other Fair Value Adjustments	-	(69)	8	-	-	-	-	
Hydro One - Unrealized Gains Adjustment	-	-	-	-	-	-	-	
HOI Income	-	424	(48)	(93)	(112)	(109)	(86)	The variance primarily reflects impacts of new Hydro One net income and corporate income tax projections pro CEFD. Hydro One's net income increased due to the stronger than anticipated results for Q3 2016. Corporate i are also lower to reflect the corporate minimum cash taxes Hydro One will pay due to the benefit from the defe reducing cash taxes. Hydro One Brampton's net income is removed from 2017-18 onwards due to the merger v Inc.
Total OPG and HOI Income	**-**	**389**	(207)	(582)	(53)	(189)	246	
Other Fees and Licences	**-**	**-**	(5)	(23)	(32)	(34)	(41)	
Electricity Expenses of the Province								
Provision for Electricity Sector	-	(3)	(205)	582	-	-	-	The variance is primarily due to the updated revenue figures from OPG and Hydro One. As well, at the time of the forecast was for a significant negative provision, which would have then be kept at zero to have the negative clawed back from the subsequent year (2016-17). As a result of larger than anticipated deferred tax benefit rep Hydro One and proportionate share attributed to the Province based on its ownership interest, the provision in 2 came out to be $3 million [and not the large negative provision previously anticipated]. The variance in 2016-17 explained by the reversal in the actual amount for 2015-16 versus the Budget 2016 forecast. The forecast for th after 2017-18 fiscal is zero since the ESDI payments are assumed to discontinue after DRC ends on April 1, 20 will consider policy options on the continuation of ESDI in 2017.]
Public Debt Interest - Electricity Sector	-	(12)	-	-	-	-	-	
Subtotal	-	(15)	(205)	582	-	-	-	
Public Debt Interest - Impact of ONFA	-	-	-	-	-		-	
Amortization of Deferred Revenue re profit on sale of H1 notes	-	-	-	-	-		-	
Total Electricity Expenses of the Province	**-**	**(15)**	(205)	582	-	-	-	
OEFC Income								
Taxation Revenue								
Electricity Payments-in-Lieu of Taxes (PILs)	-	(4)	(141)	(75)	(56)	57	114	The variance is primarily due to updated OPG revenue figures in OPG's 2017-19 Business Plan, including lowe 2016-17, which impact its PIL payments as well.
Other Revenue								
Electricity Debt Retirement Charge	-	(9)	-	-	-	-	-	Updated with December 2016 Ontario Planning Outlook forecast Scenario A
Power Supply Contract Recoveries	-	91	96	(171)	(71)	25	25	• The declines in volumes, payments and rates in 2017-18 and 2018-19 compared to the earlier forecast are du termination and suspension of several NUG PPAs for curtailments. - The NUG suspensions/terminations coincide with the assumptions used by the IESO for LTEP modelling. • The increase in volumes from 2019-2023 compared to the earlier forecast is from the correction of generation Nagagami and The Power Limited Partnership, which lowered the forecasted rates. • The latest model from Navigant includes more detailed modelling for Kirkland Lake, which resulted in lower o payments, however this decline was balanced by a higher payments due to an increase in forecasted TMC/DC - The decline in payments in 2022-2023 is due to Iroquois Falls and Nipigon expiring, leaving Kirkland Lake as remaining gas facility.
Net Reduction of Power Purchase Contracts	-	-	-	-	-	-	-	
Other Fees and Licences	-	-	5	23	32	34	41	
Revenue Pool Residual	-	-	-	-	-		-	
Miscellaneous	-	4	(5)	(5)	(5)	(5)	(5)	
Expenses								
Interest on Debt	-	55	103	235	243	291	377	
Power Supply Contract Costs	-	(91)	(96)	171	71	(25)	(25)	
Electricity Consumer Price Protection Fund	-	-	-	-	-	-	-	
Demand Management Support Costs	-	1	-	-	-	-	-	
Provision for Electricity Sector	-	3	205	(582)	-	-	-	
Other (Finance)	-	(1)	-	-	-	-	-	
Total OEFC Income	**-**	**49**	166	(403)	214	377	527	
Impact on Surplus/(Deficit)	**-**	**423**	(250)	(426)	129	154	732	
Total revenue Impact	**-**	**471**	**(257)**	**(832)**	**(185)**		**380**	
Total revenue Impact - less power supply contract recoveries	-	380	(353)	(661)	(114)		355	
Total Expenditure impact	**-**	**48**	**(7)**	**(406)**	**(314)**		**(352)**	

2) DETAIL LINES

REVENUE	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
CONSOLIDATED OPG/HOI NET INCOME	**389**	**389**	**(207)**	**(582)**	**(53)**	**(189)**
Public Debt Interest - Electricity Sector exp	*12*	*12*	*0*	*0*	*0*	*0*
equals amount above $520M (not incl ONFA)	*3*	*3*	*205*	*(582)*	*0*	*0*
of which: ONFA Adjustments	*(69)*	*(69)*	*8*	*0*	*0*	*0*
check total	*(54)*	*(54)*	*213*	*(582)*	*0*	*0*
CONSOLIDATED REVENUE - OEFC						
Other Fees and Licences						
Provision for Electricity Sector						
Electricity Payments-in-Lieu of Taxes (PILs)	(4)	(4)	(141)	(75)	(56)	57
Electricity Debt Retirement Charge	(9)	(9)	0	0	0	0
Power Supply Contract Recoveries	91	91	96	(171)	(71)	25
Net Reduction of Power Purchase Contracts	0	0	0	0	0	0
Other Fees and Licences						
Miscellaneous	4	4	(5)	(5)	(5)	(5)
SUBTOTAL	**471**	**471**	**(257)**	**(832)**	**(185)**	**(112)**
EXPENSE						
CONSOLIDATED OEFC EXPENSE						
Provision for Electricity Sector						
Power Supply Contract Costs	91	91	96	(171)	(71)	25
Demand Management Support Costs	13	(1)	-	-	-	-
less provision	(3)	(3)	(205)	582	0	0
Other OEFC Expenses	1	1	0	0	0	0
SUBTOTAL	**102**	**88**	**(109)**	**411**	**(71)**	**25**
FINANCE						
Provision for Electricity Sector	3	3	205	(582)	0	0

Public Debt Interest - Electricity Sector (Treasury Program)	12	12	0	0	0	0
SUBTOTAL	**15**	**15**	**205**	**(582)**	**0**	**0**
TREASURY PROGRAM - EXPENSE						
OEFC Debt interest	(8)	(25)	(110)	(247)	(255)	(303)
interest payments to OEFC from Other than Province	(8)	(18)	7	12	12	12
interest to OEFC from Province		(12)	0	0	0	0
SUBTOTAL	**(16)**	**(55)**	**(103)**	**(235)**	**(243)**	**(291)**
Impact on Surplus/(Deficit)	**370**	**423**	**(250)**	**(426)**	**129**	**154**

ONTARIO ELECTRICITY FINANCIAL CORPORATION
Budget 2016 Outlook as of January 2016

	Actual 2014-15	Interim 2015-16	2016-17	2017-18	Plan 2018-19
Revenue					
Revenue Pool Residual					
Debt Retirement Charge	956	868	625	623	-
Payments-in-lieu of tax:					
OPG	53	281	437	382	414
Legacy Hydro One (Including Brampton)	95	2,913	7	7	7
Hydro One CIT dedicated to OEFC		13	26	28	30
MEUs	32	25	44	63	81
Total PILs & CIT dedicated to OEFC	180	3,232	515	480	532
Interest :					
OPG	191	177	191	180	165
H1					
IESO	3	3	3	3	3
Province	520	508	492	492	492
Other	13	5	5	5	5
Total Interest	727	693	691	680	665
Power Supply Contract Recoveries	950	784	643	463	396
Amortization of NUG liability	217	172	129	74	41
Electricity sector dedicated income	1,038	-	138	706	-
Gain to OEFC under s. 50.3	-	150	-	-	-
Miscellaneous	9	5	5	5	5
	4,077	5,904	2,746	3,031	1,639
Expense					
Debt interest	1,385	1,344	1,326	1,337	1,282
Interest on nuclear risk funding					
Demand Management Support Costs	9	9	10	10	-
Amortization of deferred debt costs	-	-	-	-	
Power Supply Contract Costs	950	784	643	463	396
Debt Guarantee fee	131	127	127	125	123
Operating	6	6	6	6	6
	2,481	2,270	2,112	1,941	1,807
Excess (Deficiency) of Revenue over Expense	**1,596**	**3,634**	**634**	**1,090**	**(168)**
Stranded Debt - Year End	**8,185**	**4,551**	**3,917**	**2,827**	**2,995**
	658	651	635	657	617

Commercially Sensitive and Confidential Advice to Cabinet for Consideration of Options for Discussion Purposes Only

ONTARIO ELECTRICITY FINANCIAL CORPORATION
On Deck Outlook as of March 2017

	Actual 2014-15	Actual 2015-16	2016-17	2017-18	Plan 2018-19
Revenue					
Revenue Pool Residual					
Debt Retirement Charge	956	859	625	623	-
Payments-in-lieu of tax:					
OPG	53	268	302	315	366
Legacy Hydro One (Including Brampton)	95	2,929	7	2	2
Hydro One CIT dedicated to OEFC		3	20	20	22
MEUs	32	27	44	68	86
Total PILs & CIT dedicated to OEFC[1]	180	3,228	373	405	476
Interest :					
OPG	191	173	179	168	153
H1					
IESO	3	2	3	3	3
Province	520	520	492	492	492
Other	13	28	10	5	5
Total Interest	727	723	684	668	653
Power Supply Contract Recoveries	950	875	739	292	325
Amortization of NUG liability	217	172	129	74	41
Electricity sector dedicated income	1,038	3	342	125	-
Gain to OEFC under s. 50.3	-	172	-	-	-
Miscellaneous	9	9	-	-	-
	4,077	6,041	2,893	2,187	1,495
Expense					
Debt interest	1,385	1,319	1,216	1,090	1,027
Interest on nuclear risk funding					
Demand Management Support Costs	9	8	10	10	-
Amortization of deferred debt costs	-	-	-	-	
Power Supply Contract Costs	950	875	739	292	325
Debt Guarantee fee	131	127	122	102	91
Operating	6	7	6	6	6
	2,481	2,336	2,093	1,500	1,449
Excess (Deficiency) of Revenue over Expense	**1,596**	**3,705**	**800**	**687**	**46**
Prior period adjustment		87			
Stranded Debt - Year End	**8,185**	**4,393**	**3,593**	**2,906**	**2,860**
	658	596	532	422	374

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Changes from Budget 2016 as of March 2017

	Plan						
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Explanation of Change
Revenue							
Debt Retirement Charge	(9)	-	-	-	-	-	Updatedwith December 2016 Ontario Planning Outlook forecast Scenario A
Payments-in-lieu of tax:							
OPG	(13)	(135)	(67)	(48)	65	121	
Legacy Hydro One (Including Brampton)	16	-	(5)	(5)	(5)	(5)	
Hydro One CIT dedicated to OEFC	(10)	(6)	(8)	(8)	(8)	(7)	
MEUs	2	-	5	5	5	5	Large increase in 2016-2017 from $80M payment during transfer of H01 Brampton to new consolidated MEU Alectra.
Total PILs	(4)	(141)	(75)	(56)	57	114	
Interest :							
OPG	(4)	(12)	(12)	(12)	(12)	(12)	
H1	-	-	-	-	-	-	
IESO	(1)	-	-	-	-	-	
Province	12	-	-	-	-	-	
Other	23	5	-	-	-	-	
Total Interest	30	(7)	(12)	(12)	(12)	(12)	
Power Supply Contract Recoveries	91	96	(171)	(71)	25	25	
Amortization of NUG liability	-	-	-	-	-	-	
Electricity sector dedicated income	3	205	(582)	-	-	-	
Gain to OEFC under s. 50.3	22	-	-	-	-	-	
Miscellaneous	4	(5)	(5)	(5)	(5)	(5)	
	137	147	(844)	(144)	65	122	
Expense							
Debt interest	(25)	(110)	(247)	(255)	(303)	(389)	
Interest on nuclear risk funding	-	-	-	-	-	-	
Demand Management Support Costs	(1)	-	-	-	-	-	
Amortization of deferred debt costs	-	-	-	-	-	-	
Power Supply Contract Costs	91	96	(171)	(71)	25	25	
Debt Guarantee fee	-	(5)	(23)	(32)	(34)	(41)	
Operating	1	-	-	-	-	-	
	66	(19)	(441)	(358)	(312)	(405)	
Excess (Deficiency) of Revenue over Expense	**71**	**166**	**(403)**	**214**			
Stranded Debt - Year End	**(158)**	**(324)**	**79**	**(135)**	**(511)**	**(1,038)**	

Electricity Sector Outlook (PSAB)

Negative Revenue Risks						
($ millions)	**Plan**					
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
OPG Global Adjustment Trust			**TBD**	**TBD**	**TBD**	**TBD**
OPG Generation Risk: Nuclear Reliability (-1.6 TWh)[1]	-	(120)	(120)	(120)	(120)	(120)
ONFA Funds Return Risk[2]	-	(90)	(95)	(100)	(105)	(110)
Lower OPG's Equity weighting & Return on Equity (ROE)[3]		(2)	(12)	(20)	(25)	(43)
Ministry of Energy's price mitigation initiative - OPG operational efficiencies[9]		(60)	(240)	(240)	(240)	(180)
Lower Hydro One Return on Equity (ROE)[4]			(10)	(39)	(41)	(43)
Hydro One Tx rate application - OEB staff report[8]		(13)	(50)	(50)	(50)	(50)
OPG Switch from accrual based to cash based accounting for pension and OPEB[5]			(475)			
OPG IFRS Consolidation Risks - Scenario 1: 15 year historical, update discount rate each year.[6]	-	(75)	(425)	(525)	(675)	TBD
OPG IFRS Consolidation Risk - Scenario 2: 15 year historical + 5 forward, update every 5 year.[6]		(1,000)	(375)	(400)	(400)	TBD
Additional regulatory risk - Timing, Darlington Refurb Project & Others[7]	-		(660)			
Total - Scenario 1	-	(360)	(1,661)	(568)	(581)	(547)
Total - Scenario 2	-	(1,285)	(1,611)	(443)	(306)	(547)

Notes: The cumulative downside risk is presented as additive, which may overstate off-setting risks.

1. OPG's market and generation risks related to nuclear reliability similar to the scenarios OPG developed for its sales margins to capture major market risk factors (e.g., natural gas prices, coal prices, foreign exchange, nuclear reliability) in its 2012 business plan. Currently, only the nuclear reliability risk is captured at the current regulated rate for OPG's nuclear generation.

2. Under the Ontario Nuclear Funds Agreement (ONFA), OPG has established two segregated funds, the Decommissioning Segregated Fund (DSF) and for the Used Fuel Segregated Fund (UFSF). The risk shown is based on 1% decline on a realized basis in the DSF and UFSF, less the portion in the DSF assumed to be attributable to OPG's Bruce assets that is recoverable from consumers through the Bruce Variance Account.

3. Risk range for OPG reflects potential risk of lower ROE by 0.5% vs assumed ROEs in OPG's 2016 business plan and corresponding rate application. Also reflects how the proposed deemed equity of 49% might actually revert to the prior approved 45% weighting.

4. Risk range for Hydro One transmission and distribution reflects potential risk of lower ROE by 0.5% vs assumed ROEs in CEFD Hydro One Forecast based on the most recent rate applications and forecasted ROE rates.

5. The OEB directed a switch to cash-based accounting for years 2014 and 2015. However, the OEB also directed OPG to track the difference between cash based and accrual based accounting in a deferral account, while a generic proceeding is underway for all OEB-regulated electric and gas utilities.

6. The Ontario Auditor General recommended in the 2016 AG Report that the Province of Ontario include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards potentially as soon as the 2016-17 fiscal year. Estimated impacts to the Province by OPG being consolidated on an IFRS basis with respect to its nuclear liabilities under two methodologies are summarized in Scenarios 1 and 2. (Following work on the next Reference Plan, the potential impact to the 2021-22 fiscal year and going forward would be known.) **NOTE: The scenario 1 risk for 2017-18 to 2019-20 is reflected in the current fiscal plan.**

7. Additional regulatory risks related to the-rate application in spring 2016, including risks related to effective date timing, and a portion of refurb. costs-to-date of about $700-800M.

8. On January 25, 2017, the Ontario Energy Board (OEB) staff released their review of the Hydro One Transmission rate application (EB-2016-0160), and proposed a number of changes for the Board to rule on including a reduction in allowed capital expenditure, which would reduce the rate base and related return on capital, and OM&A related primarily to the compensation levels beyond the benchmark.

Electricity Sector Outlook (PSAB)

Positive Revenue Risks						
($ millions)	**Plan**					
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
OPG Global Adjustment Trust						
OPG Generation Risk: Nuclear Reliability (+1.1 TWh)[1]	-	85	85	85	85	85
Positive OPG regulatory risk - Motion to Review[2]	-	-	-	-	-	-
1% increase in Hydro One actual load[3]	-	15	15	15	15	15
Higher Hydro One Return on Equity (ROE)[4]		-	15	60	65	65
Higher OPG Return on Equity (ROE)[5]		-	6	25	30	55
Revenue risk if Scenario 2 IFRS Consolidation risk.[6]			50	125	275	
	-	100	171	310	470	220

Notes: The cumulative upside risk is presented as additive, which may overstate off-setting risks.

1. OPG's market and generation risks related to nuclear reliability similar to the scenarios OPG developed for its sales margins to capture major market risk factors (e.g., natural gas prices, coal prices, foreign exchange, nuclear reliability) in its 2012 business plan. Currently, only the nuclear reliability risk is captured at the current regulated rate for OPG's nuclear generation.

2. Reflects OPG's Motion to Review application with the OEB for the Niagara Tunnel cost disallowance and the 2013 tax loss.

3. A 1% change in the forecast represents a change of approximately 206MW for Tx in peak demand based on 2015/2016revenue requirement.

4. Risk range for Hydro One transmission and distribution reflects potential risk of higher ROE by 1% vs assumed ROEs in the Hydro One CEFD Forecast. Rounded to the nearest $5M.

5. Risk range for OPG reflects potential risk of higher ROE by 1% (for nuclear base) vs assumed ROE in OPG's 2016 business plan and corresponding rate application. Rounded to the nearest $5M.

6. NOTE: The Scenario 1 risk for 2017-18 to 2019-20 is reflected in the current fiscal plan. This is the impact if Scenario 2 is realized.

Ontario Electricity Financial Corporation

On Deck Revenue & Expense Outlook
($ millions)

		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue		4,077	6,041	2,893	2,187	1,495	1,504	1,615
less: interest income (to IOD)	1	727	723	684	668	653	635	635
less: Electricity Sector Dedicated Income from Prov	2	1,038	3	342	125	-	-	-
Adjustment to CRF revenue		2,312	5,315	1,866	1,394	842	869	980
Expense		2,481	2,336	2,093	1,500	1,449	1,372	1,245
less: Interest expense - With Province (to IOD)		1,385	1,319	1,216	1,090	1,027	977	885
less: Debt Guarantee Fee paid to Province	3	131	127	122	102	91	88	81
Adjustment to CRF expense		965	890	755	308	331	307	279
Surplus/(Deficit) Impact - without IOD Adj.		689	3,829	580	664	137	220	451
Surplus/(Deficit) Impact		1,347	4,425	1,112	1,086	511	562	701
In 2008-09 RBP - Surplus/(Deficit)		-	-	-	-	-	-	-
Adjustment required		1,347	4,425	1,112	1,086	511	562	701
Operating expense split		965	890	755	308	331	307	279
Capital expense split		-	-	-	-	-	-	-
Total		965	890	755	308	331	307	279
IOD		658	596	532	422	374	342	250

Notes:

1. OEFC interest income includes $520 million, or less (after H1 ownership broadening), annual interest payment from Province related to the Province's investment in OPG and Hydro One.

2. OEFC receives Electricity Sector Dedicated Income from the Province for the combined net income of OPG and Hydro One in excess of the Province's annual interest cost for its investment in these companies.

3. OEFC pays a Debt Guarantee Fee to the Province that is eliminated upon consolidation.

Ontario Power Generation

OPG Income - Budget 2016
($ millions)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
OPG Net Income After Tax	199	689	257	471	586	673	705	734
ONFA and other Fair Value Adjustments	475	122	241					
ONFA Adjustments	*367*	*122*	*241*					
Other Fair Value Adjustments	*108*							

OPG PIL - Budget 2016
($ millions)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Net Income Before Tax	231	539	546	324	695	745	855
Net Income After Tax	244	334	689	257	471	586	673
Income Taxes	(12)	205	(143)	67	224	159	182
GRC	189	186	198	198	196	205	212
Proxy Property Tax	16	16	15	16	17	18	20
Ontario Capital Tax	0	0	0	0	0	0	0
Total	**193**	**407**	**70**	**281**	**437**	**382**	**414**

OPG Income - 2017-19 BP March 2017
($ millions)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
OPG Net Income After Tax (Adjusted)	334	817	291	304	97	732	625	1,066
OPG Net Income After Tax	*334*	*574*	*291*	*379*	*480*	*678*	*726*	*913*
Extraordinary Gains	*-*	*243*	*-*	*-*	*-*	*-*	*-*	*-*
GA - OPG Trust Interest Revenue					*17.2*	*54.4*	*99.4*	*152.5*
OPG IFRS consolidation risk picked up in Fiscal Plan				-75	-400		-200	
ONFA and other Fair Value Adjustments	475	239	172	8				
ONFA Adjustments	*367*	*180*	*247*	*8*				
Other Fair Value Adjustments	*108*	*59*	(75)					

($ millions)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Net Income Before Tax	232	539	659	383	396	572	867
Net Income After Tax (Adjusted)	244	334	817	291	304	97	732
Income Taxes	(12)	205	(158)	92	92	92	135
GRC: Payable to OEFC	189	186	198	198	196	205	212
Proxy Property Tax	16	16	13	16	14	18	19
Ontario Capital Tax	0	0	0	0	0	0	0
Total	**193**	**407**	**53**	**306**	**302**	**315**	**366**
					23.23%	16.08%	15.56%

OPG 2016-17 Net Income Calculation (USGAAP) ($M)			
	Q1 2016[1]	**2016**	**Q1 2017[1]**
Net Income Attributable to Shareholder	123	438	34

Hydro One

Hydro One Income - Budget 2016
($ millions)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Hydro One Net Income After Tax	786	741	703	772	831	908	952	995
Hydro One - Unrealized Gains Adjustment	10	-8						

Hydro One PIL - Budget 2016
($ millions)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Net Income After Tax	786	754	703	772	831	908
Income Taxes	101	101	132	160	181	205
Proxy Property Tax	(3)	2	2	2	2	2
Ontario Capital Tax	0	0	0	0	0	0
Total	**98**	**103**	**134**	**162**	**183**	**207**

Hydro One Income - March 2017
($ millions)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Hydro One Net Income After Tax	786	741	685	737	742	802	862	931
Hydro One - Unrealized Gains Adjustment	10	(8)						

2016-17 to 2020-21 from CEFD Hydro One 2016 model.

Hydro One (Before IPO Scenario - 100% Ownership)
($ millions)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Net Income After Tax	786	741	685	737	742	802
Income Taxes PILs	101	92	132	160	181	205
Proxy Property Tax	(3)	3	2	2	2	2
Ontario Capital Tax	0	0	0	0	0	0
Total	**98**	**95**	**134**	**162**	**183**	**207**

Provision for Electricity Sector

	Actual	Plan						
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Income from Investment in Government Business Enterprises								
OPG Income	334	817	291	304	97	732	625	1,066
Hydro One Income	786	741	232	530	520	562	603	652
Total Income	1,120	1,558	523	834	617	1,294	1,229	1,717
Public Debt Interest - Electricity Sector	(520)	(520)	(520)	(492)	(492)	(492)	(492)	(492)
Impact of OPG and Hydro One	600	1,038	3	342	125	802	737	1,225
Other Adjustments*								
Cumulative Shortfall								
Opening Balance	-	-	-	-	-	-	-	-
Deduction / (Addition)	-	-	-	-	-	-	-	-
Ending Balance	-	-	-	-	-	-	-	-
Provision for Electricity Sector (without adjusting for unrealized losses)	**599**	**1,038**	**3**	**342**	**125**	**802**	**737**	**1,225**

Notes:

1. Provision for the fiscal year 2018-19 is assumed 0 based on the expectation that stranded debt would be eliminated by then.

PROVINCIAL CONSOLIDATION ADJUSTMENTS
Ontario Nuclear Funds Agreement

	2011-12	2012-13	2013-14	2014-15
Adjustment for DSF Unrealized Earnings				
Unrealized Earnings as at beginning of year	0	0	0	0
Unrealized Earnings as at December 31, 2016	10	62	(244)	(21)
Bruce Variance Account Adjustment	5	29	(115)	(10)
Adjustment for UFSF Unrealized Earnings				
Unrealized Earnings as at beginning of year	0	0	0	0
Unrealized Earnings as at December 31, 2016	1	26	64	82
Bruce Variance Account Adjustment	1	14	34	43
Unrealized Earnings -- Fiscal YTD	**6**	**45**	**(99)**	**28**
Adjustment for UFSF Due to Province				
Due to Province (cost basis) as at beginning of year	(102)	(189)	(181)	87
Unrealized Earnings as at December 31, 2016	(189)	(181)	87	295
Change in Due to Province -- Fiscal YTD	**(87)**	**8**	**268**	**208**
Adjustment for DSF Due to Province				
Due to Province (cost basis) as at beginning of year				
Unrealized Earnings as at December 31, 2016				
Change in Due to Province -- Fiscal YTD				
Provincial Consolidation Adjustment	**(93)**	**(37)**	**367**	**180**

From: John Kim
To: John Kim
Subject: 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc
Date: Thursday, May 04, 2017 8:36:13 AM
Attachments: 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2017-2019 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*Direct OPG review of delegated financial authority in consultation with TBS*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to

annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence. The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment refinancing, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would be financed by OPG raising a targeted up to 5% from capital markets, with the remaining 44-49% equity injection [and/or debt financing] from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection).

    - Provincial borrowing for an equity injection would be offset by an increase in an investment asset in OPG, so the Province's net debt position would remain unchanged.
    - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income.

The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan.

Financial figures from the OPG Business Plan are included and supplemented with more recent forecast adjustments from the Ontario Financing Authority, MOF, for more recent OPG in-year forecast updates, and for estimated OFHP implications, as part of Province's finalized fiscal plan for the 2017 Budget. Also identified are risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards.

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
    - 2017 Budget projections were based on the figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $291M in 2016-17 and $556M in 2017-18 compared to the 2016

Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of nuclear asset retirement obligations-related IFRS risks, followed by an increase of $12M in 2018-19 versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $463M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

Net income in 2018 and 2019, before OFA and MOF adjustments, is projected to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.

Also, in early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

The first table in Appendix E shows the OPG 2017-19 Business Plan fiscal impact changes to the Province's Budget 2016 fiscal plan.

- Key Operational Metrics:
  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

    OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.
- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and, as approved by Cabinet, the execution of the Darlington refurbishment consistent

with an approved budget of $12.8 billion (including assumed inflation escalation and interest), is now under way. First unit refurbishment, Unit 2, began in October 2016 and is assumed to be returned to service in February 2020, with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.

  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., upgrades at Sir Adam Beck and upgrades to DeCew II, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021, submitted in 2016. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

    TBS staff note that to obtain a special status, ministries are required to provide a comprehensive business case that would demonstrate how the special status would support the organization's business plan and mandate, and include details related to its annual forecast activity, internal audit controls, governance structure, and robust reporting processes that would be in place to support governance of the proposed

delegated authority.

As the Ministry is interested in streamlining the approval process related to approvals for international travel, it is recommended that the Ministry explores its current delegated financial authority framework and consult with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing) and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Performance risks: OPG's financial performance could be subjected to nuclear reliability issues such as unplanned outages and financial market risk on the performance of the nuclear funds, for which the Province consolidates on a realized [gains or losses] basis.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 3, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) Direct OPG to review its current delegated financial authority framework in consultation with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

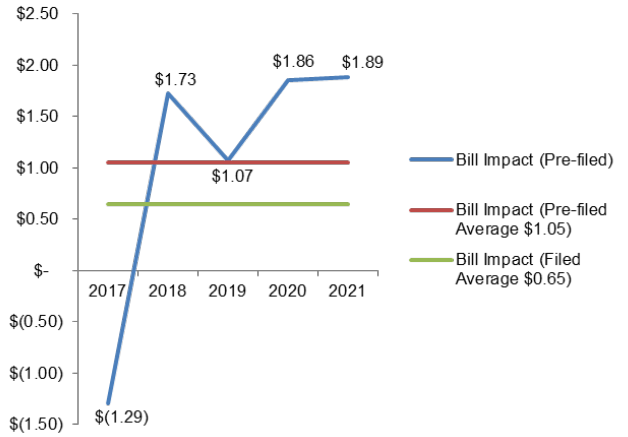
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

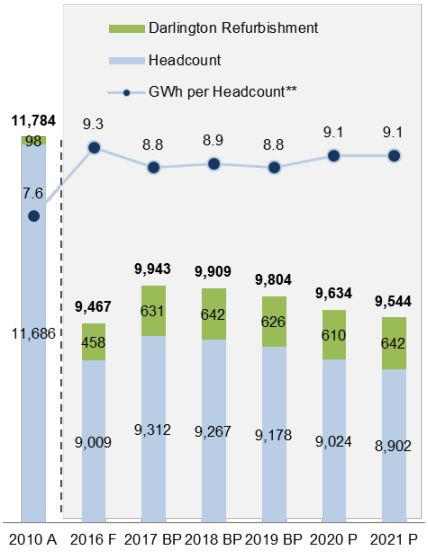
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



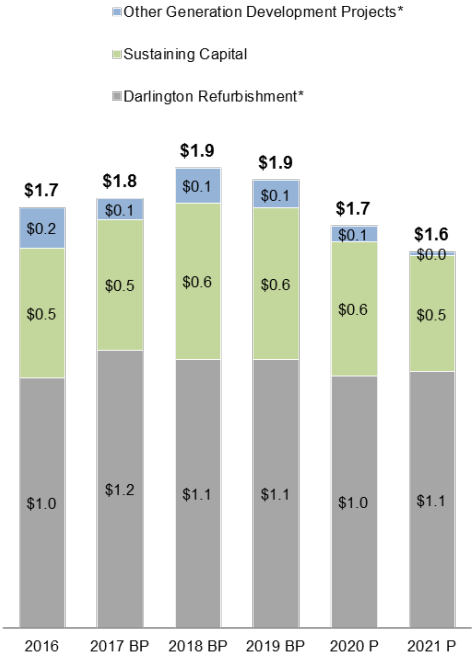
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF OPG BUSINESS PLAN PROCEEDING

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only). Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income Tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget[1]				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income				
OPG 2017-19 Business Plan	349	702	678	726
Adjustments:				
OPG Update[2]	30			
IFRS Risk adjustment[3]	(75)	(400)		(200)
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		(222)		
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)		17	54	99
Nuclear Funds fair value adjustment[5]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax				
OPG 2017-19 Business Plan	96	166	135	170
Adjustments				
OPG Update[2]	(4)			
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		(74)		
Income tax 2017 Budget	92	92	135	170
2016 Budget vs. 2017 Budget (including IFRS and sales &rental adjustments)				
Net Income	(167)	(489)	59	
Income taxes	(132)	(67)	(47)	
2016 Budget vs. 2017 Budget (Before IFRS and sales &rental adjustments)				
Net Income	(84)	133	59	200
Income taxes	(132)	7	(47)	0

1. 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 2016 multi-year business plan was approved and submitted following the timeframe for locking the numbers for the early 2016 Budget.
2. OPG February 2017 Monthly Update

3. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
4. For public Budget reporting, projected net impacts of Province asset optimization strategy including, OPG Head Office sale, are reported under Sales and Rentals for commercial confidentiality. OPG proceeds estimate updated per 2017 Budget.
5. Provincial consolidation adjustments for unrealized earnings on decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241
Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

From:	Strang, James (TBS)
To:	John Kim; Bruno Amara
Cc:	Felix Fung (MOF); Ronald Kwan
Subject:	5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc
Date:	Thursday, May 04, 2017 8:18:59 AM
Attachments:	5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc

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Morning John, Bruno:

Attached is the note for Chair's briefing usual place.

Two Energy items, OFA should be in attendance (Items are at the front on the agenda, items 3 &4):

- Ontario Fair Hydro Plan 1:20pm (Draft note pending)
- Ontario Power Generation Business Plan 1:30pm (Note attached)

James

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

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• Receive the 2017~~6~~-2019~~8~~ business plan for Ontario Power Generation	*Receive*
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In November 2016, OPG submitted its Board approved 2017-2019 Business Plan to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment refinancing, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would be financed by OPG raising a targeted up to 5% from capital markets, with the remaining 44-49% equity injection [and/or debt financing] from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection).
    - Provincial borrowing for an equity injection would be offset by an increase in an investment asset in OPG, so the Province's net debt position would remain unchanged.
    - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income.

The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan.

- ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets.~~
    - ~~Provincial borrowing would be offset by an increase in an investment asset in OPG.~~
    - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
    - ~~In addition, the Province's net debt position should remain unchanged~~

Financial figures from the OPG Business Plan are included and supplemented with more recent forecast adjustments from the Ontario Financing Authority, MOF, for more recent OPG in-year forecast updates, and for estimated OFHP implications, as part of Province's finalized fiscal plan for the 2017 Budget. Also identified are risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards.

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018.

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~~Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments from the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget, and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.~~

Commented [BA1]: Also added MoF changes for IFRS risk

~~The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have an one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province may make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018.~~

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - 2017 Budget projections were based on the figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $291M in 2016-17 and $556M in 2017-18 compared to the 2016 Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of nuclear asset retirement obligations-related IFRS risks, followed by an increase of $12M in 2018-19 versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

    Commented [JK2]: Still being checked.

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $463M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA and MOF adjustments, is projected to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.

    Also, in early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    The first table in Appendix E shows the OPG 2017-19 Business Plan fiscal impact changes to the Province's Budget 2016 fiscal plan.

- Key Operational Metrics:

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
- The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
- Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

  OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

  OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and, as approved by Cabinet, the execution of the Darlington refurbishment consistent with an approved budget of $12.8 billion (including assumed inflation escalation and interest), is now under way. First unit refurbishment, Unit 2, began in October 2016 and is assumed to be returned to service in February 2020, with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., upgrades at Sir Adam Beck and upgrades to DeCew II, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021, submitted in 2016. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides

more information):

- OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
  - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
  - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
  - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
  - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

TBS staff note that to obtain a special status, ministries are required to provide a comprehensive business case that would demonstrate how the special status would support the organization's business plan and mandate, and include details related to its annual forecast activity, internal audit controls, governance structure, and robust reporting processes that would be in place to support governance of the proposed delegated authority.

As the Ministry is interested in streamlining the approval process related to approvals for international travel, it is recommended that the Ministry explores its current delegated financial authority framework and consult with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing) and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Performance risks: OPG's financial performance could be subjected to nuclear reliability issues such as unplanned outages and financial market risk on the performance of the nuclear funds, for which the Province consolidates on a realized [gains or losses] basis.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

- Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact. ~~The figures in the OPG Board approved 2017-2019 Business Plan show a decrease in earnings before tax of $294M in 2016-17 and $556M in 2017-18 [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by an increase of $11M in 2018-19 and a decrease of $14M in 2019-20 versus the~~

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These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
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Other Key Fiscal Risks:

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Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 3, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) Direct OPG to review its current delegated financial authority framework in consultation with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

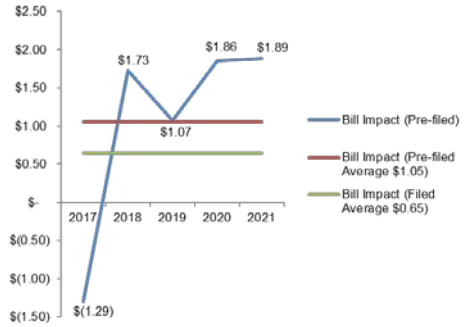
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

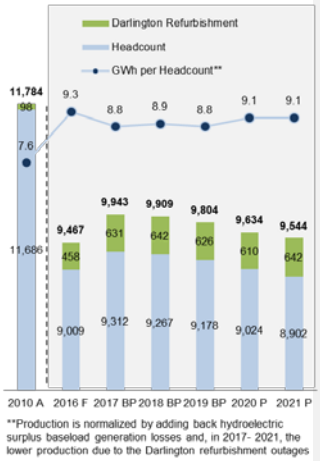
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



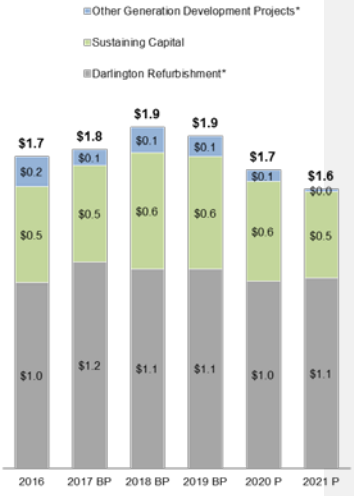
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

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APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF

OPG BUSINESS PLAN~~S~~ PROCEEDING ~~(UNDER DEVELOPMENT)~~

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Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only). Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income Tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget[1]				
Net Income	471	586	673	-
Income Tax	224	159	182	-
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income	-	-	-	-
OPG 2017-19 Business Plan	349	702	678	726
Adjustments:	-	-	-	-
OPG Update[2]	30	-	-	-
IFRS Risk adjustment[3]	(75)	(400)	-	(200)
related to OPG Head Office Sale[4] (reported under Sales & Rentals)	-	(222)	-	-
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)	-	17	54	99
Nuclear Funds fair value adjustment[5]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax	-	-	-	-
OPG 2017-19 Business Plan	96	166	135	170
Adjustments	-	-	-	-
OPG Update[2]	(4)	-	-	-
related to OPG Head Office Sale[4] (reported under Sales & Rentals)	-	(74)	-	-
Income tax 2017 Budget	92	92	135	170
2016 Budget vs. 2017 Budget (including IFRS and sales &rental adjustments)				
Net Income	(167)	(489)	59	-
Income taxes	(132)	(67)	(47)	-
2016 Budget vs. 2017 Budget (Before IFRS and sales &rental adjustments)				
Net Income	(84)	133	59	200
Income taxes	(132)	7	(47)	0

1. 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 2016 multi-year business plan was approved and submitted following the

Commented [RK3]: Can we show it this way too?

timeframe for locking the numbers for the early 2016 Budget.
2. OPG February 2017 Monthly Update
3. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
4. For public Budget reporting, projected net impacts of Province asset optimization strategy including, OPG Head Office sale, are reported under Sales and Rentals for commercial confidentiality. OPG proceeds estimate updated per 2017 Budget.
5. Provincial consolidation adjustments for unrealized earnings on decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Commented [JK4]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241
Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

~~Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).~~

~~Revenue ($millions)~~	~~2016-17~~	~~2017-18~~	~~2018-19~~	~~2019-20~~
~~**2016 Ontario Budget**~~				
~~Ontario Power Generation~~				
~~Net Income~~	~~471~~	~~586~~	~~673~~	
~~Income Tax~~	~~224~~	~~159~~	~~182~~	
~~**2017-2019 OPG Business Plan**~~				
~~Ontario Power Generation~~				
~~Net Income~~	~~349~~	~~702~~	~~678~~	~~726~~
~~Income Tax~~	~~96~~	~~166~~	~~135~~	~~170~~

2017 Ontario Budget				
Ontario Power Generation				
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	54	99	153
OPG Head Office*		222		
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

- Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

Commented [RK5]: I thought a small amount (100?) was ultimately included here too -- CHECK

OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
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Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241
Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
Net Income (including OPG Head Office sale)	379	702	678	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue - TBC		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	(75)	(400)	-	(200)
Income Tax PILs to OEFC	92	166	135	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

From: John Kim
To: John Kim
Subject: 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc
Date: Thursday, May 04, 2017 8:36:13 AM
Attachments: 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2017-2019 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*Direct OPG review of delegated financial authority in consultation with TBS*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to

annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence. The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment refinancing, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would be financed by OPG raising a targeted up to 5% from capital markets, with the remaining 44-49% equity injection [and/or debt financing] from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection).

    - Provincial borrowing for an equity injection would be offset by an increase in an investment asset in OPG, so the Province's net debt position would remain unchanged.
    - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income.

The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan.

Financial figures from the OPG Business Plan are included and supplemented with more recent forecast adjustments from the Ontario Financing Authority, MOF, for more recent OPG in-year forecast updates, and for estimated OFHP implications, as part of Province's finalized fiscal plan for the 2017 Budget. Also identified are risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards.

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
    - 2017 Budget projections were based on the figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $291M in 2016-17 and $556M in 2017-18 compared to the 2016

Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of nuclear asset retirement obligations-related IFRS risks, followed by an increase of $12M in 2018-19 versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $463M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

Net income in 2018 and 2019, before OFA and MOF adjustments, is projected to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.

Also, in early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

The first table in Appendix E shows the OPG 2017-19 Business Plan fiscal impact changes to the Province's Budget 2016 fiscal plan.

- Key Operational Metrics:
  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

    OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.
- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and, as approved by Cabinet, the execution of the Darlington refurbishment consistent

with an approved budget of $12.8 billion (including assumed inflation escalation and interest), is now under way. First unit refurbishment, Unit 2, began in October 2016 and is assumed to be returned to service in February 2020, with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.

  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., upgrades at Sir Adam Beck and upgrades to DeCew II, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021, submitted in 2016. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

    TBS staff note that to obtain a special status, ministries are required to provide a comprehensive business case that would demonstrate how the special status would support the organization's business plan and mandate, and include details related to its annual forecast activity, internal audit controls, governance structure, and robust reporting processes that would be in place to support governance of the proposed

delegated authority.

As the Ministry is interested in streamlining the approval process related to approvals for international travel, it is recommended that the Ministry explores its current delegated financial authority framework and consult with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing) and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Performance risks: OPG's financial performance could be subjected to nuclear reliability issues such as unplanned outages and financial market risk on the performance of the nuclear funds, for which the Province consolidates on a realized [gains or losses] basis.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 3, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) Direct OPG to review its current delegated financial authority framework in consultation with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

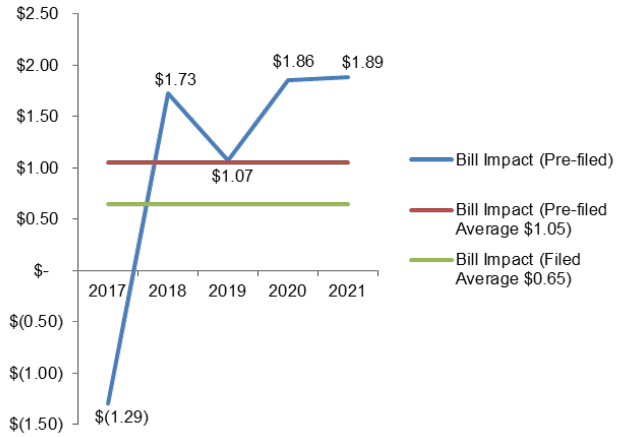
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

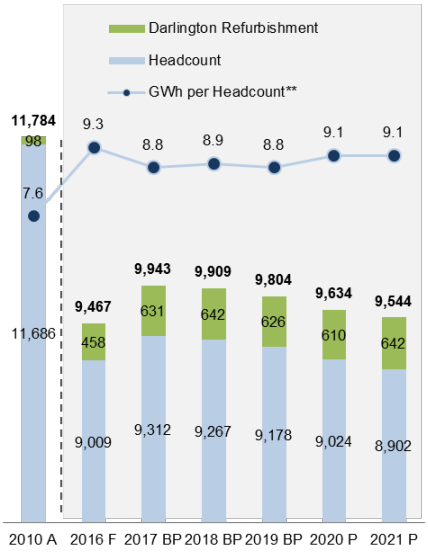
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



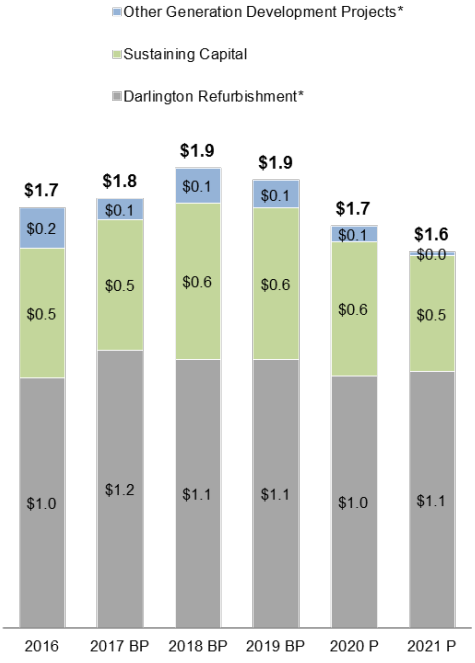
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF OPG BUSINESS PLAN PROCEEDING

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OPG Net Income and Income Tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget[1]				
Net Income	471	586	673	
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2017-2019 OPG Business Plan				
Net Income	349	702	678	726
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2017 Budget				
Net Income				
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Adjustments:				
OPG Update[2]	30			
IFRS Risk adjustment[3]	(75)	(400)		(200)
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		(222)		
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)		17	54	99
Nuclear Funds fair value adjustment[5]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax				
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Adjustments				
OPG Update[2]	(4)			
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		(74)		
Income tax 2017 Budget	92	92	135	170
2016 Budget vs. 2017 Budget (including IFRS and sales &rental adjustments)				
Net Income	(167)	(489)	59	
Income taxes	(132)	(67)	(47)	
2016 Budget vs. 2017 Budget (Before IFRS and sales &rental adjustments)				
Net Income	(84)	133	59	200
Income taxes	(132)	7	(47)	0

1. 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 2016 multi-year business plan was approved and submitted following the timeframe for locking the numbers for the early 2016 Budget.
2. OPG February 2017 Monthly Update

3. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
4. For public Budget reporting, projected net impacts of Province asset optimization strategy including, OPG Head Office sale, are reported under Sales and Rentals for commercial confidentiality. OPG proceeds estimate updated per 2017 Budget.
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Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

From: John Kim
To: James Strang (MOF)
Cc: Bruno Amara
Subject: CBN note on OFHP
Date: Monday, May 08, 2017 10:53:39 AM

Hi James,

Any material over the weekend?

John

Y. John Kim
Director, Electricity Finance Branch
Corporate & Electricity Finance Division
Ontario Financing Authority
Ph: 416-212-6996
Email: john.kim@ofina.on.ca

From:	John Kim
To:	Ronald Kwan
Cc:	Bruno Amara; Deena Padamadan
Subject:	DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup.docx
Date:	Monday, May 01, 2017 7:25:37 PM
Attachments:	DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup.docx

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Hi Ron,

Pls. see attached with some preliminary comments and small suggested edits.

John

Ontario

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy

DRAFT Financing Global Adjustment

Commented [HT1]: Name as in EVista- Will update as item is updated.

Cabinet (info)	TB/MBC	Cabinet	Announcement	TB/MBC	Cabinet	Introduction
Feb 15, 2017	March 1, 2017	March 1, 2017	March 2, 2017	May 9, 2017	May 10, 2017	May 11, 2017

Summary of Proposal

The proposed legislation contains a variance from Cabinet direction, which is detailed in the ministry's variance memo and within this note.

Context for Decision:

This proposal follows Cabinet direction to the Ministry of Energy to take the necessary steps to implement electricity price mitigation initiatives that would provide additional rate relief to Ontario electricity ratepayers.

The proposed legislation enables approaches to fairly allocate the costs of the Global Adjustment (GA) amongst current and future electricity rate payers, and help the most vulnerable Ontarians through enhancements to electricity support programs through tax-base funding. To fully implement the initiative, the Ministry of Energy will be seeking future approvals for regulations identified in the proposed bill, while working to maintain existing public policy objectives such as: maintaining a reliable electricity system, Ontario's commitment to reducing the impacts of climate change and commitment to achieve greenhouse gas (GHG) reduction targets.

The proposed legislation:

1. Establishes a framework to finance a portion of the GA costs in order to reduce costs for ratepayers in the near term and spread the costs of the GA more fairly across ratepayers between July 1, 2017 and April 30, 2047:
   - July 1, 2017 to April 20, 2018, reduces after-tax electricity costs for specified consumers by 25%.
   - May, 1 2018 to April 31, 2022, electricity rates will be set by Order in Council (OIC) with the intention to keep increases in line with the Consumer Price Index (CPI) (See page 17- Fiscal Pressure)
   - May 1, 2022 to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and

administrative costs, around 10% of total electricity costs. (See page 14- Future Impacts to Electricity Rates)

Commented [HT2]: TBC by Energy

- Through the bill and subsequent amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998, e*xpanding the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO), to provide for appropriate oversight, putting in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the deferred GA costs. (See page 19- OPG Mechanism)

2. Expands electricity support programs for the most vulnerable consumers and moves program costs from the rate base to the tax base. The bill amends the *Ontario Energy Board Act, 1998* to:
   - ~~M~~move the recently expanded Ontario Electricity Support Program (OESP) to the tax base, transition the program to be administered by the Crown, and to enable information exchange between the Ontario Disability Support Program to potentially allow for automatic enrolment procedures to be established;
   - ~~Amends the Ontario Energy Board Act, 1998 to e~~enable a broadening of the Rural or Remote Electricity Rate Protection (RRRP), including harmonizing distribution costs for customers with the highest distribution rates and moving the program to the tax base; and,
   - ~~Amends the *Ontario Energy Board Act, 1998* to~~ require the establishment of a government funded program to provide a delivery credit to prescribed on reserve customers.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price, helping to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, fixed generation costs, such as nuclear contracts, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:

  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.
  - Line Loss: The costs to recover electricity that is lost as heat when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One –** Customer service types are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. The more customers there are in the area, the lower the cost to serve. R1 customers are considered 'medium density' customers and R2 are considered 'low density customers.'
- **Ontario Power Generation (OPG) –** A business corporation owned by the province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to comment on various items.
- **Independent Electricity System Operator (IESO) –** An independent corporation and agency of the Ministry of Energy that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Class A Consumer –** Large commercial and large industrial consumers with average peak load size above 3 MW, subject to eligibility. Class A consumers pay GA based on their electricity consumption during the five highest peak demand hours during the year. On January 1, 2017 the threshold for Class A was lowered to 1MW for all consumer types.
- **Non-RPP Class B Consumer –** Commercial, institutional and small industrial consumers, typically with load size under 3 MW. Class B consumers pay GA as a volumetric rate applied to all electricity consumption. Class B consumers include those that choose not to become Class A.

- **Special Purpose Vehicle (SPV) –**
- **Security Interest –**

Commented [HT3]: TBS: Do you have standard language that you would recommend using?

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. There has been increased media attention and public pressure for the government to provide ratepayer relief. On March 2, 2017, the Ontario government announced its electricity rate mitigation package, Ontario's Fair Hydro Plan, which included the initiatives contained in the proposed legislation. The government has committed to implement further rate relief measures by the summer 2017.

What is the expected cost to government?

The total cost of the proposal is $4.1B [TBC] in 2017/18, $1,599M funded through the fiscal plan and $2.5B to be funded through the electricity rate base.

Commented [HT4]: TBC as this includes the equity injection.

Commented [BA5]: Is it clear here what is mean by "cost"? Fiscal cost plus higher debt.

Commented [JK6]: TBS, pls. check this figure. I believe there is an updated figure ($1,438?).

TABLE 1: Cost Impact ($M)	2017-18	2018-19	2019-20	2020-21
Moving Social Programs to Government-Funded (details provided in the chart below)	499	753	829	892
GA Financing	2,534	2,668	2,942	3,420
~~OPG Loan /~~ Province's Capital Injection to OPG ~~Share Purchase~~ (i.e. equity injection or debt)	1,100	?	?	?
Cumulative Total	4,133	3,421	3,771	4,312

Commented [BA7]: Maybe should avoid calling this a loan

Commented [BA8]: May be confusing to total these amounts. 1st row is a fiscal impact while equity injection represents increase in debt but no fiscal impact.

Commented [JK9]: Also, 2.5bn in 2017-18 includes the Province's capital injection

The proposed bill identifies OPG as the Financial Services Manager and would therefore take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from the IESO through OPG Trust. The OPG would finance these purchases through a combination of an equity investment by the Province ($1.1 B in 2017-18; See Table 1) and external private sector financing. The structure has been designed to increase gross debt of the Province (to finance the equity injection in OPG), increase interest on debt related to that external debt, increase net investment in OPG, and increase earnings of OPG. The equity investment has been structured so that the underlying regulatory asset will offset the additional debt to not impact the province's net debt.

Commented [HT10]: TBC

Commented [BA11]: Do we need to distinguish between OPG as financial service manager and OPG Trust which would purchase regulatory assets?

The estimate for the combined impact of the non-Global Adjustment initiatives that would begin in 2017/18 is expected to be $499M in 2017/18, growing to $753M in 2018/19 and rising. This represents an additional pressure on the plan. These estimates are based on variable inputs such as program uptake and future energy consumption of various consumer groups, and are therefore subject to change.

Commented [BA12]: Additional to? As proposed this is the only pressure on the fiscal plan. The GA financing as proposed has no impact on the fiscal plan but does impact debt.

TABLE 2: Fiscal Impact ($M)	17-18	18-19	19-20	20-21
RRRP Enhancements*	344	472	484	497

OESP Enhancements	140	261	325	375
First Nations On-Reserve Delivery Credit	15	20	20	20
Total	499**	753	829	892

***Note:** Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate base.
****Note**: Value adjusted from $665 million to reflect July 2017 implementation.

There is inherent risk in the financial estimates because the calculations are highly dependent on forecasts of the total consumption and bills of customers eligible for the RPP, the cost of borrowing, electricity demand and electricity market conditions and accounting assumptions. In addition, under the proposal, electricity prices would increase around 10% above forecast residential monthly bills from 2028 to 2047.The public may expect that the government is committed to reducing or holding constant the absolute cost of electricity for consumers in the longer term. Under the proposal, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future. (See page 17- Fiscal Pressure)

What are the key steps to deliver this proposal?

- May 11, 2017 - introduce legislation.
- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, and LDCs on the implementation of the Fair Hydro Plan.
- Information postings of proposed regulations.
- June ?? 2017- Energy to bring regulations to TB/MBC.
- June ??, 2017- Energy to bring regulations to LRC/Cabinet.
- July 1st, 2017- the remaining Fair Hydro Plan reductions and programs would take effect. Programs that are not established on this day for technical implementation issues will have benefits that are retroactively applied to customers once program is operational in individual LDCs.

Commented [HT13]: Energy: Pelase refine

How will the changes be communicated?

Commented [HT14]: CO and Energy Comms to review.

On March 2, 2017, the Premier made a high profile announcement of additional relief to reduce electricity costs for Ontarians. Coinciding with this event, there was news releases with backgrounders, a technical briefing of the media, a public education campaign to raise awareness of the rebates and initiatives in place to reduce electricity bills, and an Ontario website that includes all the programs and initiatives that the government is undertaking to reduce electricity costs.

Building on the previous announcements, on May 11, 2017, the Premier is to make a high profile announcement of the plans to introduce the necessary legislation to implement Ontario's Fair Hydro Plan to provide additional relief to reduce electricity costs for Ontarians.

Given the risk identified that the GA financing may have a fiscal impact, communication will need to be clear that the proposed draft legislation meets the legal, accounting and financial requirements to not have a fiscal impact.

Notes and Recommendation from LRC

LRC item direct to Cabinet.

Cabinet Office Analysis

The proposed legislation allows for the implementation of the main elements of Ontario's Fair Hydro Plan announced March 2 to provide further rate relief to Ontario electricity ratepayers. The Global Adjustment (GA) smoothing proposal will provide 25% in rate relief on average in aggregate (including the 8% announced in 2016) for eligible consumers of the Regulated Price Plan (RPP) between July 1, 2017 and April 31, 2018 ("The Fair Adjustment"). Electricity rates would then change by amounts prescribed in the regulations under the bill, with the intention to keep rate increases in line with Consumer Price Index (CPI) between May 1, 2018 and April 30, 2022.

Ontario produces and publishes a Long-Term Energy Plan (LTEP) every three to four years, with the next LTEP scheduled for release in the summer of 2017. LTEP principles that will guide decision-making are affordability, reliability, clean energy, community and Indigenous engagement, and conservation. Through extensive consultation with the public, stakeholders and Indigenous partners through the fall of 2016, the Ministry has identified key priorities, and, Ontario's Fair Hydro Plan combined with new policy or program announcements in the LTEP, will provide the comprehensive future planning perspective for Ontario's energy sector.

Commented [AP15]: The 25% is an average or for every customer?

Commented [BA16]: Should sentence read "…25% in rate relief on average…"?

Commented [HT17]: Need to add estimate of benefits from the other programs, particularly RRRP as I think the impact, along with GA, is going to be closer to 40 or 50% for some customers

Commented [HT18]: Confirm with PO and Energy

1. Refinancing the Global Adjustment

The proposed legislation establishes the framework to defer some of the current GA costs to future ratepayers by recognizing the longer term benefit of these assets to the electricity system (similar to extending and re-financing a mortgage). The methodology is based on the assumption that some generation assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts, and that future ratepayers are expected to continue to be able to utilize and benefit from these assets, and that they will also reduce the need to finance the development of new generation assets in the future.

Many of the contracted generation assets are expected to have useful lives that extend beyond the term of their current financial contracts (typically 20 years). Similarly, conservation costs are recovered through the GA on an annual basis while conservation initiatives can provide benefits to the electricity system over many years.

According to a legal opinion by former Supreme Court Justice Binnie, the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations leaves the process more susceptible to constitutional challenge and could jeopardize the nature of the clean energy adjustment being a regulatory charge, and risk it being deemed an unlawful tax. The bill has been drafted to mitigate this risk and clearly articulates the desire to fairly attribute intergenerational costs and benefits. In addition the bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. (See page 16- Legal Risk)

Key elements of this component of the bill include:

Fair Adjustment

- July 1, 2017- April 30, 2018- the bill outlines an immediate 25% reduction (on average) in rates for eligible consumers in recognition of the investment in clean energy initiatives since 2005.
- May 1, 2018- April 30, 2022- the bill allows for rates to be set by regulation, with the intention that rates will increase in line with CPI over this time, consistent with government commitments. (See page 17- Fiscal Pressure)
- Ontario Energy Board (OEB) would calculate appropriate adjustments for "specified consumers".

Clean Energy Adjustment

- Determined by Ontario Power Generation (OPG) as the Financial Services Manager, the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principal~~e~~, interest, transaction costs and administrative costs associated with the fair adjustment (regulatory/investment asset).
- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- May 1, 2022- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing Independent Electricity System Operator (IESO) and Local Distribution Companies (LDC) processes.
- In accordance with the regulations, the OEB to set the rate at which "specified consumers" are invoiced to recover the clean energy adjustment.

Fair Allocation Amount

- The fair allocation amount is calculated by the Financial Services Manager consistent with the principles of the bill.
- Established for the purposes of allocating the costs of the clean energy initiative to provide inter-generational fairness to rate payers; and aligning funding obligations that may be incurred during each reference period (typically every 6 months).

Commented [AP19]: OPG intends to recover interest costs every year through the Trust in order to pay the interest payments from debt sourced from the capital markets. Thus, the clean energy adjustment charge would start in 2017, not 2022.

Commented [SQ220]: I had this comment initially too but the opposite side to this is that they will simply capitalize those costs and will result in increased financing requirements over the first 4 years.

- Provided to the Minister of Energy who will ensure that the information is made public in an appropriate way.
- Principles established in the bill require proper match over time between the costs of providing facilities for clean electricity generation and conservation and the consumers who benefit from these investments in the system. (Page 16- Legal Risk; See page 17- Fiscal Pressure)

Financing Plan

- Prepared by the Financial Services Manager to determine if potential funding obligations should be incurred to acquire an investment interest in accordance with the bill.
- Provided to the Minister Energy who may remove the Financial Services Manager if the Financing Plan is not consistent with the principles of the bill and the Financial Services Manager has been given the opportunity to address the Minister's concerns.
- May be amended as determined by the Financial Services Manager.
- In practical terms, the Financing Plan is intended to show how debt (with varying degrees of incurrence dates, maturities, interest rates) will be used over time.
- The OEB would review the administrative costs of the Financial Services Manager.

Commented [AP21]: Is this a different point from Ernst & Young advice OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the SPV.

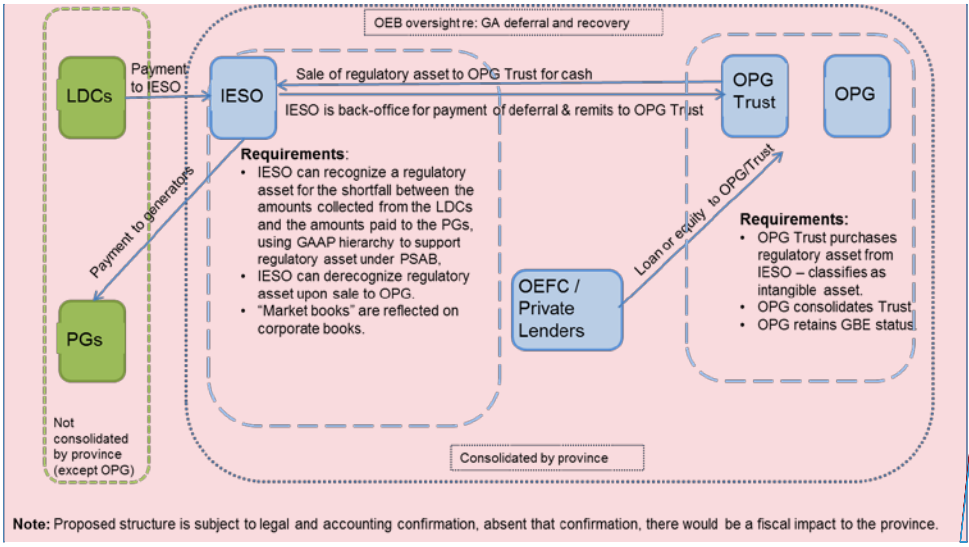
Regulatory Asset and Investment Asset

- Regulatory Asset created as IESO incurs a funding shortfall equal to the difference between the rates it receives after the implementation of the Fair Adjustment and the amounts owed under generation and conservation contracts (i.e. the comparison rate minus rates after fair adjustment).
- Subject to OEB approval, IESO would record the funding shortfall as a regulatory asset. IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until May 1, 2022.
- The Financing Plan contemplates the Financial Services Manager establishing financing entities (OPG Trust/Special Purpose Vehicle (SPV)) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests including by dividend or undivided interest, consistent with the Financing Plan. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.

- After 5 years (May 1, 2022) the IESO has the rights to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. (See page 17- Fiscal Pressure)
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Crown Undertaking (Guarantee or Backstop)

- The Crown would undertake not to do anything to adversely affect an investment asset or funding obligation, including hinder, impair, prejudice the charging, collection or remittance of the clean energy adjustment.
- The Minister of Energy, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill.
- The Minister of Finance, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.



Commented [HT22]: Energy: Please provide updated chart with terminology from the legislation embedded.

Commented [JK23]: CEFD/OFA will have an updated version for this provided to Energy.

The bill establishes a structure in which the IESO records the GA cost recovery deferral is recorded as a regulatory asset (regulated by the OEB), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time ("The Fair Adjustment"). Eligible consumers would receive a 25% reduction in electricity rates from July 1, 2017 to April 30, 2018. The IESO may then sell the regulatory asset, at which time it becomes an investment asset. The investment asset owner (OPG Trust/SPV or trust "financing entities") may then further sell or

Commented [HT24]: Section to be compared against the legislation's compendium when available.

securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

Under the proposed framework, OPG, acting in its role as the "Financial Services Manager", and following the principles in the bill, would regularly calculate the "Fair Allocation Amount" to ensure a proper match of the allocation of the intergenerational costs and benefits. To recoup the costs associated with the fair adjustment, consumers, starting in May 2022 would be invoiced the "Clean Energy Adjustment" on their electricity bills through existing IESO and LDC processes. The OEB would set the rates at which the clean energy adjustment could be collected.

OPG is planning to create a SPV or Trust to finance the GA. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. The variability will likely largely result from the financing of the SPV/Trust, and therefore OPG will have the ability to direct the financing of the Trust and both benefit from its financing strategy and be at risk as a result of it.

OPG Trust/SPV will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG's debt would be funded through a combination of an equity investment by the Province (See Table 1 on page 4) and external financing through a securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG. The proposed structure is expected to result in: (1) increase in provincial gross debt offset by an equivalent in regulatory assets resulting in no change in net debt, and (2) an increase in interest on debt paid by the province offset by higher earnings from OPG resulting in no impact on annual deficit of the province.

The legislation commits the government to backstop the financing if the government were to ever hinder the collection of the clean energy adjustment including revoking or changing the legislation or regulations. In other words, the OPG and its debt holders would have their capital guaranteed and paid for directly by the Province if such a situation were to occur. The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time, but could be as high as $1-1.5B annually [TBC]. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future.

The proposed structure has been extensively reviewed by KPMG (Energy advisor and IESO auditor), and the firm has provided an accounting opinion confirming the validity of the structure under PSAB [TBC]. This opinion can be made public [TBC] to support the governments rational for the plan. In addition, MAG and Blakes are confident that the structure is constitutionally sound, but that this will depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism. Based on the current analysis there is a moderately high risk that the GA financing will have a fiscal impact on the Province before 2022.

Commented [SQ225]: Has this been a plan to define? Annually? Semi-annually? Monthly?

Commented [SQ226]: This should be prefaced with the fact that this risk only arises after OPG would have decided to purchase the Regulatory Asset from IESO, which it is not obligated to do so.

Commented [JK27]: In the latest legislative drafting we have seen.

Commented [SQ228]: This is focussed on accounting fiscal impact but cash flow impact is still present. Province would require cash to pay for IOD and unless those higher earnings (re: cash) is divdended back to Province to cover IOD payments, my guess would be that there is a fiscal impact in terms of IOD.

Commented [JK29]: Albeit relatively small compared to the deferred GA amounts.

Commented [HT30]: Based on commentary from implementation meetings. Don't believe this includes estimates of private lender borrowing costs. Please advise

Commented [SQ231]: Furthermore, this would likely be the "additional" impact. The Province's equity injection, which is currently offset by expected higher earnings, would cease to exists resulting in fiscal impact as well. Could result in $2-3B annually. Please confirm.

Commented [HT32]: Energy to confirm

For clarity: the following structural requirements have been met: [TBC]

Commented [HT33]: TBC based on receipt of professional opinions etc.

- IESO requirements :
  - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB;
  - IESO can derecognize regulatory asset upon sale to OPG;
  - "Market books" are reflected on corporate books; and,
  - OEB to act as regulator.

Commented [SQ234]: Currently, I don't believe this is the case for IESO. Will this be the case going forward?

- OPG requirements:
  - OPG Trust/SPV purchases regulatory asset from IESO – classifies as intangible asset;
  - OPG consolidates Trust/SPV; and
  - OPG retains GBE status.

However, despite the fact that the structure has satisfied the legal, fiscal, and accounting requirements outlined in the policy submission, there remain some fundamental risks that the province would need to accept:

- The structure is unique in Canada and possibly the world, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the Unites States, but officials are currently unaware of any example that would compare to the size, complexity, or fluidity of what is proposed;
- Complexity of the structure and length of deferral/recovery increases risk and decrease transparency;
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan;
- Government would not know the price of private borrowing that would be required for the OPG Trust to work and will have limited control over OPG's direct operations as the Financial Services Manager. While removal of the Financial Services Manager is provided for in the bill, in practice this may prove problematic once the system is operational; and
- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and therefore its saleability. Could decrease amount of rate reduction achievable under this mechanism.

2. Enhancing electricity supports for vulnerable Ontarians and shifting costs from rate payer funded to government funded:

Moving the Ontario Electricity Support Program (OESP) to the tax base:

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The

program was launched in January 2016 and has had roughly 30% enrolment. Consistent with Cabinet direction, the program was recently expanded to increase the existing benefit scales by 50% and provide additional credits to more households.

Under the expanded program the basic OESP benefit scale increased from $30-$50 to $45-$75 a month and the enhanced OESP benefit scale would increase from $45-$75 to $68-$113 a month for eligible consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to allow for the program to transition from the rate base to the tax base, and become administered by a Ministry or other entity as may be prescribed. The cost to the fiscal plan would be $186M in 2017/18. The bill provides further amendments designed to allow information sharing between the Ontario Disability Support Program (ODSP) and the entity responsible for OESP. The intention is that this information sharing will allow for the automat enrolment of individuals that are already enrolled under the ODSP, but it is currently unknown to what extent this will significantly impact the enrolment under the program.

Commented [HT35]: ENERGY: do you have any numbers on this point? Were other programs considered other than ODSP? Can we put something in about continuing efforts to improve the enrolment?

RRRP Enhancement (Delivery Charge Relief):

Currently, RRRP is a $241.9M program paid for by the ratepayers. For an average residential customer, the cost of supporting RRRP is roughly $1.58 per month. For other customers, the cost to support the RRRP can range from $65 for a greenhouse to $8,000 for a medium industrial. RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province, including Hydro One R2 customers. The delivery charge includes a distribution cost, which can vary across LDCs, and distribution costs are highest for Hydro One R2 and R1 (medium density) customers.

There are also some LDCs with relatively high distribution costs that, when coupled with high consumption patterns, can result in very high bills for consumers (Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma).

In 2016 the OEB made a ruling that all LDCs need to move to fixed distribution charges. The OEB found that fixed distribution charges would establish a fairer way to recover the costs of providing distribution service, and provides greater revenue stability for distributors, which will position them for technological change in the sector, remove any disincentive to promote conservation, and help with their investment planning.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a distribution rate protection program and the ability to cap the distribution charges of prescribed distributors. The amendments also establish that this program will be funded by the tax base.

The intention is to draft regulations permitted under this section of the bill to Harmonize the fixed distribution rates to the lowest distribution cost of the LDCs mentioned above at $38/month (which is the forecast rate for Northern Ontario Wires). If the costs of another LDC moved above these in the future, a regulation change would be required to

for that LDC to receive RRRP. These enhancements are expected to benefit approximately 800,000 customers in Ontario.

Targeted RRRP consumers would see additional savings on their monthly bill that would vary based on their consumption level and cost to fiscal plan would be $344M in 2017/18, $243M of which is a transfer of existing programs to the tax base. If the legislation and required regulations are passed, the program would become active as of July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Commented [HT36]: Need new estimate of transferred program cost starting from July 1.

On-reserve First Nations Delivery Credit

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances. In this instance, historic grievances relate to lands affected by energy developments.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a tax base funded delivery credit program for on-reserve customers with the details as prescribed in the regulations. The intention is to enact regulations that would eliminate the delivery charge for all on-reserve First Nation household customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate.

Eligible recipients would be automatically enrolled in the program (~21,500 customers) and receive an average monthly benefit of $85. The program will cost approximately $20M annually and, provided the legislation and regulations are passed, would become effective July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Expected Impacts of the Proposal on Electricity bills:

The impact of proposed legislation to an eligible customer's bill in July 2017 is an average 25% decrease (combined with the 8% from ORECA effective Jan. 1, 2017), followed by an increase in price over time. This includes the 8% rebate that came into effect on January 1, 2017. Between May 2018 and April 2022 electricity rates will be set by regulation with the intention that rate increases would be kept in line with CPI. Customers that are eligible for the RRRP enhancements and the OESP will see further reductions in their electricity rates beyond the 25%

Commented [HT37]: ENERGY: Can you provide analysis on the impact for customers that will receive the RRRP etc?

Residential (750 kWh/month)	Actual 2016	2017	2018	2019	2020	2021
Total Bill (includes HST)	**158**	**164**	**167**	**170**	**181**	**178**
Total Bill (excludes HST)	140	145	148	150	160	158
Impact of GA Financing		-26	-26	-26	-32	-28
Impact of Tax-Basing Social Programs		-2	-2	-2	-3	-3
Subtotal		117	120	122	125	127
8% rebate		-9	-10	-10	-10	-10
HST		15	16	16	16	17
Revised Bill (includes HST)	**158**	**123**	**126**	**128**	**131**	**133**
Year-over-Year Change		-22%	2%	2%	2%	2%
Change from Forecast		**-25%**	**-25%**	**-25%**	**-28%**	**-25%**

Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	**160**	**165**	**160**	**162**	**173**	**169**
Class B Revised Total (excludes HST)	**160**	**162**	**157**	**159**	**170**	**166**
Year-over-Year Change		1%	-3%	1%	7%	-2%
Change from Forecast		-2%	-2%	-2%	-2%	-2%

Large Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class A Total (excludes HST)	**90**	**91**	**93**	**88**	**95**	**96**
Class A Revised Total (excludes HST)	**90**	**88**	**90**	**84**	**92**	**93**
Year-over-Year Change		-2%	2%	-6%	9%	1%
Change from Forecast		-4%	-4%	-4%	-4%	-4%

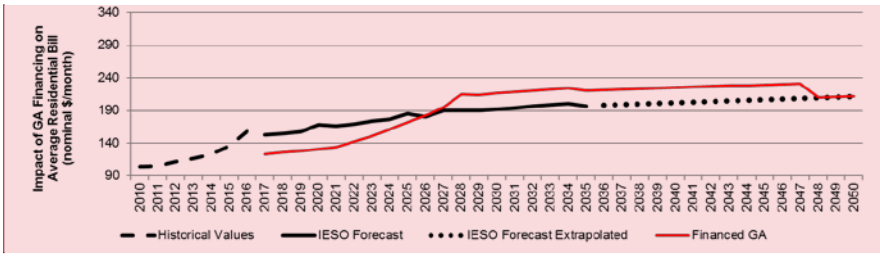
Commented [HT38]: Energy to provide updated chart

Notes: *Based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing.*

Risks and Considerations:

Future Impacts to Electricity Rates

Borrowing money to defer GA costs for ratepayers would lower costs in the short term but result in substantial debt and higher electricity prices in the future. Based on the GA deferral portion of the plan, electricity prices would increase to about 10% above the actual cost of electricity over the recovery period (peaking at 13%). The proposal may create the expectation that the government is committed to reducing or holding constant the absolute cost of electricity for consumers. Under the proposal, the government would not have the ability to control this portion of electricity rates in the future outside of recourse to the fiscal plan.



Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at a maximum of 13% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Commented [HT39]: ENERGY to confirm if this needs to be updated.

The government may be criticized for creating a new debt structure which could be compared to the previous debt retirement charge (DRC). The previous debt retirement charge was removed from residential bills in January 2016 and is scheduled to be removed for remaining customers in April 2018.

Future repayment cost estimates are based on a static interest rate of 5%, and forecast electricity market conditions and demand levels. Declining demand levels due to conservation, technology adoption, and self-generation would increase the costs borne by remaining customers to decease the debt associated with GA financing. This would increase the risk that the province would have to absorb some of the debt in the future. To mitigate against the risk that increased self-generation poses, the bill provides that the Clean Energy Adjustment may not be "set-off". In other words, it would exist as a separate and distinct component of the bill that could not be reduced by methods such as net-metering.

Not all generating assets will continue operations at the end of their contract. If the Fair Allocation Amount is not properly designed, future rate payers will be paying the cost for assets that are no longer in use, which would be unconstitutional (See page 16- Legal Risk). High capital costs, equipment obsolescence or surplus capacity / low demand conditions mean that some generators will shut down at the end of their contract. Future ratepayers would be paying for these assets that no longer produce power in paying down the deferred GA and accumulated interest costs.

Accounting and Provincial Credit Rating and Borrowing

The significant amount of additional provincial borrowing needed to refinance the GA and associated risks and fiscal costs (interest rates, repayment timelines) could put pressure on the Province's credit rating and overall borrowing capacity.

The complexity of the structure and length of deferral (i.e., recovery of debt) increase the overall risk of the proposal and decrease transparency to the public. The structure of the GA deferral was designed to result in an (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit. However, depending on

funding to OPG/ OPG Trust from the Province, an increase in interest on debt and an increase on income from OPG will result. The structure is also contingent on the size of the GA deferral that is seen as possible, which, as previously mentioned, increases the likelihood of pressures on the fiscal plan in the near future. (See page 17- Fiscal Pressure)

Rating agencies and investors in the Province's debt may view all of the borrowing (whether by the Province directly or the OPG Trust) as an obligation of the Province. Depending on the magnitude of the debt incurred, the Province's borrowing cost may be impacted.

The Ontario Auditor General (OAG) has been briefed on the proposal and has had access to the March 1, 2017 policy submission for the Fair Hydro Plan. While the auditors of OPG and IESO have provided their assessments and the Office of the Provincial Controller Division (OPCD) has been engaged, the OAG has historically raised concern with "rate regulated accounting" and may take this into account when the provincial books are audited (i.e., it may impact whether the OAG qualifies the provincial books).

Based on early assessments, only a maximum of 18% rate relief [TBC] can be justified by amortizing contracts over the useful life of the underlying assets. Reducing electricity rates up to or beyond this amount is dependent on increased borrowing. All of the deferral is dependent on increased borrowing. The 18% referenced here is the limit based on review of the contracts and a Eurig assessment and also includes the 8% reduction that was already provided.

Commented [HT40]: To be updated when Navigant prelim report and OPG analysis complete

Legal Risk – constitutionality of financing the GA

The current GA amount paid by consumers is a regulatory charge. One of the requirements of a valid regulatory charge (as opposed to a tax) is that the person paying the charge either benefits from the regulatory scheme or causes the need for regulation. In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Former Supreme Court Justice Binnie has provided legal analysis of this proposal, stating that the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations could jeopardize the nature of this being a regulatory charge.

A proposal for refinancing the GA that appears to cross-subsidize near-term consumers at the expense of long-term consumers by back-loading costs more than if costs were spread equally over the estimated lifespan of generation and conservation assets presents a moderately high risk (more likely than not) of constituting a tax. If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge

(and would be characterized as a tax).Were the charge characterized as a tax, in the event of a challenge, it would be struck down by a court as unconstitutional and consumers would be entitled to recover their payments. This risk could be eliminated, either up front or retroactively, by the imposition of a valid tax.

The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

The bill has been drafted to mitigate the constitutional risk of the proposal and clearly articulates the desire to balance the costs and benefits of assets across generations. The bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. In addition, external consultant Navigant has provided an interim report on the costs and benefits of the long lived assets which supports the previous conclusions regarding the size of the GA deferral that would be supportable. This is further supported by the conclusions of OPG's independent analysis of the question.

Commented [HT41]: TBC

Commented [HT42]: ENERGY please confirm. Need to clearly articulate any differences that may exist between these analyses

MAG and Blakes are confident that the structure is constitutionally sound, but, as identified above, that this will highly depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism.

In addition, the structure of the GA refinancing means that the infrastructure included as part of the clean energy adjustment (i.e. amortized over 30 instead of 20 years) will need to be in service over the entire 30 year amortization period or provide benefits to the system in some way over the whole period. In practice this may mean that the government will have limited ability to alter the generation mixture included under the clean energy adjustment, including natural gas generation facilities, which may at some point be seen as inconsistent with the province's commitments to reduce greenhouse gasses. This risk has been mitigated in the bill, by allowing for prescribed natural gas generation contracts to be excluded from the clean energy benefit calculation.

Commented [HT43]: Needs ground truthing

Fiscal Pressure

Commented [HT44]: TBS please review closely

This proposal aligns with the 2017 Budget fiscal plan, but involves significant ongoing risks. The proposal does not include a scheduled review period or an end date, resulting in an ongoing fiscal pressure, which may increase in the out years, and could only be removed by a legislative amendment.

The cost projections in this proposal are highly sensitive to interest rates and other assumptions:

- The proposal assumes GA refinancing does not have a fiscal impact because the associated legal authority and accounting treatment requirements are met. If the costs of GA refinancing were accounted for as an expense to the fiscal plan, the fiscal impact would be significant.
- The term and timing of the GA refinancing are highly dependent on the IESO's forecast of GA costs and actual interest rates.

The extent of fiscal pressures is also dependent on other factors (i.e., OAG could qualify Ontario's books or issue an adverse opinion). Due to the complexity and size of the proposal, the government has commissioned external opinions on the legal, fiscal, and accounting requirements. Energy's advisor and IESO auditor, KPMG, has provided an accounting opinion that the principles of the structure are sound, and this opinion can be released publicly when desired. This opinion may not change the likelihood of a contrary opinion by the OAG, but does provide a tool for government to point to in justifying its decisions.

Commented [HT45]: TBC

There is also a risk that credit rating agencies and the market may take an alternate view as to the size of the GA deferral that is possible before becoming unconstitutional. If the Fair Adjustment exceeds this analysis, it may increase the perceived risk of the investment asset and therefore its saleability, which would result in reduced market uptake and reduce the amount of near term rate reduction that would be achievable under the plan. This is why the increases in electricity rates between May 2018 and April 2022 are to be set by regulation as opposed to legislating that they increase by CPI. It may not be possible to legally hold the rate reductions to increase by CPI, and if the government wanted to hold to this commitment, the difference would need to come out of the fiscal plan, which has not been forecasted. Each percentage point of reduction that the structure cannot provide would result in an approximate $150M [TBC] cost to the tax base. This has not been provided for in the bill, but it is likely that the government will receive questioning along these lines and why the previously committed CPI increases are not explicitly stated in the bill.

Commented [HT46]: Needs ground truthing

There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Legislative Officers

The Ontario Auditor General (OAG) has expressed views on rate regulated accounting, which will likely be raised again upon the announcement of this suite of initiatives. The OAG was provided copies of the Cabinet Submission seeking policy approval for Ontario's Fair Hydro Plan and has been briefed by officials from the Ministry of Energy. The OAG will have opportunities to publicly state her views through the Public Accounts committee in the summer of 2018 and in her pre-election report.

Commented [HT47]: Energy to update.

The Financial Accountability Officer (FAO) has not been consulted on this proposal and is expected to have an opinion on how this proposal may impact the state of the province's finances.

Commented [HT48]: Energy to update from discussion with FAO

OPG Mechanism

- Accountability
  - Bill attempts to balance the independence of the OPG trust with regulatory oversight and the market's need for certainty in recovering the GA financing that it provides.
  - Accountability to the government or the public, amount of government control of the entity, including future rate increases.

Commented [HT49]: Needs to be recast given limitation on control after initiated

- New structure
  - Structure is complex, involving:
    - IESO as originator of the regulated asset and responsible for flow of funds;
    - OEB as regulator of the new mechanism;
    - OPG responsible for financing and managing the mechanism; and
    - The Province providing ongoing equity capital infusions to OPG and backstop.
  - Addition of financial agency to current operational obligations of OPG – not the current expertise of OPG. However, OPG has experience managing large financial assets and liabilities through the jointly managed Ontario Nuclear Funds as well as its own pension fund. In addition, could possibly dilute OPG's focus on current high priority responsibilities (i.e., electricity generation and nuclear refurbishment).
  - This financing structure would be unique to Canada – uniqueness reduces likelihood of all risks being known/mitigated. Highly specialized expertise would be required.
  - Connection to BPS compensation framework/lack of national comparator.
  - Unknown transaction, admin, consultant costs. OEB would review OPG's cost as the Financial Services Manager
- Debt
  - Opportunity for significant shifting of the Ontario's electricity sector over the lifespan of the repayment (30 years). Through sector/policy/government position shifting, possibility of new entity/structure abandoning debt and Ontario having to take a write down.
  - Risk transfer / portion of debt that Ontario would be responsible for would be the higher risk portion.
  - Repayment plan and impact on rate payers highly dependent on interest rates
- Public perception/reaction (could be seen as similar to the process preparing Hydro One for IPO).

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change.

- Program design will require an evaluation of whether the existing programs are effective and achieving their outcomes (e.g. the OESP has a current uptake of 30% and program changes are proposed in advance of an increased effort to reach 100% uptake)
- The OESP matrix no longer follows the Low Income Measure (LIM) which creates inconsistencies between how programs are applied and may put pressure other provincial programs to increase funding amounts.

Benefits for all Consumer Classes

The Fair Hydro Plan includes some benefits for all consumer classes as well as targeted benefits to those with the greatest need. It is likely that the government will be criticized for providing benefits to those who may not be in need (e.g., wealthy cottage communities, etc.).

Stakeholder Considerations:

General public (including residential and small businesses) – Likely support a proposal that is projected to provide up to 25% in rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but likely to question the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications.

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to “keep electricity rate affordable”. Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral the remainder of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to Cap & Trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Commented [HT50]: Confirm work still ongoing on this piece

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generation as part of the "Clean Energy Adjustment."

Solar PV sector – May react negatively to price relief as it can be seen to undercut the affordability of distributed renewable generation assets such as solar PV, and undermines the economic arguments behind net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

Delivery:

If passed, the legislation will enable the price mitigation measures to begin to take effect on July 1, 2017. The 2017 LTEP will be released to the public in the summer 2017 and would reinforce/integrate with Ontario's Fair Hydro Plan. Regulations are required under the major components of the legislation in order to fully implement the initiative and clarify program details.

Commented [HT51]: TBC

1. **Refinancing Global Adjustment assets in order to defer ratepayer costs / Mechanism to defer GA costs**

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the introduction of enabling legislation.

Commented [HT52]: This needs more elaboration and confirmation. Last discussion I was part of on this point hadn't landed exactly how long it is expected that the IESO retains the Reg Asset for before sale to OPG.

2. **Enhancing Social and Conservation Programs**

OESP Enhancements

New OESP program details would require TB/MBC approval.

Changes to regulation will be required to establish and define the parameters for the proposed changes. The financial flow-through mechanism would likely be modeled after processes used for the OREC (8% rebate). The amendments made in this bill allow for a transition period where the program continues to draw on the existing IESO variance account until the account can no longer maintain the program. IESO is required to notify the Ministry of Energy when it expects the variance account to be depleted (likely sometime in the fall). At this time

The proposed changes will take time to implement as they would require changes to the central system and the LDCs' billing systems. The OEB and their central service provider will need to work with LDCs, MOF, and the CRA on the changes to this program (delivery mechanism, funding source, application system, eligibility).

Commented [HT53]: Requires update

RRRP Enhancement

Regulations would be required to establish the details of the program. OEB estimates that the implementation would take at least six months after finalizing regulations. For this reason it is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st which will put an immediate pressure on the OEB and LDCs as implementation is required no later than October 1, 2017. A mechanism will need to be created to ensure that all parties are aligned in the yearly forecasting and costing of the program.

On-Reserve First Nations Delivery Credit

The OEB would need to work with the LDCs to identify the eligible on-reserve consumers. A communications plan could include public release of the OEB report and a commitment to working with the LDCs on implementation details.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Once available, the rebate would appear on customer's electricity bills as a reduction in, or credit for, their delivery line.

There is a risk that either non-status Indigenous communities without reserves or Metis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Linkages:

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer-fall 2017. These plans identify needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The Ontario Rebate for Electricity for Electricity Consumers Act, 2016, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB expired on December 31, 2015.

Debt Retirement Charge – On January 1, 2016 the government ended the electricity Debt Retirement Charge (DRC) on residential users earlier than planned, and put in place the low-income targeted OESP, effective 2016. For all other consumers the DRC is scheduled to be removed by April 2018.

Industrial Conservation Initiative – Ministry of Energy program implemented in January 2011 to help large industrial consumers reduce their electricity costs by shirfitn electricity consumption away from peak periods. As part of the Fair Hydro Plan, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all electricity consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – approved as part of Ontario's Fair Hydro Plan, and under development, the Affordability Fund is intended to expand access to conservation funding to targeted consumers that do not currently qualify as low-income for the purposes of the Home Assistance Program (HAP).

Commented [HT54]: insert

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was met by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been addressed. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide saving to Class A and B consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON)- is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and

- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed to "consider options for legislation/regulation change that lessen the impact on residential tenants of increased energy costs from cap and trade". As part of the review of the Residential Tenancies Act, the Ministry of Housing is working on a proposal that will address that commitment. The proposal is expected to come to Cabinet in spring 2017.

Commented [HT55]: To get updated language on the RTA amendments

Proposed Cabinet Minute

Approval of draft bill for introduction

Cabinet approved version XX-XX of this draft legislation for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.

From:	Fung, Felix (TBS)
To:	Judy George-Harris (MGS); Didem Proulx (MTCU); Helen Graham (MOF); Veinot, Cindy (TBS); Nadine Petsche (MOF); Violetta Goralski (MAG); Helder Marcos (MCSS); Nina Arbabzadeh (EDU); Patrick Laughton (MOF); Paul Kaufman (MOHLTC); John Kim
Subject:	DRAFT RAN Ontario Fair Hydro Plan
Date:	Monday, May 08, 2017 11:09:36 AM
Attachments:	OFHP - TB Submission.msg Fw OFHP - LRC Submission.msg 3 RAN Ontario Fair Hydro Plan Proposed Leg v3.doc

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Hi everyone,

In advance of our 11:45 am meeting with Karen - please find attached our latest draft TB/MBC assessment note for the OFHP along with the TB submission and LRC submission received from Energy.

Thanks,
Felix

From: Schlaepfer, Martin (ENERGY) [Martin.Schlaepfer@ontario.ca]
To: Felix Fung (MOF) [Felix.Fung@ontario.ca]; James Strang (MOF) [James.Strang@ontario.ca]
CC: Pratima Gounden (ENERGY) [Pratima.Gounden@ontario.ca]
Subject: OFHP - TB Submission
Date: Sunday, May 07, 2017 13:58:47
Attachment 1: OFHP TB sub - 20170418_May7__clean.docx
Attachment 2: IESO Final Draft.pdf
Attachment 3: OPG - EY Letter on Fair Hydro Act May 5_FINAL.PDF
Attachment 4: GA Consolidated Memo_May 2_FINAL.PDF

Hi Felix and James,

Please find attached the final TB submission for the Ontario Fair Hydro Plan item. Also attached are the materials for the appendix.

This is Minister signed and hard copies will be delivered first thing on Monday morning.

Thanks,

Martin

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

May 9, 2017

CONFIDENTIAL
MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on following:

    i. Implementation of Global Adjustment (GA) Refinancing;

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program and First Nations On-Reserve Delivery Credit); and

    iii. Expansion of Industrial Conservation Initiative (ICI).

2) APPROVE the Ministry funding a media buy procurement with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record.

3) NOTE the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

4) NOTE the Ministry of Energy will return to TB/MBC to request a transfer of funds to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to fully recover the costs for the public education campaign.

5) APPROVE the creation of a new transfer payment line entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-01, Electricity Price Mitigation, with a $1,000 placeholder, to support future rate mitigation initiatives.

Note: The Independent Electricity System Operator (IESO) is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current lines of credit with the OFA and OEFC.

2.0 PURPOSE OF REQUEST

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower bills by 25 per cent for a typical residential consumer, starting in the summer of 2017. Up to half a million small businesses and farms are also expected to benefit. Any rate increases for residential consumers over four years would be held to the rate of inflation. Note: These measures include the 8 per cent rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

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As part of the OFHP approval process, TB/MBC requested that the Ministry "report back" before legislation to enable OFHP was introduced on the following items:

1) GA Refinancing;

2) Social Programs; and

3) ICI Expansion.

In addition to the report back, the Ministry is also requesting the creation of a new transfer payment line, "Price Mitigation Support Initiatives" in Vote 2905-01. The purpose for this is to provide the Ministry an appropriate transfer payment line to support future activities and initiatives around electricity price mitigation for Ontarians.

There is no fiscal impact associated with this request. All new funding placed into the transfer payment lines will be offset by services dollars previously approved within the Ministry's multi-year allocation.

In February 2017, the Ministry reported back to TB/MBC on the details related to the establishment of the new Affordability Fund announced in the OFHP. In April 2017, the Affordability Fund Trust was established. It is expected that electricity distributors will be able to begin applying to the Affordability Fund Trust in Summer 2017.

The Ministry has developed proposed legislation to implement key components of OFHP by summer 2017, and address financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations to enable implementation of OFHP.

1. GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

<u>Proposal</u>

On March 2, 2017, as part of OFHP, it was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and

future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. For example, by recognizing that generation assets are expected to continue to provide residual benefit to future ratepayers, beyond the term of current contracts, future ratepayers are expected to be able to utilize these assets and reduce the need to finance the development of new generation assets.

Under this proposal, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017. In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed proposed legislation to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations;

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY);

- Launched a third party research project to assist with implementation of GA refinancing; and

- Developed comprehensive risk-based costing, including forecast models and sensitivity tests on key assumptions.

Proposed legislation to enable GA refinancing is planned for a May 2017 introduction.

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2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The proposed legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

Proposal

The Government is proposing to introduce legislation and regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.

The legislative proposal enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers.

- R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province.

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Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

Proposed legislation will enable tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

Proposed legislation enables the establishment of a maximum monthly base distribution charge for those prescribed customers. If the proposed legislation is passed, the mechanism to set this charge will be established in regulation.

On-Reserve First Nations Delivery Credit

On July 12, 2016, the Province and First Nations in Ontario announced an agreement-in-principle for the Province to sell to First Nations for their collective benefit, shares of Hydro One Limited.

The Province would sell up to approximately 15 million shares (2.5 per cent of total current outstanding Hydro One common shares), depending on the level of First Nation participation, to a new collective investment fund owned by First Nations.

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The proposal is premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program proposal involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The resulting First Nations Delivery Credit is a reflection of First Nation leadership on this issue and an example of the Political Accord coming to life.

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Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program from the rate base to the tax base, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid by all Ontario consumers on May 1, 2017 ($0.0011 per kilowatt-hour of power consumed). On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will also come into effect on May 1, 2017.

The amendments to the *Ontario Energy Board Act, 1998* pertaining to OESP will move the program funding from the rate-base and transfer it to the tax-base, and enable alignment of the OESP with social assistance programs delivered by the Ministry of Community and Social Services.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB sets amount that LDCs charge for RRRP to all customers. Once the regulatory mechanism is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. Change to the funding structure of the program does not require any additional implementation risks or efforts.

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Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers would be prescribed in regulation, if the legislation is passed. Additionally, the Ontario Energy Board would be empowered by regulation to determine the rate at which affected LDCs would be harmonized.

The efforts required to implement the program will fall upon the impacted LDCs who will need to adjust their billing systems in order to carry out the program.

On-Reserve First Nation Delivery Credit

A new regulation will need to be passed to set out the program particulars including eligibility for the program.

The LDCs will need to enter into communication plans in order to work with local First Nations Band Councils and to increase awareness of the delivery credit to all eligible consumers.

There are transitional provisions for both the enhanced rate protection and First Nations Delivery Credit that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.

Ontario Electricity Support Program

A legislative amendment to the *Ontario Energy Board Act, 1998* will allow funding to shift from the rate base to the tax base. The amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

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3. ICI Expansion:

Ontario is committed to providing competitive electricity rates for energy intensive consumers in the manufacturing sector while also promoting electricity conservation.

In January 2011, the Industrial Conservation Initiative (ICI) was announced to help large industrial electricity power users better manage their electricity costs while reducing electricity consumption during peak periods.

ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. Reducing peak demand increases the reliability of the electricity system, reduces greenhouse gas (GHG) emissions and helps defer the need to procure new resources. There are currently about 300 participating consumers who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Proposal

On March 2, 2017, as part of OFHP), the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

- As of January 1, 2017, the regulatory amendments came into effect to make ICI available to electricity consumers with an average monthly peak demand greater than 1 MW. The lowering of the ICI threshold to 1MW and removal of sector restrictions was announced in the 2016 Speech from the Throne.

Implementation

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

- Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

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In addition, the Ministry has retained the Ontario Chambers of Commerce (OCC) and the Canadian Manufacturing and Exporting (CME) to undertake targeted stakeholder outreach on ICI and other cost saving energy programs/measures available to the commercial and industrial sectors in Ontario.

3.0 KEY CONTEXT

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would reduce the electricity bills of residential consumers by 25 per cent on average starting in summer 2017. In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and bend the future cost curve of electricity (see Background for details).

On April 20, 2017, the OEB announced new Regulated Price Plan (RPP) rates effective May 1, 2017 that include a portion of the bill reduction proposed under OFHP and the shifting of the funding of the OESP to provincial revenues. The full reduction from OFHP is expected to be addressed through a July 1st RPP rate adjustment.

The Ministry's report back to TB/MBC focuses on the following OFHP initiatives:

1) GA Refinancing:

As part of OFHP, it was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

- Today's electricity consumers have been responsible for the costs of investments in developing the clean, modern and reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. There is an opportunity to recognize the long-term benefit of these generation assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

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To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed proposed legislation to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations;

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY);

- Launched a third party research project to assist with implementation of GA refinancing; and

- Developed comprehensive risk-based costing, including forecast models and sensitivity tests on key assumptions.

Financing, Accounting and Legal Risk Considerations / Mitigations

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager

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(OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.

- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.

- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

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- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and

- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

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These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG's capital structure:

- OPG would require monthly "equity injections" from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;

- Funds from the Province would flow from the Ontario Financing Authority (OFA); and

- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.

- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG's business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy's concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual

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ratepayers. Note: The reverse is also true in regards to decreasing demand.

- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

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IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".

- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust,

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additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.

- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.

- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-

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year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).

- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.

- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be

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imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and

- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted.

A statutory cause of action may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

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2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The proposed legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

If passed, the government proposes to identify Hydro One R2 customers, as having their RRRP funded through appropriated funds.

Distribution Rate Protection

New Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, would be established through proposed legislative amendments under the *Fair Hydro Act, 2017,* and the creation of consequential regulations. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhance protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

Eligible on-reserve customers will receive a 100% delivery credit or the elimination of their monthly service charge on their electricity bills. The eligibility requirements will be prescribed under regulation.

There are 11 LDCs identified by OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One,

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Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 customers may be eligible.

Ontario Electricity Support Program (OESP)

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by a rebate directly on bills. The OESP is currently funded by the rate base.

OESP credits vary by income level and family size, and there are two credit scales that include:

- The basic program credit ranges from $30/month to $50/month.
- An enhanced credit that ranges from $45/month to $75/month for consumers that are either Indigenous, use electric heat or use certain electrically intensive medical devices.

Ontario's Fair Hydro Plan (OFHP) committed to move the program from the rate base to the tax base, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

The proposed legislative changes will address the move to the tax base, and regulatory changes approved by Cabinet on April 10, 2017 will enable the expansion of the OESP effective May 1, 2017. Discussions are ongoing with the OEB and MCSS on aligning OESP delivery with other social assistance programs.

<u>Roles and Responsibilities</u>

Rural or Remote Rate Protection

The roles and responsibilities of the Board remain the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The Board would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would once again need to appropriate money from the legislature to cover the costs of administering the program.

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On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers. In addition, ENERGY would need to work with LDCs, Chiefs of Ontario and Band Councils to ensure the program is delivered to all eligible consumers.

Ontario Electricity Support Program

The OEB will continue to the deliver the OESP under the current legislative framework until the variance account is depleted. When legislative changes to shift the program from the rate base to the tax base are proclaimed, the OEB will continue to administer the program, but certain decision making responsibilities and oversights will shift to the Minister of Energy.

MCSS will begin supporting OESP uptake by helping social assistance clients to apply to the OESP. Legislative and regulatory changes will enable this work.

The IESO will continue to manage payments to utilities, unit sub-meter providers, and the OEB in relation to OESP credit delivery and program administration costs. When legislative changes are proclaimed, IESO will begin reporting costs to the Ministry to support forecasting and audit.

3) ICI Expansion:

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and “1114”) in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

In addition, the Ministry has retained the OCC and the CME to undertake targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants. **Note:** The extent of the impact will depend on the uptake in the newly

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expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

4.0 BACKGROUND

Decarbonizing and Modernize Ontario's Energy System

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

The Ministry of Energy has taken a number of actions to lower electricity costs for all consumers by:

- Deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices; and

- Increasing cost effectiveness and improving efficiency by adopting new electricity market approaches (e.g., no new NUG contracting and demand response).

Following the 2016 Speech from the Throne, several actions were announced to further reduce electricity costs:

- As of January 1, 2017, Ontario is rebating an amount equal to the provincial portion of the HST to reduce eligible residential, small business and farm electricity bills by 8 per cent.

- Expanded support to eligible rural consumers by updating Rural or Remote Rate Protection (RRRP) with the additional relief, decreasing total electricity bills by an average of $45 each month when combined with the 8 per cent rebate.

- Expanding the Industrial Conservation Initiative (ICI) – up to one-third savings for participants.

- Suspending the LRP II and the Energy from Waste Standard Offer Program (EFWSOP) – up to $3.8 billion in savings.

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- Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – average annual savings of $15 million.

Ontario's Fair Hydro Plan

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP). The OFHP includes the following:

- Refinancing the GA over a longer period for Regulated Price Plan (RPP) eligible consumers, including residential consumers and most small businesses and farms.

- Shifting cost recovery for Rural or Remote Rate Protection (RRRP) and Ontario Electricity Support Program (OESP) from electricity bills to the tax base, lowering the regulatory charges paid by ratepayers. Consumers of all sizes would benefit from this change.

- Helping vulnerable electricity consumers by enhancing electricity support programs, including:

  - Broadening RRRP to provide delivery charge relief for the customers of the local distribution companies (LDCs) with the highest delivery charges. We currently support approximately 350,000 Ontarians living in rural or remote areas through RRRP. The enhancement would extend relief to approximately 800,000 households in total.

  - Expanding the OESP, which provides relief directly on the bills of low-income consumers who have applied and meet the eligibility criteria. The expansion would increase OESP credits by 50 per cent and allow more Ontarians to benefit from the program.

  - Establishing a new Affordability Fund, which would provide financial support to lower-income Ontarians who are not eligible for the Home Assistance Program to make home energy efficiency improvements, helping to manage their energy costs.

  - Establishing a Delivery Credit to eliminate delivery charges for all First Nations people living on reserve.

- Expanding the Industrial Conservation Initiative (ICI), which allows large consumers to reduce their electricity bills by up to one-third by reducing their consumption during peak hours. The expansion will allow manufacturers and greenhouses between 500 kW and 1 MW to

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participate, in addition to the consumers over 1 MW that are already eligible.

- OFHP also committed to reducing system costs by improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

Legislation to Enable the Refinancing of Global Adjustment

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the Ministry has developed proposed legislation (and is working on supporting regulations) that outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;
- A detailed Preamble, Purpose and Definitions;
- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;
- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the Global Adjustment.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the proposed legislation.

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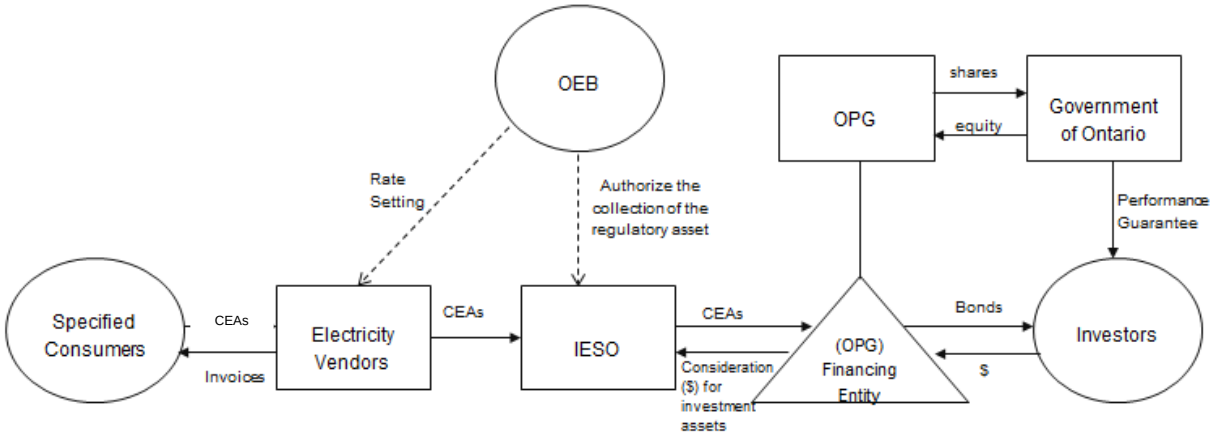
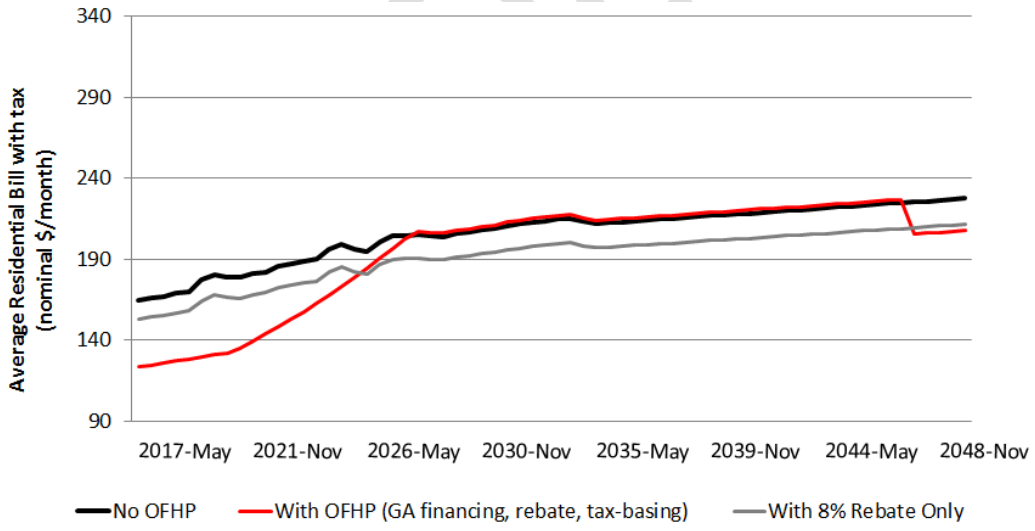
GA Refinancing Implementation Model – Overview

The diagram below outlines how the refinancing of GA would be implemented:



Note: CEAs are “clean energy adjustments”.

Multi-Year Profile of GA Refinancing / Assumptions



The chart above shows the expected multi-year profile under GA Refinancing for each Regulated Price Plan (RPP) period. In the first year, residential bills are projected to be 25 per cent lower as result of the OFHP. In the early years, bills increases are held to the rate of inflation – assumed to be 2% per year in the chart above. From July 1, 2021 onwards, prices increase at a higher rate compared to the first four years on the OFHP.

In the medium to longer term, residential bills exceed what they would have been but for the OFHP. However, in any given year, a typical residential bill under the OFHP cannot exceed what it would have been without OFHP by more than 10 per cent.

OPG's Financing Structure / Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected during four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a "Regulatory Asset".

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an "Investment Asset".

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG's capital structure:

- OPG would require monthly "equity injections" from the Province;

- Funds from the Province would flow from the Ontario Financing Authority (OFA); and

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- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.

Global Adjustment – Overview

The Global Adjustment (GA) accounts for the fixed costs, including capital costs, of running Ontario's generation fleet, as well as the cost of conservation programs. GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.

It is via GA that much of the costs of investments in developing a clean, modern and reliable electricity system with a diverse supply mix are recovered.

The vast majority of GA costs now stem from greenhouse gas (GHG) emissions-free renewable and nuclear generation facilities, as well as natural gas plants that were constructed to improve system reliability and replace coal-fired capacity. Generators in Ontario received contracted or regulated rates, which are typically designed to recover capital, financing and fixed operations costs. The GA recovers these fixed costs of running the province's generation fleet, as well as the cost of conservation programs.

The majority of the province's electricity generators are under 20-year contracts and account for under 50% of the GA. Some of these generators will continue to provide value to the electricity system beyond their contract lives (i.e., beyond 20 years). Similarly, conservation costs are recovered annually on an 'as incurred basis' through GA while conservation initiatives can reasonably be expected to provide benefits to the electricity system over many years.

The Ministry is proposing in legislation to recognize the long-term benefit of specific assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs. The proposed legislation outlines how costs would be fairly allocated among eligible consumers over time.

OEB's Regulated Price Plan (RPP) – Overview

On April 20, 2017, the OEB announced new Regulated Price Plan (RPP) rates effective May 1, 2017 that include a portion of the bill reduction proposed under OFHP and the shifting of the funding of the Ontario Electricity Support Program (OESP) to provincial revenues. The full reduction from OFHP is expected to be addressed through a July 1st RPP rate adjustment.

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Social Program

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 335,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.
- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.9 million.
- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.
- These customers still have high distribution costs and are often faced with significantly higher than average bills.

The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Energy is proposing legislative amendments that will broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

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- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the existing RRRP program costs and the proposed enhancements from the electricity rate base to the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

Ontario Electricity Support Program (OESP)

The OESP launched on January 1, 2016. By the end of March 2017:

- Almost 192,000 have been enrolled in the program, which is approximately 1/3 of all potentially eligible low-income customers in Ontario.

- Over $60 million in credits have been provided to vulnerable consumers.

- 172 intake agencies have been mobilized to assist low income consumers to apply for the OESP.

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Industrial Conservation Initiative (ICI)

Ontario is committed to providing competitive electricity rates for energy intensive consumers in the manufacturing sector while also promoting electricity conservation.

In January 2011, ICI was announced to help large industrial power users better manage their electricity costs while reducing electricity consumption during peak periods. ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. Reducing peak demand increases the reliability of the electricity system, reduces greenhouse gas (GHG) emissions and helps defer the need to procure new resources. There are now about 300 participating consumers who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Currently, ICI is available to electricity consumers who have an average monthly peak demand greater than 1 MW (i.e., Class A). Smaller electricity consumers – known as “Class B” consumers – are charged GA based on their total consumption regardless of when it occurs.

ICI provides a strong incentive for participating consumers to reduce their consumption during peak hours to reduce their cost. Note: ICI is administered by the Independently Electricity System Operator (IESO) and Local Distribution Companies (LDCs).

As of January 1, 2017, the regulatory amendments came into effect to make ICI available to electricity consumers with an average monthly peak demand greater than 1 MW. The lowering of the ICI threshold to 1MW and removal of sector restrictions was announced in the 2016 Speech From the Throne.

On March 2, 2017, as part of Ontario’s Fair Hydro Plan (OFHP), the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

- Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and CDM programs and/or OCCSDC programs and pilots.

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5.0 TIMING

As part of OFHP, the government announced that eligible electricity consumers would see the reduction to their electricity bills in the summer of 2017 (i.e., July).

On April 20, 2017, OEB announced that it has adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing. The Ministry anticipates that the OEB will set an interim rate adjustment following the passage of the legislation to enable GA Refinancing that would account for the full impact (i.e., 25 per cent).

The Ministry is planning to introduce legislation in early May 2017 and develop supporting regulations in early summer 2017 to enable GA Refinancing. Note: The OPG will require legislation and regulations to be in place to support its discussions with rating agencies and third-party financing.

The timeline for all of the social programs, with the exception of the OESP, is identical as the program implementation for the regulations that follow to be passed in unison for July 1, 2017.

Some of Ontario's Fair Hydro Plan commitments for the OESP came into effect on May 1, 2017 (e.g., removal of the OESP charge from customer bills; expanding credit amounts and program eligibility). Remaining changes associated with moving the program from the rate-base to the tax-base will be proclaimed at a later date when the OESP variance account is depleted. Additional regulatory amendments needed to implement this legislative change will come into effect on the same date.

As part of the OFHP, the government also announced the expansion of ICI to enable greater participation from the manufacturing sectors in Ontario.

The April 2017 ICI amendments enabled new electricity consumer's time to opt in to the expanded program ahead of the next ICI billing period (i.e., July 1, 2017). Note: Under ICI, as set out in Ontario Regulation 429/04, eligible electricity consumers must opt in to the ICI program on or before June 15 of each calendar each year.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

As it relates to the "equity injection", these changes are expected to have no impact on the Provincial net debt position as the Province's increased investment in OPG will be offset by the incremental borrowing to fund the

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equity injections. The Province has assumed incremental income from OPG arising from interest income on the subordinated debt which OPG will lend to the OPG Special Purpose Vehicle (SPV)/Trust. This offsets forecast increases in Provincial interest on debt expenses associated with equity injections.

Proposed legislation to enable GA refinancing has been drafted to mitigate financing, accounting and legal risks. In addition, IESO and OPG have sought independent advice and confirmation with respect to financing, accounting and legal matters.

Note: There would be a significant impact on provincial net debt and the fiscal plan if the legal, financing and accounting conditions change.

2) Social Programs:

As approved in the TB/MBC submission of Mach 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection	344,000,000
Ontario Electricity Support Program	140,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The IESO manages a variance account for the OESP, which holds the difference between the amount of OESP charge collected from the rate base, and the amount of OESP paid out in the form of credits. The amount in the variance account is about $109 million as of March 1, 2017. These funds will be used to fund the OESP program until the variance account is depleted, at which point the transfer payment line will be used to finance the program costs. Due to the potential range in costs of the OESP, which will depend on program uptake and any costs associated with supporting increased participation, the set allocation is required despite the variance account.

ENERGY will report back as part of PRRT with an update on out-year projections following analysis on rate applications before the Ontario Energy Board.

3) ICI Expansion:

Since ICI is funded through the electricity rate-based and not the provincial tax-base, ICI expansion will have no direct financial impact for the Province.

With respect to rate-base impacts, expanding ICI to consumers in the manufacturing and greenhouse sectors (i.e., between 500 kW and 1 MW) is

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expected to result in a modest increase on electricity bills for non-ICI participants starting in July 2017. For example, preliminary analysis estimates that the increase on a typical residential bill would by up to 0.66% or just over $1/month based on a 2016 bill of about $158.

Note: The extent of the non-ICI participant impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting in July 2017.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16 and April 19, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, 2017 to discuss implementation.
Future Industrial Conservation Initiative (ICI) Participants	• On March 9, 2017, the Ministry posted an ICI expansion proposal for comment on the Regulatory Registry for stakeholder comment. The Ministry has received 7 comments. • The Ministry is also working with the IESO, OCC and the CME regarding targeted outreach in relation to the ICI expansion.

8.0 RISK ASSESSMENT AND MITIGATION

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line.
Managing Interest Cost Risks	M	H	• Proposed legislation has been drafted with input from third-party financers (i.e., dealers). • OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%).
Provincial Guarantee is Triggered	L	H	• The proposed legislation sets out that the province would provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also establishes assurances that the Province would: - Through the Minister of Finance as provided by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and - Not hinder the charging and remittance of the under-collection of GA refinancing (i.e., through a provincial undertaking and guarantee).
IESO Failure to Establish a Regulatory Asset	L	H	• Under the proposed legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to do create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• Proposed legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • The degree of constitutional risk is in direct proportion to the extent the government is not able to show a

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date.
Social Program Cost Estimating	M	M	• OESP costs will depend on uptake of the program, which will be impacted by the 50% increase in credits, enhanced eligibility, and work with MCSS on aligning OESP delivery with their social assistance programs. • Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operatory (IESO) to ensure access to data for regular forecasting • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.
3) Industrial Conservation Initiative (ICI) Expansion			
Perceived Fairness Between Electricity Consumer Classes	M	L	• The expansion of the ICI program include electricity consumers in the manufacturing and greenhouse sectors with average monthly peak demand greater than 500 kW and less than 1 MW will impact those consumers that remain outside the program (i.e., Class B and RPP electricity consumers). • Increases to electricity bills will occur for non-ICI participants to ensure full cost recovery in the electricity system. Note: the extent of the impact on other non-ICI participants would depend on the uptake in the newly expanded ICI, but is expected to be modest. • Restricting eligibility to the manufacturing and greenhouse sector helps to ensure that the expanded ICI is focused on those consumers which are most impacted by GA costs and associated economic competitiveness pressures from neighbouring jurisdictions.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the proposed legislation is model on a those used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

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The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

The ICI program is unique to Ontario and the proposed expansion would not directly impact on other jurisdictions.

10.0 PERFORMANCE MEASURES

The proposed legislation sets parameters within which refinancing of GA can proceed. These parameters include the initial percentage reduction in eligible electricity rates, the number of years that rates will increase at a rate equivalent to CPI and the length of time within which the recovery of funds must take place (i.e., by 2047). In addition, OPG's existing financial reporting process provides an additional framework for monitoring and reporting of OPG's role in OFHP.

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. The Ministry will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing.

With respect to ICI, the Ministry regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting in July 2017.

11.0 COMMUNICATIONS

ENERGY has developed a comprehensive, two-phase media campaign to increase awareness of Ontario's existing rate mitigation measures and new proposed electricity initiatives under Ontario's Fair Hydro Plan OFHP):

- Phase I – Launched on March 13, 2017 and included radio and digital media in English and French. This was followed by multi-cultural extensions on radio in 19 languages. Phase I of the media campaign is complete.

- Phase II – Is expected to launch early Summer 2017 and will include television, radio, print, digital and social media advertising support.

ENERGY received TB/MBC approval on February 6, 2017 for an exemption from the competitive acquisition requirement under the *Procurement Directive on*

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Advertising, Public and Media Relations, and Creative Communications Services for the development of the electricity cost reduction public education campaign. Through this, ENERGY acquired the services of Rain43, an Agency of Record under Advertising Review Board's corporate vendor of record arrangement for advertising, public and media relations, and communication services, to develop this public education campaign with an estimates maximum value of $1,500,000.

As of July 20, 2015, PHD Canada is the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In 2016-17, through Phase I, ENERGY has spent approximately $1,000,000 on media planning and buying for radio and digital media. The cost of media space for television is substantially higher than radio; as such, ENERGY is forecasting to spend an additional $2,500,000 in 2017-18.

This campaign is integral for demonstrating Ontario's commitment to lower energy costs for ratepayers through the new proposed electricity initiatives. This campaign could also open the Ministry to increased scrutiny as critics may conclude savings are too little or too late to help those suffering from what the media has deemed energy poverty. Public perception may be unchanged as emotional triggers to rising electricity prices and the constant stream of negative news by the media could overpower the campaign.

The Ministry has assessed the risks, and deems the benefits for running this campaign outweigh any risks of not doing so. ENERGY anticipates reaction from electricity consumers is to be generally positive with an awareness that changes to the electricity system have led to a reliable, cleaner system that is now more affordable.

In addition, the communications for GA refinancing, delivery electricity social programs and ICI expansion will be referenced in ongoing announcements related to Ontario's Fair Hydro Plan (OFHP) broadly, and as necessary targeted communications for specific stakeholder group can be developed.

For example, the Ministry has retained the OCC and the CME to undertake targeted stakeholder outreach on ICI and other cost saving energy programs/measures available to the commercial and industrial sectors in Ontario.

The Ministry will ensure that the social programs are communicated effectively to stakeholders and specific target audiences. The Ministry will leverage its agencies and its relationship with LDCs to ensure eligible consumers are aware of the programs.

Chiefs of Ontario (COO) will be a vital partner in communicating the benefits of the First Nations Delivery Credit.

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The Ministry also believes there is opportunity for consultation on the design of the electricity bill, with a goal to refresh the regulatory framework to improve the value of the bill to the consumer across all LDCs. The Ministry proposes to convene with LDCs in July, once they've had sufficient time to implement the OFHP initiatives and prescribed messaging.

Changes of this nature will require more in-depth consultation with LDCs, as well as broader regulatory amendments to simplify the requirements, necessitating a longer period to implement. This refresh would also include opportunities to communicate OFHP savings in a more personalized and comprehensive manner. For example, each customer could receive a "personalized" message indicating how much they saved as a result of the plan.

Based on this feedback, the Ministry would aim to introduce regulatory amendments to simplify bill presentment and introduce dynamic OFHP messaging in the Fall 2017.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on following:

    i. Implementation of Global Adjustment (GA) Refinancing;

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program and First Nations On-Reserve Delivery Credit); and

    iii. Expansion of Industrial Conservation Initiative (ICI).

2) APPROVE the Ministry funding a media buy procurement with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record.

3) NOTE the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

4) NOTE the Ministry of Energy will return to TB/MBC to request a transfer of funds to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to fully recover the costs for the public education campaign.

5) APPROVE the creation of a new transfer payment line entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-01, Electricity Price Mitigation, with a $1,000 placeholder, to support future rate mitigation initiatives.

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Appendix:

- KPMG Opinion
- E&Y Opinion (including OPG Management Memo)

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FINAL DRAFT

KPMG Letter to the Independent Electricity System Operator

An Accounting Opinion on the Application of PSAS to the Consolidation of a Trust and to the Recognition and Derecognition of a Variance Account in Relation to the Proposed *Ontario Fair Hydro Plan Act, 2017*

This letter has been prepared in draft form and will be updated upon receipt of the adopted legislation (including the amendments of the Electricity Act and the OEB Act) and finalized financial structure (including the bylaws and regulations of the OPG Trust) and other relevant agreements necessary for us to provide our final opinion, of which legislation and other relevant agreements are expected to be enacted/ finalized on or before September 30, 2017.

NOTICE OF NON RELIANCE

This Notice is regarding the accompanying Letter to provide an accounting opinion on the application of Public Sector Accounting Standards to the consolidation of a trust and to the recognition and derecognition of a variance account in relation to the proposed *Ontario Fair Hydro Plan Act, 2017* (the "**Letter**") prepared by KPMG LLP for the Independent Electricity System Operator ("Client").

The following terms apply to any review of the Letter and should you not agree to these terms, please do not review the Letter and delete copy of the same.

The Letter was prepared in connection with certain services we provided to the Client and should not be used for any other purpose or regarded as suitable for use by any person or persons other than the Client

No one other than the Client is authorized by KPMG to rely upon any information or views expressed in the Letter. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as the Letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

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KPMG neither warrants nor represents that the Letter is accurate, complete, sufficient or appropriate for any purpose contemplated by you or any other person or body. You shall have no right to disclose the Letter to any other party, unless disclosure is required by law or to fulfill a professional obligation required under applicable professional standards.

Yours very truly,

KPMG LLP

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
Suite 4600
333 Bay Street
Toronto ON
M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
www.kpmg.ca

May 4, 2017

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120 Adelaide Street West
Suite 1600
Toronto, ON
M5H 1T1

The Board of Directors

Dear Sirs,

We have been engaged to provide you with an accounting opinion on the application of Public Sector Accounting Standards to the consolidation of a trust and to the recognition and derecognition of a variance account in relation to the proposed *Ontario Fair Hydro Plan Act, 2017* ("the proposed Act") (Appendix A, Version 6, to this letter). This letter is being issued to the Independent Electricity System Operator ("IESO" or the "Company") in connection with its evaluation of the consolidation requirements and the accounting for the variance account under Canadian Public Sector Accounting Standards ("PSAS"). Our engagement has been conducted in accordance with generally accepted standards in Canada for such engagements.

The ultimate responsibility for the decision on the appropriate application of PSAS for the specific issues described below rests with management of the Company as preparers of the financial statements.

The adoption of the proposed Act (including the subsequent amendments of the Electricity Act, 1998 ("the Electricity Act") and the Ontario Energy Board ("OEB" or the "Board") Act ("the OEB Act")), and the finalization of the financing structure (including the bylaws and regulations of the OPG Trust) and other agreements will take several weeks. Accordingly, our judgment on the appropriate application of PSAS for the specific matters described below is based on the facts, circumstances and assumptions provided to us. The finalization of the legislation, regulations, financing structure and other agreements may impact the comments and conclusions set out herein. Our comments and conclusions are based on the proposed Act and related matters as they exist at the date of this letter.

The following three issues are addressed in this letter:

Issue #1: Can the IESO recognize a regulatory asset related to the variance account created by the proposed Act?

Issue #2: Is the trust to be established by Ontario Power Generation (the "OPG Trust") controlled by the IESO according to the guidance issued under PSAS 1300 *Government Reporting Entity* and therefore subject to consolidation by IESO?

Issue #3: What is the accounting treatment for derecognition of the regulatory asset by the IESO upon transfer of the variance account to the OPG Trust?

Background for issue #1

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party) are as follows:

1. The IESO's legal status is a not-for-profit, non-taxable, corporation established pursuant to Part II of the Electricity Act. Management of the IESO has determined that the Company is an Other Governmental Organization and accordingly prepares its financial statements in accordance with PSAS.

2. IESO is rate regulated by the OEB in accordance with the Electricity Act and the OEB Act.

3. *Extract from the 2016 IESO financial statements, note 3 New Accounting Policies,* audited by KPMG *"*As of January 1, 2016, the IESO changed its accounting policy regarding the recognition of assets and liabilities subject to rate regulation. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model. This change has been applied retroactively and has increased amounts previously unrecorded for regulatory assets and decreased amounts previously reported for accumulated deficit."

4. *Extract from the 2016 IESO financial statements, note 2(d) Summary of Significant Accounting Policies, Regulatory assets and liabilities.* "As a rate-regulated entity, the IESO, in appropriate circumstances establishes regulated assets or liabilities and thereby defers the impact on the statement of operations of certain expenses or revenues because they are probable to be collected or refunded to market participants through future billings. The IESO applies guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, *Regulated Operations ("ASC 980")*, in this policy."

5. *Extract from Section 78(3.3) of the OEB Act:* In approving or fixing rates under subsection (3.1),

   (a) the Board shall forecast the cost of electricity to be consumed by the consumers to whom the rates apply, taking into consideration the adjustments required under section 25.33 of the Electricity Act, 1998 and shall ensure that the rates reflect these costs; and

   (b) the Board shall take into account balances in the IESO's variance accounts established under section 25.33 of the Electricity Act, 1998 and shall make adjustments with a view to eliminating those balances within 12 months or such shorter time periods as the Minister may direct.

6. Currently, IESO recognizes two regulatory assets for unrecovered smart metering expenses and unrecovered PSAB transition items as permitted by rates approved by the OEB. In addition, in accordance with section 25.33 of the Electricity Act, IESO also recognizes variance accounts (eg. OESP, RPP and RRRP variance accounts) to record all amounts payable or receivable by it in connection with the amounts paid to generators, the Ontario Electricity Financial Corporation ("OEFC"), distributors and to entities with whom the IESO has a procurement contract.

7. The Electricity Act, OEB Act and other regulations will be amended to reflect the following *extracts of the proposed Act:*

   Section 1xx Definitions, Transfer of regulatory asset

   (3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 22xx (3):

1. A reduction in the balance in the variance account.
2. The adjustment of the regulatory asset.
3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Section 20.1xx Variance account to be established

(1) IESO shall establish and maintain a variance account for the purposes of this section.

(2) IESO shall record the following in the variance account:

1. The amount of the IESO funding shortfall for each month.
2. All payments received by IESO resulting from the exercise of the right of recovery under section 21xx and any transfer under section 22xx.
3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences after May 1, 2017 and before the day this section comes into force.

(3) Subject to the correction of any obvious error by IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

(4) No change made by IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 22x, affect the rights of the investment interest owner acquired under the transfer.

Section 21xx Regulatory asset established

(1) Effective May 1, 2017, the IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

(2) Subject to subsection (3), the Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.

(3) IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

(4) The Board's powers under subsection (3) shall be exercised in accordance with the regulations.

Section 30.1xx Board's Authority

(2) Despite anything to the contrary in the OEB Act, the Board may exercise any of its responsibilities under this Act without a hearing.

8. It is expected that the funding shortfall recorded by the IESO in the variance account (the regulatory asset) will be transferred to an investment asset owner (ie a trust to be established by OPG) on a monthly basis and cash collected within a short period of time. The total IESO funding shortfall for the period from May 1, 2017 to April 30, 2047 is estimated at $28 billion plus interest.

Appropriate Accounting Principle for issue #1

ASC 980 Regulated Operations

– For general-purpose financial reporting, an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract. [980-10-05-6]

- Unless an accounting order indicates the way a cost will be handled for rate-making purposes, it causes no economic effects that would justify deviation from the GAAP applicable to business entities in general. The mere issuance of an accounting order not tied to rate treatment does not change an entity's economic resources or obligations. In other words, the economic effect of regulatory decisions—not the mere existence of regulation—is the pervasive factor that determines the application of GAAP. [980-10-05-8]
- The guidance in the Regulated Operations Topic applies to general-purpose external financial statements of an entity that has regulated operations that meet all of the following criteria:
  (a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
  (b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products. This criterion is intended to be applied to the substance of the regulation, rather than its form.
  (c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. [980-10-15-2]
- A cost arising from cash paid out or obligation to pay for an acquired asset or service, a loss from any cause that has been sustained and has been or must be paid for. [980-10-20] Glossary
- Failure of an entity's operations to continue to meet the criteria in paragraph 980-10-15-2 can result from different causes. Examples include the following:
  (a) Deregulation.
  (b) A change in the regulator's approach to setting rates from cost-based rate-making to another form of regulation.
  (c) Increasing competition that limits the entity's ability to sell utility services or products at rates that will recover costs (as used in paragraph 980-10-15-2).
  (d) Regulatory actions resulting from resistance to rate increases that limit the entity's ability to sell utility services or products at rates that will recover costs if the entity is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts. [980-20-15-2]
- Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
  (a) It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
  (b) Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date. [980-340-25-1]

- Rate actions of a regulator can reduce or eliminate the value of an asset. If a regulator excludes all or part of a cost from allowable costs, the carrying amount of any asset recognized pursuant to paragraph 980-340-25-1 shall be reduced to the extent of the excluded cost. Whether other assets have been impaired shall be judged the same as for entities in general and the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 shall apply. [980-340-35-1]
- If at any time an entity's incurred cost no longer meets the criteria for the capitalization of an incurred cost (see paragraph 980-340-25-1), that cost shall be charged to earnings. [980-340-40-1]
- In some cases, a regulator may approve rates that are intended to recover an incurred cost over an extended period without a return on the unrecovered cost during the recovery period. [980-340-55-2]
- The regulator's action provides reasonable assurance of the existence of an asset (see paragraph 980-340-25-1). Accordingly, the regulated entity would capitalize the cost and amortize it over the period during which it will be allowed for rate-making purposes. That cost would not be recorded at discounted present value. An exception to this general rule is provided for costs of abandoned plants. [980-340-55-3]

Issue #1: Can the IESO recognize a regulatory asset related to the variance account created by the proposed Act?

As noted above, as of January 1, 2016, the IESO changed its accounting policy to recognize the economic impacts of rate regulation and now applies guidance from US GAAP Topic 980, *Regulated Operations,* as PSAS does not have any specific guidance for entities with rate-regulated activities.

IESO concluded that it met the requirements of PS2120.02, which allows them to reflect the impacts of rate regulation, as it is considered that the change of accounting policy in its 2016 financial statements resulted in a more appropriate presentation of transactions in its financial statements. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The regulatory framework in Ontario relating to the generation and sale of electricity will be significantly impacted by the proposed Act. Currently, a substantial amount of the energy purchased from the generators is collected by IESO from the local distribution companies through the customer billing, with the remaining being recovered through variance accounts over a period of 12 months maximum. As mentioned above, the effect of the proposed Act is to defer the collection of a total estimated amount of $28 billion (plus interest) of energy purchased from the generators over a period of 30 years. The proposed Act will not permit IESO to collect the funding shortfall before May 1, 2021 and the recovery process will be established through regulations. Such a long-term deferred recovery plan requires IESO to consider whether the uncollected energy costs qualify for deferral as a regulatory asset and whether it continues to meet the criteria that allow IESO to use the guidance for regulated operations of Topic 980. These two accounting issues are analyzed in the two tables below.

Criteria for the recognition of regulatory assets

ASC 980-340-25-1 states that rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

Criteria	Comment	Evaluation
(a) It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. (b) Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. *(emphasis added)* If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.	The proposed Act states that, • *A recording of the balance in the variance account is determinative of the balance as of the time of the recording.* • *Effective May 1, 2017, IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.* • *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.* • *The IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.* Based on the proposed Act, IESO has the right to recover the balance recorded in the variance account. As a result, it is clear that IESO will be able to recover the amount previously incurred rather than to provide for expected levels of similar future costs.	Met

Criteria for the adoption and continued use of ASC 980 guidance

Deferred recovery plans are plans adopted by regulators or legislations in response to significant increases in costs (e.g. purchased power costs). These plans typically provide for rates to remain fixed or increase moderately with a variance account mechanism to capture costs in excess of the level allowed in current rates. A regulated utility subject to such plans is required to consider whether it continues to meet the criteria that allow it to use the guidance for regulated operations of Topic 980, especially criteria ASC 980-10-15-2 (b).

The proposed plan for the recovery of purchase power costs over a 30 year period is considered a deferred recovery plan as the rates for the first four years will remain fixed and subsequently the rates will increase moderately with a variance account to capture energy costs in excess of the level allowed in current rates. The following is an analysis of the ASC 980-10-15-2 criteria.

Criteria	Comment	Evaluation
(a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party	Currently, IESO recognizes regulatory assets related to smart meters and PSAS transition costs as permitted by rates approved by the OEB and regulatory liabilities related to the variance accounts (eg. OESP, RPP and RRRP variance accounts) established under section 25.33 of the Electricity Act related to the procurement of energy.	Met

Criteria	Comment	Evaluation
regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.	It is important to note that both Hydro One and OPG are classified as government business enterprises and are reporting under IFRS in their consolidated financial statements, are consolidated by the modified equity method into the province's books, are regulated by the OEB, and their respective regulatory assets and liabilities are reported in the province's books.	

(b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products.	Currently, the rates approved by the OEB are designed to recover the IESO's costs of providing the regulated services and the pass-through related to the energy purchased from the generators.
	
	As mentioned above, a regulated utility subject to a deferred recovery plan is required to consider whether it continues to meet the criteria ASC 980-10-15-2 (b).
	
	This criterion requires a cause-and-effect relationship between a reporting entity's costs and its revenue. In addition, the timing of cost recovery and the related frequency of ratemaking is important. A reporting entity should consider its rate case experience, including the design of its rates and timing of recovery, when determining whether this criterion is met. These factors are analyzed below.
	
	Frequency of rate case
	
	- Currently, IESO is subject to OEB's annual reviews
	- Although the recovery of purchase energy costs will be frozen at the approved rate on May 1, 2017 for the first four years, the IESO will be granted a right to recover after May 1, 2021 the funding shortfall recorded in the variance account during the four-year period.
	  - *A recording of the balance in the variance account of the balance is determinative of the balance, as of the time of the recording. (We note that this confirms that there will be no prudence review by the OEB)*
	  - *Right to recover the balance recorded in the variance account.*
	  - *Obligation on the part of the OEB to dispose the variance account in accordance with the regulation.*
	- Subsequent to May 1, 2021, the OEB will be required to determine and set rates payable by specified consumers to allow for IESO to recover the balance
		Met

Criteria	Comment	Evaluation
	recorded in the variance account. - *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.* - *Despite anything to the contrary in the OEB Act, the Board may exercise any of its responsibilities under this Act without a hearing.* *Rates are designed to recover incurred costs* - There is a cause-and-effect relationship between the purchase energy costs and revenue, as IESO will be allowed to recover the costs incurred. - *A recording in the variance account of the balance in the variance account is determinative of the balance as of the time of recording (We note that this confirms that there will be no prudence review).* - *Right to recover the balance recorded in the variance account.* - *Obligation on the part of the OEB to ensure IESO will recover the balance recorded in the variance account.* *Periods of alternative ratemaking (e.g., rate freezes)* Evaluation of the second criterion requires additional judgment if the regulated utility is subject to any form of ratemaking that introduces uncertainty about the cause-and-effect relationship between costs and rates. A rate freeze period is defined as a fixed rate that is charged to customers during a period of time (more than two years) and the utilities are exposed to increases in operating and energy costs with no ability to recover the variances. This is not the case as IESO will be granted the right to recover fully the funding shortfall recorded in the variance account, including the first four-year period. - *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.*	

Criteria	Comment	Evaluation
	Costs uncertainty As the IESO will be granted the right to fully recover the funding shortfall recorded in the variance account, there is no uncertainty about the recovery of the costs. *Disallowances of costs* The OEB has never disallowed the recovery of any material costs incurred by IESO. More importantly, as the IESO will be granted by legislation the right to fully recover the funding shortfall recorded in the variance account, there is no risk of the potential disallowance of the purchase power costs. Based on the analysis of the above factors, there are no indications that this criterion would not be met. The above factors establish that there will be a direct cause-and-effect relationship between IESO's costs and its future collection.	
(c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs."	The remaining criterion is whether limitations, including considering demand levels at the approved rates, on the extent of recovery of the regulatory asset could prevent the IESO from recognizing a regulatory asset for the entire balance in the recovery right granted to the IESO. The proposed Act notes that: - *Effective May 1, 2017, the IESO's right to recover the balance in the variance account is subject to the following:* o *The Board shall, from time to time, determine and set rates payable by specified customers to allow for IESO to recover the balance recorded in the variance account.* o *IESO shall not be entitled to collect the variance account from specified consumers before May 1, 2021.* Although the process, especially the timing of the recovery of the regulatory asset has not been established yet by the OEB, the wording and intent of the proposed legislation is clear that it is intended by law to be recoverable over the period of 30 years. Further, given the nature and extent of customer demand for the power generated and distributed in Ontario, both at this time and projected in the future, it is reasonable to conclude that there will be sufficient demand to recover the regulatory asset. As with the other criteria, this will	Met

Criteria	Comment	Evaluation
	need to be continually evaluated throughout the recovery period.	

Management conclusion:

IESO management has concluded that the IESO can recognize a regulatory asset related to the variance account created by the proposed Act based on the foregoing analysis.

The variance account created by the proposed Act is subject to rate regulation by the OEB and the variance account will be established with the right to collect funds against the variance amount in the future. In these circumstances, the IESO is able to establish a regulated asset. The IESO financial statements are prepared in accordance with Canadian public sector accounting standards. Although PSAB does not provide specific guidance on rate regulated accounting, it does under PS 1150 *Generally Accepted Accounting Principles* allow for guidance to be followed from other accounting frameworks. IESO has applied guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, Regulated Operations in its accounting policies.

Our conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that the variance account created by the proposed Act will meet the criteria for the recognition of a regulatory asset stated in ASC 980-340-25-1. Furthermore, we have also considered the criteria stated in ASC 980-10-15-2 and believe that IESO should be allowed to continue to use the guidance for regulated operations of Topic 980.

Background for issue #2

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party), in addition to those described in the background for issue #1, are as follows:

1. The IESO currently has the right to collect the global adjustment ("GA") monthly from ratepayers through provisions in the Electricity Act. It is proposed that collection of a certain portion of the monthly GA be deferred in a regulatory asset for collection in the future, and that the right to recover the deferred GA from ratepayers be used as the basis for structured financing/ securitization.
2. In connection with the proposed Act, it is proposed that a trust to be created as a financial vehicle by OPG in connection with the deferred GA. The OPG Trust will finance the deferral of the GA by purchasing the regulatory asset from the IESO for the principal amount of the GA being deferred.
3. The OPG Trust is expected to finance these purchases from the IESO through a combination of senior secured financing raised in the capital markets, and subordinated financing from OPG (the funding for which will mostly be from equity injections from the OEFC/Province of Ontario).
4. OPG will be appointed as the Financial Services Manager and will be given the responsibility to direct the activities of the OPG Trust, through a services agreement and/or through the Trust's constating documents.

Appropriate Accounting Principle for issue #2

PS1300 *Government Reporting Entity*:

PSAS refer to government or government organizations. For the purpose of this analysis, the PSAS guidance below relating to government or government organizations should be read and understood as being the IESO (emphasis added).

- The government reporting entity should comprise government components and those organizations that are controlled by the government. [PS 1300.07]
- Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities. [PS 1300.08] (emphasis added).
- Whether a government controls an organization is a question of fact that must be determined by reference to the definition of control established in paragraph PS 1300.08 and the particular circumstances of each case. The determination of the fact that control exists will require the application of professional judgment. Government achieves its objectives through a wide range of organizations which individually will fall somewhere along a continuum. At one end of the continuum, it will be clear that an organization does not have the power to act independently and is controlled by the government. At the other end, the organization will have the power to act independently and, while government will have a level of influence on the organization, it will be clear that it does not have control. Along the continuum, consideration needs to be given to the nature of the relationship between the government and the organization in order to determine whether control exists. This Section provides guidance intended to assist in this assessment. [PS 1300.10]
- In applying this guidance, it is necessary to determine the substance of the relationship between the government and the organization. The true nature of certain relationships may not be completely reflected by their legal form. All relevant aspects and implications of the relationship would be considered in determining whether or not the government controls the organization. Where various aspects of the relationship are designed, in effect, to achieve an overall objective, they would be viewed as a whole. [PS 1300.11]
- Financial and operating policies are principles and practices that determine how an organization conducts its activities. The ability to govern these policies is an important element of government control because it establishes the fundamental basis for the conduct of the organization's operations and the achievement of its mission and mandate. [PS 1300.13]
- There are a variety of ways to govern the financial and operating policies of an organization. For example:
  (a) a government may establish an organization's fundamental purpose and eliminate or significantly limit the ability of the organization to make future decisions by predetermining the financial and operating policies of the organization;
  (b) a government may direct the financial and operating policies of an organization on an ongoing basis; or
  (c) a government may veto, overrule or modify the financial and operating policies established by an organization. [PS 1300.14]
- A government does not need to manage an organization's activities on a day-to-day basis to control the organization. It is the government's existing authority to determine the policies governing those activities that is important. [PS 1300.15]

– For the purposes of this Section, it is assumed that where the government has the power to govern the financial and operating policies of an organization, it expects to derive a financial or non-financial benefit. The government may also be exposed to the risk of loss. [PS 1300.16]

Issue #2: Is the trust to be established by Ontario Power Generation (the "OPG Trust") controlled by the IESO according to the guidance issued under PSAS 1300 *Government Reporting Entity* and, therefore, subject to consolidation by IESO?

Under PSAS, IESO is required to consolidate all entities that are considered to be part of its reporting entity, applying the guidance provided in *Section PS 1300 Government Reporting Entity.* Under PS 1300, IESO must consolidate all entities it "controls".

In determining whether or not the OPG Trust should be consolidated by IESO, it must first be determined whether or not the IESO exercises control as a consequence of power to govern the financial and operating policies of the OPG Trust resulting in expected benefits to the IESO or the risk of loss from the activities of the OPG Trust.

PS 1300.17 indicates that "whether a government controls an organization is a question of fact that requires the application of professional judgment based on the definition of control in this Section and the substance of the relationship in each case." Under PS 1300.08 control is defined as "the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities". Therefore, the determination of whether IESO will consolidate the OPG Trust will be based on an assessment of whether IESO is considered to control the OPG Trust based on the indicia of control set out in PS 1300. The assessment of the IESO's control of the OPG Trust is made based on the proposed Act, facts and nature of the relationship between the IESO and the OPG Trust and based on facts and assumptions provided by IESO. PS 1300.18 and .19 set out 11 potential indicia of control. Several of these indicia have been categorized as more persuasive of a finding of control (see the first four indicators in the table below). For each indicator that applies, the degree of government influence would determine its importance as evidence of control. Finally, the indicia are considered both collectively and individually.

A detailed analysis of the 11 Indicators of control is provided in the following table.

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
Primary (more persuasive) indicators (PS 1300.18):		
Government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization	- The proposed Act states: - *OPG is appointed as the Financial Services Manager for the purposes of this Act. (Section 13xx)* - *The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners. (Section 14xx (1))* - *Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees to recover, the costs of doing anything the*	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?

	Financial Services Manager is required or permitted to do under this or any other Act; and any other type of expenditure, the recovery of which is permitted by the regulations. (Section 14xx (3))
	- The Electricity Act, 1998 (EA) will be amended as follows:
	  - *In addition to the objects mentioned in subsection (1), the objects of OPG include exercising the powers and rights and performing the duties and obligations assigned to it under the Ontario Fair Hydro Plan Act, 2017 and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services." (Section 53.1 (1.1))*
	  - *"OPG may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects." (Section 53.1 (1.2))*
	- OPG will establish a trust to manage the collection of the regulatory asset and related financing and administrative expenses. The Board of Trustees of the OPG Trust will be the governing body of the Trust and will be appointed by OPG. OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees.
	- The IESO will not have any rights in respect of the appointment or replacement of the Board of Trustees of the OPG Trust.	

Government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses	- Section 23xx of the proposed Act states:
	  - *A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.*
	  - *Without limiting subsection (1), any transfer agreement that states an intention of the parties for*
		No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
	IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest. - *At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.* - Based on the proposed Act, *upon transfer by IESO of a portion of the regulatory asset to the OPG Trust, the investment asset resulting from the transfer is immediately vested in the OPG Trust, free and clear of any adverse claim.* (Section 24xx (1.1)) - Therefore, upon transfer of the regulatory asset to the OPG Trust, IESO will no longer have access/ability to direct the regulatory asset nor have the ongoing responsibility for losses. - The credit risk related to the collection of the investment asset is borne by the OPG Trust.	
Government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization	- IESO will not have any ownership in the OPG Trust and will not have the power to govern the financial and operating policies of the OPG Trust.	No
Government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations	- IESO will not have the power to dissolve the organization.	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
Other indicators that may provide evidence of control exist when government has the power to (PS 1300.18):		
Provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members	- OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees of the OPG Trust. - IESO will not provide input in the appointment of members of the Board of Trustees.	No
Appoint or remove the CEO or other key personnel	- OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees of the OPG Trust and other key personnel.	No
Establish or amend the mission or mandate of the organization	- The Trust will be established by OPG and the mandate of the Trust will be set based on the proposed Act.	No

Approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis	- The proposed Act states:
	  - *OPG is appointed as the Financial Services Manager for the purposes of this Act. (Section 13xx)*
	  - *"The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of refinancing a funding obligation." (Section 16 (1))*
	- OPG is the Financial Services Manager, not IESO.
	- IESO is not involved in the preparation or approval of the business plans or budget of the OPG Trust.
		No

Establish borrowing or investment limits or restrict the organization's investments	- Section 17 of the proposed Act states: - *The Financial Services Manager shall ensure that funding obligations incurred for the purposes*	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
	of this Act are incurred in a manner that is consistent with the applicable Financing Plan. - OPG not IESO, is responsible for ensuring that the borrowings of the OPG Trust meet the above conditions.	
Restrict the revenue-generating capacity of the organization, notably the sources of revenue	- N/A	No
Establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources	- As mentioned above, OPG will be granted by legislation the power to establish or amend the policies of the OPG Trust and the ability to appoint and remove all members of the Board of Trustees.	No

Management Conclusion:

IESO management has concluded that the OPG Trust to be established would not be controlled by the IESO and therefore is not subject to consolidation by the IESO.

Based on the foregoing analysis of the 11 indicators of control as defined in Section PS 1300 *Government Reporting Entity,* considered both individually and collectively there is no evidence of control by the IESO in respect of the OPG Trust. The IESO will not have the power to govern the Trust, nor have ongoing access to Trust's assets. The IESO will also not have any voting shares or future rights to the Trust nor the power to dissolve the Trust. Without control, the Trust is not subject to consolidation within the IESO financial statements.

Our Conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that based on the Proposed Act, none of the four primary (more persuasive) indicators of control are considered to be met, and none of the seven other indicators of control are considered to be met. Accordingly, we concur that the IESO does not control the OPG Trust under the proposed Act and hence would not consolidate the OPG Trust.

The adoption of the proposed Act (including the subsequent amendments of the Electricity Act and the OEB Act) and the finalization of the financing structure (including the bylaws and regulations of the OPG Trust) and other agreements will take several weeks. Accordingly, our judgment on the appropriate application of PSAS to the conclusion on control may change subject to further analysis of any changes to the terms of the proposed Act or review of the final regulations, financing structure and other agreements.

Background for issue #3

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party), in addition to those described in the background for issues #1 and 2, are as follows:

1. The total IESO funding shortfall for the period from May 1, 2017 to April 30, 2047 is estimated at $28 billion plus interest and will be recorded by the IESO in a variance account recognized as a regulatory asset.
2. The IESO does not currently have the financial capability to finance the regulatory asset and will transfer the variance account to an investment asset owner (i.e. OPG Trust) on a monthly basis.
3. The IESO will obtain a written legal opinion as to the validity and enforceability of the transfer and sale of the regulatory asset.
4. Based on an assessment of control performed under the issue #2, IESO will not consolidate the OPG Trust. We understand that an assessment of control under International Financial Reporting Standards ("IFRS") has been performed by OPG and they have concluded that the OPG Trust will be consolidated by OPG; we note that the financial reporting framework used by OPG in preparing its financial statements for consolidation into the Province's books is IFRS.
5. The Electricity Act, OEB Act and other regulations will be amended to reflect the following *extracts from the proposed Act:*

   Section 11xx IESO to receive amounts

   (2) The IESO shall, as an agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the regulations and the market rules made under section 32 of the *Electricity Act, 1998*.

   (4) All amounts received by the IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment interest owner, be received and held in trust by the IESO for the investment interest owners.

   (5) The IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the accounts referred to in subsection (2), to or for the benefit of the investment interest owners in accordance with the regulations.

   Section 12xx Pro rating of payments

   (3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

   Section 22xx Transfer of regulatory asset

   (1) The IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

   (2) An agreement between the IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to the IESO in an amount equal to the amount of the specified portion.

(3) Upon receipt by the IESO of the payment by the financing entity,

(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) the IESO shall retain no further right, title or interest in the investment interest.

Section 23xx Validity of transfer

(1) A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.

(3) At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

Section 25xx Investment asset established

(1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that are imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, IESO and other prescribed parties.

Section 26xx Transfer of investment interest

(2) An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Section 28xx Investment interest owner may grant security interest

(1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

(3) All provisions of the Personal Property Security Act shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

6. The terms of the transfer agreement between the IESO and the OPG Trust that will be signed and executed upon transfer of the regulatory assets will be in compliance with the dispositions of the proposed Act.

Appropriate Accounting Principle for issue #3

The Derecognition Section of ASC 980-20-40 provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation. [ASC 980-20-40]

Failure of an entity's operations to continue to meet the criteria in paragraph 980-10-15-2 can result from different causes. Examples include the following:

(e) Deregulation.

(f) A change in the regulator's approach to setting rates from cost-based rate-making to another form of regulation.

(g) Increasing competition that limits the entity's ability to sell utility services or products at rates that will recover costs (as used in paragraph 980-10-15-2).

(h) Regulatory actions resulting from resistance to rate increases that limit the entity's ability to sell utility services or products at rates that will recover costs if the entity is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts. [ASC 980-20-15-2]

PS1000 *Financial statement concepts*:

- This Section is to be used by preparers and auditors of financial statements in exercising their professional judgment as to the application of generally accepted accounting principles and in establishing accounting policies in areas in which accounting principles are developing. [PS1000.03]
- Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness. [PS1000.24]
- An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph [PS3210.04]. Thus, for example, an item does not qualify as an asset of a government if the item involves:
  (a) no future economic benefit;
  (b) future economic benefit, but the government cannot obtain it; or
  (c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred. [PS1000.37]

PS3210 *Assets*:

- Assets are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. [PS3210.03]
- Assets have three essential characteristics:
  (a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.
  (b) The public sector entity can control the economic resource and access to the future economic benefits.
  (c) The transaction or event giving rise to the public sector entity's control has already occurred. [PS3210.04]
- Control of an economic resource and of access to the future economic benefits are essential characteristics of an asset, whereas possession or ownership is not. [PS3210.22]

PS3430 *Restructuring transactions* [1]

- Individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date. [PS3430.21]
- When a transferor continues to be involved in the individual assets and/or liabilities it transferred to a recipient subsequent to the restructuring date, it would assess the nature and extent of its continued involvement against the definitions of assets and liabilities and applicable recognition criteria to evaluate whether:
  (a) derecognition of the asset and liability transferred would be appropriate; and
  (b) its continued involvement gives rise to a new asset or new liability that needs to be recognized. [PS3430.24]
- A new asset or new liability may arise from a restructuring due to a transferor's continued involvement in the individual assets and liabilities transferred (for example, if it agrees to guarantee repayment of all or a portion of a transferred liability or leases back a portion of a transferred asset). As the new asset or new liability is not transferred, together with related program or operating responsibilities, they are not part of the restructuring transaction. They would be accounted for in accordance with individual Sections of the PSA Handbook by both the transferors and recipients. [PS3430.25]

1 This Section applies to fiscal years beginning on or after April 1, 2018. […] Earlier adoption is permitted."

Issue #3: What is the accounting treatment for derecognition of the regulatory asset by the IESO upon transfer of the variance account to the OPG Trust?

Although ASC 980-20-40 states that

> *"Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation."*

Subtopic 980-20 relates to discontinuation of rate-regulated accounting when an entity no longer meets the criteria in paragraph 980-10-15-2. ASC 980-20-15-2 provides examples of when an entity no longer meets the criteria, including deregulation and change of the form of regulation. Thus, ASC 980 does not provide clear guidance for the derecognition of a regulatory asset other than in connection with the discontinuation of rate-regulated accounting.

The above guidance in ASC 980-20-40 provides general principles for the derecognition of assets.

It should also be noted that PSASs provide limited guidance on derecognition of non-financial assets and liabilities. Section 3430 *Restructuring transactions,* which is applicable for fiscal years on or after April 1, 2018 with early application permitted, has guidance for the derecognition of assets and liabilities.

- Paragraph 21 states that individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date.
- As stated in paragraph 24, when a transferor continues to be involved in the individual assets and/or liabilities it transferred to a recipient subsequent to the restructuring date, it would assess the nature and extent of its continued involvement against the definitions of assets and liabilities and applicable recognition criteria to evaluate whether derecognition of the asset and liability transferred would be appropriate and whether its continued involvement gives rise to a new asset or new liability that needs to be recognized.

Recognizing the proposed transaction is not a restructuring transaction, Section 3430, which has recently been issued by PSAB, provides current evidence of thinking in the application of the general PSAS principles in respect of the recognition and derecognition of assets and liabilities. Accordingly, the analysis as to whether the regulatory asset transferred to the OPG Trust can be derecognized is based on the foregoing guidance.

Criteria for the recognition of an asset

PS3210.03 states that assets are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. More generally, PSAS PS1000.37 suggests that an asset would no longer be recognized when it fails to meet the definition of an asset:

Criteria	Comment	Evaluation
Assets (PS3210.04/ PS1000.36): Assets have three essential characteristics: (a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows,	Based on the guidance, the regulatory asset does not qualify as an asset of IESO if it cannot obtain the future economic benefits. Upon transfer of the regulatory asset, IESO will have no further rights or obligations in connection with the asset transferred. - *IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.* - *Upon receipt by IESO of the payment by the financing entity, IESO shall retain no further right, title or interest in the corresponding investment interest.*	Not Met

Criteria	Comment	Evaluation
or to reduce cash outflows. (b) The public sector entity can control the economic resource and access to the future economic benefits. (c) The transaction or event giving rise to the public sector entity's control has already occurred. *Financial statement concepts (PS1000.37):* An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph [see above]. Thus, for example, an item does not qualify as an asset of a government if the item involves: (a) no future economic benefit (b) future economic benefit, but the government cannot obtain it.	- *A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.* - *Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.* - *At the time a transfer of the regulatory asset is made, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor."* Upon transfer of the regulatory asset, the OPG Trust will have the right to sell the asset to another party or to grant a security interest in favour of any person to secure a funding obligation. - *Upon transfer, the financing entity becomes an investment asset owner and acquires an investment interest."* - *An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.* - *An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.* Based on the proposed Act, it is clear that IESO will have no rights to the benefits associated with the future cash inflows related to the regulatory asset as it will have transferred its right to recover the IESO funding shortfall to the OPG Trust. Further, it is also clear that IESO will have lost control over the regulatory asset once it is transferred to OPG Trust.	

Management conclusion:

IESO management has concluded that the regulatory asset will be derecognized upon transfer of the variance account to the OPG Trust.

The transfer of the variance account transfers the control and the benefits associated with the right to collect funds in the future against the variance amount to the OPG Trust. This will eliminate the IESO asset by the amount of the transfer as the IESO will no longer control an economic resource or have access to future economic benefits for that amount. The funds collected from the transfer will in turn reduce the associated debt held by the IESO, maintaining the IESO's net $ nil balance in the market accounts.

Our conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that the regulatory asset should be derecognized on transfer to the OPG Trust as IESO no longer has rights or future economic benefits associated with the asset.

Other Matters

The ultimate responsibility for the decision on the appropriate application of PSAS for the specific transactions rests with management as preparers of the financial statements. Our judgment on the appropriate application of PSAS for the specific transaction is based solely on the facts, circumstances and assumptions provided to us as described above. Should these facts and circumstances differ, our conclusion may change.

This letter has been prepared in draft form and will be updated upon receipt of the adopted legislation (including the amendments of the Electricity Act and the OEB Act) and finalized financial structure (including the bylaws and regulations of the OPG Trust) and other relevant agreements necessary for us to provide our final opinion, of which legislation and other relevant agreements are expected to be enacted/ finalized on or before June 30, 2017. This letter will not be updated as a consequence of pronouncements by the Public Sector Accounting Board, or any other authoritative bodies, that occur subsequent to the date of this letter.

This letter is intended solely for the information and use of the Board of Directors and management of the Company, and is not intended to be and should not be used, quoted, relied upon by, or otherwise referred to by anyone other than these specified parties or for any other purpose.

No one other than the Board of Directors and management of the Company is authorized by KPMG to rely upon any information or views expressed herein**.** KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

per Michel Picard
Partner
(416) 777 8414
mpicard@kpmg.ca

Appendix A:

Draft of the Ontario Fair Hydro Plan Act, 2017

Version 6

This confidential draft document is provided for discussion purposes only. It should not be construed as representing the position adopted by the Government of Ontario on any of the topics included or not included in this document. The notes included in this document are intended only to help facilitate a discussion of the topics to which they relate. Any potential legislation is subject to the approval of the Ontario Legislature.

Confidential Draft

A proposal to create Legislation.

Ontario Fair Hydro Plan Act, 2017, if enacted

A proposal to create Legislation.

Ontario Fair Hydro Plan Act, 2017, if enacted

EXPLANATORY NOTE TO BE ADDED BY LEGISLATIVE COUNSEL TO ANY FINAL BILL PRIOR TO INTRODUCTION.

Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects.[1] These commitments can only be achieved if costs are shared fairly among consumers, today and in the future.

Electricity rates have risen for two key reasons. First, decades of under-investment in the electricity system resulted in the need to invest more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable. Second, the decision to eliminate Ontario's use of coal and produce clean, renewable power has created additional costs.

The actions taken to achieve a clean, modern and reliable electricity system have resulted in significant costs to residential consumers. The burden of financing these system improvements and funding key programs has unfairly fallen almost entirely on the shoulders of those consumers.

The Government of Ontario is committed to ensuring that the costs of financing these investments and the associated charges to consumers are allocated fairly among present and future generations.

Recognizing that the electricity infrastructure that has been built and the policy decisions that have been made will create benefits for years to come, costs should be allocated fairly over time, so that residential consumers in the future pay their fair share for the benefits that they receive from the investments already made.

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[1] FLS: please see the preamble of the *Green Energy Act, 2009.*

Confidential Draft

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PART I
GENERAL

Interpretation
Definitions

1xx. (1) In this Act,

"Board" means the Ontario Energy Board; ("French")

"clean energy adjustment" means the amount determined under section 10xx and payable by specified consumers; ("French")

"clean energy benefits" means the value of the benefits determined to be derived by or accruing to specified consumers as a result of the clean energy initiative, including as a result of clean energy costs; ("French")

"clean energy costs" means the value of the costs allocated to specified consumers as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

(a) the amounts to be paid or reflected by IESO in adjustments made under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts or amounts for,

(i) renewable energy generation or capacity,

(ii) conservation and demand management,

(iii) energy storage,

(iv) energy efficiency,

(v) natural gas generation and capacity, excluding contracts relating to amounts payable by IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed,

(b) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(c) such other costs or estimated costs as may be prescribed; ("French")

"clean energy initiative" means the policies of the Government of Ontario related to,

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(a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,

(b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

(c) promoting conservation, demand management and energy efficiency, and

(d) investing in energy infrastructure to ensure a clean, modern and reliable system; ("French")

"electricity vendor"[2] means,

(a) a licensed distributor,

(b) a licensed retailer,

(c) IESO in circumstances where it directly invoices a specified consumer for electricity used in Ontario, or

(d) such other person as may be prescribed; ("French")

"fair allocation amount" means an amount calculated under section 15xx; ("French")

"finance amount" means the finance amount determined in accordance with the regulations; ("French")

"financing entity" means an entity established or caused to be established as described in subsection 17xx (3); ("French")

"Financial Services Manager" means the Financial Services Manager appointed under section 13xx; ("French")

"Financing Plan" means a plan prepared under section 16xx; ("French")

"funding obligation" means a payment obligation incurred by or on behalf of an investment interest owner to fund its ownership of an investment interest or a payment obligation that meets such other criteria as may be prescribed; ("French")

[2] FLS - this is similar to the definition of "electricity vendor" in the Ontario Rebate for Electricity Consumers Act, 2016

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"funding rebate" means a payment obligation incurred by IESO as part of the transfer of the regulatory asset; ("French")

"IESO" means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; ("SIERE")

"IESO deferral" means the amount determined under section 20xx; ("French")

"investment asset" means the rights and interests described in section 25xx; ("French")

"investment interest owner" means a financing entity that has acquired and holds an investment interest; ("French")

"investment interest" means,

(a) an ownership interest in the investment asset, and

(b) in circumstances where the ownership interest is transferred, the rights and benefits specified in the agreement under which the interest is transferred; ("French")

"licensed distributor" means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system within the meaning of the *Electricity Act, 1998*; ("French")

"licensed retailer" means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; ("French")

"Minister" means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; ("ministre")

"Ontario Power Generation Inc." means the corporation incorporated as Ontario Power Generation Inc. under the *Business Corporations Act* on December 1, 1998; ("Ontario Power Generation Inc.")

"prescribed" means prescribed by the regulations; ("prescrit")

"reference period" means,

(a) the period beginning on July 1, 2017 and ending on October 31, 2017, and

(b) during the period beginning on November 1, 2017 and ending on April 30, 2047 or ending on such later day as may be prescribed,

(i) every six-month period following the period mentioned in clause (a); or

(ii) any period shorter than six months, as may be prescribed; ("French")

"refinancing" means, subject to the regulations, the incurrence of debt in connection with a redemption, repayment or repurchase of a funding obligation; ("French")

"regulation" means a regulation made under this Act; ("règlement")

"regulatory asset" means the right and interest established under section 21xx; ("French")

"specified consumer" means,

(a) a person who has an account with an electricity vendor for the supply of electricity in Ontario and meets the criteria set out in subsection (2); or

(b) such other person as may be prescribed; ("French")

"transfer" includes, when used in relation to an investment interest, the assignment, conveyance, disposition or sale of the investment interest; ("French")

"true up amount" means a true up amount determined in accordance with the regulations; ("French")

"unit sub-metering" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("activités liées aux compteurs divisionnaires d'unité")

"unit sub-meter provider" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("fournisseur de compteurs divisionnaires d'unité")

"variance account" means the variance account established by IESO under subsection 20.1xx (1). ("French")

Specified consumer

(2) For the purposes of clause (a) of the definition of "specified consumer" in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of 50 kilowatts or less, or such other amount as may be prescribed.

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2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.

3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or has had the obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.

4. The person's account with the electricity vendor relates to,

    i. a dwelling,

    ii. a property within the meaning of the *Condominium Act, 1998*,

    iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or

    iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.

5. The person satisfies such criteria as may be prescribed.

Transfer of regulatory asset

(3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 22xx (3):

1. A reduction in the balance in the variance account.

2. The adjustment of the regulatory asset.

3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Effect of invalidity, etc.[3]

2xx. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if one or more provisions are held to be invalid, the intention of the

[3] FLS: this is from the *Climate Change Mitigation and Low-carbon Economy Act, 2016*

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Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect the validity or enforceability of a funding obligation incurred before the day that the provision is held to be invalid or ceases to be in effect, or any rights or obligations associated with the funding obligation.

Purpose

3xx. (1) The purposes of this Act are,[4]

(a) to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers;

(b) to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province; and

(c) to align clean energy costs with clean energy benefits, in order to provide fairness for specified consumers.

Crown bound

4xx. This Act binds the Crown.

Protection and assurances

Prohibition

5xx. (1) No action or omission by the Board, the Minister or the Crown shall be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.

Agreements

(2) The Minister and the Minister of Finance may together, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding the performance of IESO or electricity vendors under this Act or similar transactions.

Guarantee, indemnification

(3) The Lieutenant Governor in Council may by order,

[4] FLS: Please see the *Electricity Act, 1998* for much of the wording proposed in this section.

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(a) authorize the Minister and the Minister of Finance, acting together on behalf of the Province,

(i) to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and

(ii) to determine terms and conditions of the guarantee or indemnity and the maximum liability for the guarantee or indemnity;

(b) specify terms and conditions that must be included in any guarantee or indemnity given by the Minister and the Minister of Finance; and

(c) specify a maximum liability for the guarantee or indemnity.

PART II
FAIR ADJUSTMENT

Definitions

6xx. In this Part,

"regulated rate consumer" means a specified consumer who meets the following criteria:

1. The consumer is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1998* for the purposes of subsection 79.16 (1) of that Act.

2. The consumer would, if the consumer were not subject to this Act, be invoiced the rate determined by the Board under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*. ("French")

Regulated rate consumer, first adjustments

6.1xx (1) Despite any order under subsection 78 (3.1) of the *Ontario Energy Board Act, 1998* and despite section 79.16 of that Act, the electricity rates payable by regulated rate consumers for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would achieve the following outcome: a fictional regulated rate consumer who meets the prescribed criteria would be charged an invoice amount that is 25 per cent less than the invoice amount that would have been charged to that consumer under the comparison rates described in subsection (2).

Comparison rates

(2) The comparison rates are the rates that would have been effective May 1, 2017 if they had been determined by the Board solely using the method prescribed by the

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regulations made under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*, without taking into account any forecasted impact of any other provisions of this Act.

Invoice amounts

(3) Each invoice amount mentioned in subsection (1) shall be determined in accordance with the regulations.

Other specified consumers, first adjustment

6.2xx (1) For the period beginning on July 1, 2017 and ending on April 30, 2018, the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* shall, with respect to specified consumers who are not regulated rate consumers, be further adjusted by electricity vendors in accordance with the determinations of the Board under subsection (2).

Board to make determinations

(2) The Board shall, in accordance with the regulations, determine the adjustments to be made by electricity vendors.

Same, regulations

(3) The regulations may specify different adjustments to be made in respect of prescribed classes of specified consumers who are not regulated rate consumers.

Determinations by Board

6.3xx The Board shall make the determinations mentioned in sections 6.1xx and 6.2xx no later than fifteen business days after the day this section receives Royal Assent and, regardless of whether the Board makes the determinations before or after July 1, 2017, the determinations shall be effective as of July 1, 2017.

Implementation by electricity vendors

6.4xx (1) As soon as possible after the Board makes determinations under section 6.3xx, each electricity vendor shall, in respect of electricity used on or after July 1, 2017, ensure that its invoices reflect the determinations of the Board.

Same

(2) The electricity vendor shall ensure that, if any of its specified consumers have been invoiced in a manner that does not reflect the determinations of the Board under section 6.3xx, the specified consumer receives the difference between the amounts shown on the invoice and the amounts reflecting the Board's determinations, provided as a lump sum credit on the first invoice issued after the electricity vendor has adapted its invoices or by such other means as may be prescribed.

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Subsequent adjustments

7xx. (1) Despite clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998* and subject to subsection (2), the Lieutenant Governor in Council may prescribe the methodology to be applied by the Board after April 30, 2018 for the purpose of determining,

(a) electricity rates for specified consumers; or

(b) adjustments to be applied by electricity vendors to the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* in respect of prescribed classes of specified consumers.

Limitation

(2) Any prescribed methodology to be applied in respect of a period after June 30, 2021 shall have regard to the following:

1. The fair allocation amount in respect of the period.

2. Any clean energy adjustments payable in respect of the period.

3. Such other matters as may be prescribed.

Sub-metering

7.1xx (1) This section applies if a specified consumer provides to another person electricity in respect of which a determination of the Board referred to in section 6.3xx or section 7xx applies.

Same

(2) If an invoice for the electricity is issued to the person by the specified consumer or a unit sub-meter provider providing unit sub-metering for the specified consumer, the amount payable for the electricity by the person who is liable to pay the invoice shall be determined in accordance with the regulations.

PART III
CLEAN ENERGY ADJUSTMENT

Specified consumers to pay

8xx. (1) Upon receipt of an invoice from an electricity vendor that includes an amount in respect of the clean energy adjustment, a specified consumer shall pay the amount to the electricity vendor, as agent of the investment interest owners.

Same

(2) For greater certainty, subsection (1) applies regardless of,

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(a) whether the clean energy adjustment was determined in a manner that was inconsistent with this Act; and

(b) whether the amount payable in respect of the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan, including in a manner that failed to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Terms

(3) The payment shall be made in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Indebtedness of specified consumer

(4) An unpaid amount that is required to be paid by a specified consumer under this section constitutes indebtedness of the specified consumer to each investment interest owner to the extent of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer.

Unit sub-metering

(6) A specified consumer who provides electricity through sub-metering may collect amounts in respect of the clean energy adjustment payable under this section in accordance with the regulations.

Irrevocability of amount

9xx. (1) An amount in respect of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness resulting from the clean energy adjustment and is irrevocable upon invoicing the consumer and may not be set off or by passed.

Exception

(2) Subsection (1) does not apply to the extent that the invoice reflects a clerical, typographical or calculation-related error.

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Determination of clean energy adjustment
Financial Services Manager to determine

10xx. (1) The Financial Services Manager shall determine the clean energy adjustment payable by all specified consumers in respect of each month in a reference period by taking the following steps:

1. Calculate the sum of the following:

    i. The estimated finance amount in respect of the reference period.

    ii. The true up amount in respect of the reference period.

2. Divide the sum calculated under paragraph 1 by the number of months in the reference period.

Regulations re true up amount

(3) The Lieutenant Governor in Council shall, in making regulations with respect to the determination of the true up amount, have regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the finance amount when it is due.

2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

    i. differences between the estimated and actual finance amount for the applicable reference period,

    ii. differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and

    ii. variations in billings due to variations in electricity consumption.

Financial Services Manager to notify Board

(4) The Financial Services Manager shall, in accordance with the regulations, notify the Board of the clean energy adjustment in respect of a reference period and such other information related to the determination of the clean energy adjustment as may be prescribed.

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Board to determine rates

(5) Without changing the clean energy adjustment, the Board shall, in accordance with the regulations, determine the rate at which specified consumers are invoiced to recover the clean energy adjustment in respect of the reference period.

IESO to receive amounts

11xx. (2) IESO shall, as an agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the regulations and the market rules made under section 32 of the *Electricity Act, 1998*.

Account

(3) All of the following amounts received by IESO shall, until paid to or for the benefit of the investment interest owners in accordance with subsection (5), be deposited promptly into an account established for the purposes of receiving those amounts:

1. Amounts described in subsection 11xx (2).

2. Payments made by specified consumers directly to IESO as electricity vendor under subsection 8xx (1).

3. Proceeds of amounts described in paragraphs 1 and 2.

Same, held in trust

(4) All amounts received by IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment interest owners, be received and held in trust by IESO for the investment interest owners.

IESO to remit

(5) IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the accounts referred to in subsection (2), to or for the benefit of the investment interest owners in accordance with the regulations.

Electricity vendor to invoice specified consumers

12xx. (1) Each electricity vendor shall issue an invoice to each of its specified consumers for the amount payable by the consumer in respect of the clean energy adjustment, as determined by applying the rate set by the Board under subsection 10xx (5) and in accordance with the regulations.

Electricity vendor to report

(1.1) Each electricity vendor shall, in accordance with the regulations, promptly report to IESO the total amount invoiced to its specified consumers in respect of the clean

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energy adjustment, the amount collected and such other information as may be prescribed.

Electricity vendor to collect

(2) Each electricity vendor shall, as agent of the investment interest owners, collect amounts in respect of the clean energy adjustment from specified consumers in accordance with the regulations.

Pro rating of payments

(3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

Held in trust

(4) Payments received by an electricity vendor from or on behalf of specified consumers in respect of the clean energy adjustment and all proceeds of the payments shall, until paid to or for the benefit of the investment interest owners in accordance with subsection (5), be received by and held by each electricity vendor in trust for the benefit of the investment interest owners.

Remittance to IESO

(5) Each electricity vendor shall remit amounts in respect of the clean energy adjustment to IESO for the benefit of the investment interest owners in accordance with the regulations.

PART IV
IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

13xx. Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act.

Duties and powers

14xx. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

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Same

(2) The administration of the investment asset may include providing information to IESO in respect of obligations under Part III and such other activities as may be prescribed.

Fees, etc.

(3) Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees in relation to such matters as may be prescribed in accordance with the regulations.

Same, Board approval

(4) Before establishing fees under subsection (3), the Financial Services Manager shall submit them to the Board for approval in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Minister to calculate fair allocation amount

15xx. (1) Subject to subsections (2) and (3), before the first funding obligation is incurred, the Minister shall calculate a fair allocation amount in respect of each reference period, applying such method as the Minister considers appropriate and in accordance with the following steps:

1. Determine the estimated clean energy costs and estimated clean energy benefits allocated to specified consumers in respect of the reference period.

2. Determine the estimated reduction in the amounts payable by specified consumers as a result of rates determined under Part II in respect of all previous reference periods, including the estimated reduction in clean energy costs described in clause (a) of the definition of "clean energy costs" in subsection 1 (1) that would otherwise have been payable by specified consumers in the absence of this Act.

3. Determine the amount, if any, by which the determination under paragraph 1 exceeds the determination under paragraph 2.

4. Calculate the sum of the amount determined under paragraph 3 and such other amounts as may be prescribed.

Principles

(2) In calculating the fair allocation amount, the Minister shall have regard to the following principles:

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1. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among the specified consumers in respect of each reference period.

2. Calculations should be made having regard to the need to align each fair allocation amount with the estimated finance amount payable during the reference period.

3. Estimated clean energy costs allocated to specified consumers in respect of a reference period should be allocated in proportion to the estimated clean energy benefits attributed to the specified consumers in respect of the reference period.

4. Such other principles as may be prescribed.

Assumptions

(3) In calculating the fair allocation amount, the Minister shall make such assumptions as the Minister considers to be reasonable regarding the following:

1. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.

2. The expected number of specified consumers in respect of each reference period.

3. The expected electricity consumption rates in respect of each reference period.

4. Such other assumptions as may be prescribed.

Minister to provide amount to Financial Services Manager

(4) The Minister shall provide the fair allocation amount in respect of each reference period to the Financial Services Manager.

Recalculation

(5) A calculation of the fair allocation amount under this Part may be changed by such person as may be prescribed in accordance with such requirements as may be prescribed.

Same

(6) No change under subsection (5) shall affect any clean energy adjustment that has already been determined under section 10xx or any funding obligations that have already been incurred before the change.

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Information

(7) The Minister, IESO, the Financial Services Manager, the Board and electricity vendors shall provide such information as may be prescribed in accordance with the regulations for the purposes of facilitating a change to a calculation of the fair allocation amount.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

16xx. (1) The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of a refinancing.

Plan to be provided to Minister

(1.1) The Financial Services Manager shall provide the Financing Plan to the Minister.

Principles

(2) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Funding obligations should be incurred such that, along with any funding obligations already incurred, the estimated finance amount that would, subject to any refinancing, become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period, in each case after reducing the fair allocation amount to reflect determinations of the Board under Part II in respect of the reference period.

2. Incurrences should be implemented in a manner that, in the opinion of the Financial Services Manager, is reasonable, cost effective and that reflects prevailing market terms and conditions.

3. Reasonable assumptions should be made regarding such matters as may be prescribed.

Limitation

(4) In respect of each reference period from May 1, 2017 to April 30, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment in respect of the reference period unless,

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(a) the amounts are payable in respect of a reference period in respect of which the Board has not made any determinations under Part II; or

(b) if the Board has made a determination under Part II in respect of the reference period, the funding obligations incurred would not result in amounts payable in respect of the clean energy adjustment during the reference period in an amount that exceeds the limit determined in accordance with the regulations.

Other reports

(3.1) The Financial Services Manager shall submit to the Minister such reports and information as the Minister may require from time to time and shall, if required by the Minister to do so, examine, report and advise on any question relating to the Financing Plan.

Amendments to plan

(6) The Financial Services Manager may amend the Financing Plan at any time.

Same

(7) In the event that the Financing Plan is amended, any reference in this section to the Financing Plan is deemed to be a reference to the plan as amended.

Implementation of Financing Plan

17xx. (1) The Financial Services Manager shall ensure that funding obligations incurred for the purposes of this Act are incurred in a manner that is consistent with the applicable Financing Plan.

Financing entities

(3) In accordance with the Financing Plan, the Financial Services Manager may establish or cause to be established one or more financing entities that may incur funding obligations.

Prohibition

(3.1) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, Ontario Power Generation Inc., the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation or other agreement.

Effect of amendment to fair allocation amount

(4) Each funding obligation incurred and each transfer made by a financing entity is deemed to be consistent with the Financing Plan and to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

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Same

(2) For greater certainty, subsection (4) applies despite the failure of the Financial Services Manager to comply with subsection (1).

PART V
THE REGULATORY ASSET

IESO deferral

20xx. (1) The IESO deferral for each month, commencing May 1, 2017, shall be determined by IESO in accordance with the regulations.

Same, retrospective amounts

(1.1) For greater certainty, the regulations may provide for the IESO deferral to include an amount that was incurred by IESO on or after May 1, 2017 and before the day this Act comes into force.

Electricity vendors to provide information

(2) Electricity vendors shall provide to IESO such information as IESO may reasonably request for the purposes of determining the IESO deferral under subsection (1) and such further information as may be prescribed.

Same

(3) IESO may rely on information provided by electricity vendors for the purposes of the determination under subsection (1).

Variance account to be established, maintained

20.1xx (1) IESO shall establish and maintain a variance account for the purposes of this section.

Recording in variance account

(2) IESO shall record the following in the variance account:

1. The IESO deferral for each month.

2. All payments received by IESO resulting from the exercise of the right of recovery under section 21xx and any transfer under section 22xx.

3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences on or after May 1, 2017 and before the day this section comes into force.

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Recording determinative

(3) Subject to the correction of any obvious error by IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

Rights of investment interest owner

(4) No change made by IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 22x, affect the rights acquired by the investment interest owner under the transfer.

Regulatory asset established

21xx. (1) Effective May 1, 2017, IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

Board to set rates

(2) Subject to subsection (3), the Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.

Limitation

(3) IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

Same, limitations

(4) The Board's powers under subsection (3) shall be exercised in accordance with the regulations.

Transfer of regulatory asset

22xx. (1) IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

Agreement

(2) An agreement between IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to IESO in an amount equal to the amount of the specified portion.

Effect of payment

(3) Upon receipt by IESO of the payment by the financing entity,

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(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) IESO shall retain no further right, title or interest in the corresponding investment interest.

Validity of transfer

23xx. (1) A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

Same

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.

Deemed perfection, etc.

(3) At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI
THE INVESTMENT ASSET

Effect of transfer

24xx. (1) The transfer of a specified portion of the regulatory asset under section 22x creates an investment asset or, if it is not the first transfer, adds to the investment asset.

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Same

(1.1) Upon transfer of a specified portion of the regulatory asset under section 22xx to a financing entity, the investment asset resulting from the transfer is immediately vested in the financing entity, free and clear of any adverse claim.

Investment asset established

25xx. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that are imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, IESO and other prescribed parties.

3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.

4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge and invoice for the clean energy adjustment.

5. The right to enforce the duties and obligations under this Act of each electricity vendor and IESO to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by any electricity vendor to recover payment of the clean energy adjustment.

6. All rights of any kind related to any of the other property rights or interests that comprise the investment interest, including any rights to receive funding rebates.

7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether it is invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

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Not affected by failure to impose etc. clean energy adjustment

(1.1) An investment interest is not affected by any failure to impose, attribute, invoice, accrue or collect amounts in respect of the clean energy adjustment.

No set off, etc.

(2) The investment asset shall not be set off,

(a) by a consumer, an electricity vendor, IESO, an agent of the investment interest owners or an owner in the Province of a distribution system within the meaning of the *Electricity Act, 1998*;

(b) in connection with any default of a person mentioned in clause (a); or

(c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(3) The rights of the investment interest owners to collect and enforce their rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with Part III of this Act.

Collective action required

(4) If one investment interest owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment interest owner collectively and in coordination with all other investment interest owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment interest owners as a collective in accordance with its terms.

Transfer of investment interest

26xx. An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

27xx. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the transferee a valid property right and interest in, to and under the applicable investment interest acquired in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment interest owner's right, title and interest in, to and under an

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investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected as described in the *Personal Property Security Act*, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer, and the property rights and interests acquired by the investment interest owner shall have priority over any liens in favour of such other persons.

Investment interest owner may grant security interest

28xx. (1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment interest owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may

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subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any account of any electricity vendor, an agent of an electricity vendor or other person who may have commingled such revenues or other proceeds with other funds.

Notice required

(7) The secured party shall be entitled to exercise the rights of an investment interest owner only after the secured party has given notice of the enforcement of its security interest to IESO.

Definition

(8) For the purposes of this section, a security interest is perfected when it is perfected as described in the *Personal Property Security Act*.

PART VII
MISCELLANEOUS

Appointment of agent, invoicing or collection

29xx. If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Not Crown agent

30xx. For greater certainty, a person appointed under section 29xx is not an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Board's authority

30.1xx (1) Each electricity vendor, IESO and the Financial Services Manager shall maintain such accounts and provide such information to the Board as the Board may require for the purposes of carrying out its responsibilities under this Act, in the form and manner and within the time required by the Board.

No hearing required

(2) Despite anything to the contrary in the *Ontario Energy Board Act, 1998*, the Board may exercise any of its responsibilities under this Act without a hearing.

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Sequestration

31xx. (1) A court in the Province may, upon application by an investment interest owner or a secured party, order the sequestration and payment of amounts in respect of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment interest owner or secured party by any person or entity authorized to collect amounts in respect of the clean energy adjustment, including defaults on any required remittance of amounts in respect of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Choice of law

32xx. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to a transfer under this Act or the creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section 5XX shall be the laws of the Province.

Conflict

33xx. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

34xx. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required to be taken under the Financing Plan or in relation to the determination of the fair allocation amount.

Liability

35xx. (1) No action or other civil proceeding shall be commenced against any employee of the Province or Ontario Power Generation Inc. for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under this Act, the regulations under this Act or for any alleged neglect or default in the exercise or performance in good faith of such a power or duty.

Same

(2) Nothing in subsection (1) shall be read as limiting the effect of subsection 19 (1) of the *Electricity Act, 1998* or subsection 11 (1) of the *Ontario Energy Board Act, 1998*.

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Same

(3) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act*, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.

References in marketing materials and offering documents

36xx. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under section 5xx unless the prescribed requirements, if any, are satisfied.

Regulations

38xx. (1) The Lieutenant Governor in Council may make regulations in respect of the following matters:

1. [5]Governing anything that is required or permitted to be prescribed or that is required or permitted to be done by, or in accordance with, the regulations or as authorized, specified or provided in the regulations.

2. Defining, for the purposes of a regulation, words and expressions used in this Act that are not defined in the Act.

3. Prescribing types of payment obligations that constitute funding obligations.

4. Governing the determination of classes of specified consumers, which may include determination based on the manner in which rates are determined for different classes of specified consumers.

5. Governing the determination of the finance amount and the true-up amount and how those amounts are to be applied to the clean energy adjustment.

6. Governing the inclusion of information under this Act on or with invoices, which may include requiring notice to be provided by electricity vendors to specified consumers and other prescribed persons regarding the adjustments, including providing for different requirements in different circumstances and for different classes of specified consumers.

7. Governing the inclusion of information about the clean energy adjustment and any other matters provided for under this Act on or with invoices issued to specified consumers, including the form that the information must take and the

[5] FLS - see s. 78 (1) of the Climate Change Mitigation and Low-carbon Economy Act, 2016 - paras. 1 and 2.

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form of the invoices and the form of any notice to be provided to the specified consumer under this Act[6];

8. Governing the manner by which invoices or notices provided for under this Act are to be provided to specified consumers and other prescribed persons.

9. Governing the Financial Services Manager's power to establish and charge fees, including the ability to recover costs and expenditures and to earn a return.

9.1 Providing for a right of compensation for investment interest owners affected by a breach of section 25xx and the manner in which such a right may be enforced under this Act.

10. Prescribing the time within which any action required by this Act may be required to be done.

11. Providing for such other matters as the Lieutenant Governor in Council considers advisable to carry out the purpose of this Act.

Limitation

(2) Despite subsection (1) or any other Act, no regulation under this Act shall have the effect of reducing, impairing, postponing or terminating the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or impairing or postponing the invoicing, collection, remittance or recovery of the clean energy adjustment.

PART VIII[7]
AMENDMENTS TO OTHER ACTS

ELECTRICITY ACT, 1998

200x. (1) Subsection 6 (1) of the *Electricity Act, 1998* would be amended by adding the following clauses:

(q.0.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,

[6] FLS - see *OEBA s.79.17 and 88(1)(z.11) and (z.12)*

[7] FLS: These amendments are drawn from previous drafting contained in gov2016.146.e05 (which was drafted as amendments to the EA, 1998).

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(i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*;

(ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities;

(iii) engaging in activities related to the transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,

(A) incurring liabilities in relation to the regulatory asset,

(B) transferring the regulatory asset under section 22x for consideration, and

(C) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

200.1xx (1) Subsection 25.33 (1) of the Act would be amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*;

(1.1) Subsection 25.33 (2) of the Act would be amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*;

(2) Subsection 25.33 (3) of the Act would be amended by adding the following paragraph:

4. A consumer who is a specified consumer within the meaning of the *Ontario Fair Hydro Plan Act, 2017* or such other consumer as may be prescribed.

(3) Clause 25.33 (4) (b) of the Act would be amended by adding "or as may be required by a regulation made under this Act or the *Ontario Fair Hydro Plan Act, 2017*" at the end.

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(4) Subsection 25.33 (5) of the Act would be amended by adding "or under the *Ontario Fair Hydro Plan Act, 2017*" at the end

201x. Section 53.1 of the Act would be amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

53.1 (1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

Deemed assets, non-subsidiary

(1.3) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is not a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of the financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries shall not form part of the assets and liabilities of the financing entity.

Deemed assets, subsidiary

(1.4) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of that financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries; and,

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries shall not form part of the assets and liabilities of that financing entity.

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Definition, financing entity

(1.5) For the purposes of this section, "financing entity" has the same meaning as in the *Fair Hydro Plan Act, 2017.*

AMENDMENTS TO ONTARIO ENERGY BOARD ACT, 1998

205x. Subsection 70 (2.1) of the Act would be amended by adding the following paragraph:

4. The licensee is required to comply with the *Ontario Fair Hydro Plan Act, 2017*.

205.1x Section 70 of the Act would be amended by adding the following subsection:

(2.3) Every licence issued to a unit sub-meter provider is deemed to contain the condition that the unit sub-meter provider is required to comply with the *Ontario Fair Hydro Plan Act, 2017* and the regulations made under it.

206x. Section 78.1 of the Act would be amended by adding the following subsection:

Same, limitation re Ontario Power Generation Inc.

(3) The determination of a payment to Ontario Power Generation Inc. under this section shall not include any consideration of amounts related to activities of Ontario Power Generation Inc. carried out in relation to the *Ontario Fair Hydro Plan Act, 2017*.

Same

(3.1) The amounts referred to in subsection (3) include, without limitation, the following:

1. Amounts related to the appointment of Ontario Power Generation Inc. as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

2. Amounts related to the charging of fees for performing duties as the Financial Services Manager.

3. Amounts related to exercising the powers and performing the duties of the Financial Services Manager.

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4. Amounts related to the consolidation of the assets and liabilities for accounting purposes of any special purpose financing entities established under and for the purposes of that Act.

207xx. Subsection 79.16 (3) of the Act would be repealed.

PART IX
COMMENCEMENT AND SHORT TITLE

Short Title - this proposal for legislation would, if approved by the Legislature, have a short title to be determined by Government.

Timing – this proposal for legislation would, if approved by the Legislature, come into force on a date to be established by Government.

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Ernst & Young
222 Bay Street
P.O. Box 251
Toronto ON
M5K 1J7

Tel: +1 416 943 2615
Fax: +1 416 943 3767
ey.com

The Special Committee of the Board of Directors
Ontario Power Generation Inc. (the "Company")
700 University Avenue
Toronto, ON M5G 1X6

May 5 2017

Dear Sirs/Madames:

This letter is being issued to the Special Committee to assist them in their evaluation of management's analysis of the application of International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB")) to the specific transaction described in the Company's memorandum entitled *OPG Accounting Considerations of Ontario Fair Hydro* dated May 2 2017, herein referred to as "the Management Memorandum". We are issuing this letter in our role as auditors of the Company for the year ending December 31, 2017. As the Province consolidates OPG on an IFRS basis, this letter pertains solely to management's IFRS analysis as contained in the Management Memorandum.

We have read the Management Memorandum and we agree with management's analysis therein, subject to all of the assumptions and limitations identified therein. Specifically, we concur that the existing in draft legislation, along with the yet undrafted Regulation and special purpose vehicle (TRUST) documents, and various other agreements assuming they include the required criteria that Management has identified as outstanding in its Appendix A, would be sufficient to support consolidation of the TRUST with OPG Inc.

Additionally, we specifically refer you to the section entitled "Conclusion" in the Management Memorandum, which indicates that their analysis is based on draft legislation as well as their assumptions regarding the terms and conditions of certain contractual arrangements and other documentary evidence that is not yet drafted. Therefore, the Management Memorandum will be required to be updated to reflect the final contents of the legislation and other relevant contractual arrangements and documentary evidence. We will review the updated Management Memorandum once it is available, and update you on our viewpoints once our review of such updated Management Memorandum is completed.

The scope of this letter and any views expressed herein are limited to the transactions, facts, circumstances and assumptions provided to us by management or the Company as described in the Management Memorandum. If such facts, circumstances or assumptions differ, our conclusions may change.

We have not performed an audit or a review of the Management Memorandum. Additionally, we have not performed an audit as of any date or for any period subsequent to December 31, 2016.

The ultimate responsibility for the proper accounting treatment under IFRS and US GAAP rests with the Company.

We have not been asked for, nor do we express, an opinion on the tax consequences of the transactions described herein.

The accounting for such transactions could be affected by actions of the International Accounting Standards Board, the IFRS Interpretations Committee, the Ontario Securities Commission, or other regulatory bodies. Any such actions occurring prior to the finalization of the 2017 IFRS consolidated financial information will be required to be analyzed by management, and such analysis will be reviewed by us in the context of the audit procedures we will perform on the consolidated IFRS financial information for the year ending December 31, 2017.

Our work does not include the provision of legal advice and we make no representations regarding questions of legal interpretation of any possible structure or strategy. We make no representation regarding the sufficiency of our work for any purpose.

This report is intended solely for the information and use of the Special Committee, Board of Directors and management. We understand that a copy of this letter may be provided to the Province of Ontario, the Independent Electricity System Operator, and/or the Ontario Energy Board. It is not intended to be, and should not be, used by anyone other than these specified parties.

This analysis, or portions thereof, should not be referred to or distributed to any other person or entity, other than those noted in the paragraph directly above. It is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document.

Yours sincerely

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Tracy E Brennan
Partner
416-943-2615

May 2, 2017

OPG ACCOUNTING CONSIDERATIONS OF ONTARIO FAIR HYDRO PLAN

Purpose:

The purpose of this document is to summarize the preliminary views of Ontario Power Generation (OPG) on the ability for OPG to consolidate the Financing Entity Trust associated with the Ontario Fair Hydro Plan.

This memo is assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. Note that this assessment is preliminary pending the finalization of the Legislation, the Trust indentures, Regulations, financing structure and other detailed terms, and all related documentary evidence. This assessment will be updated once final documentation is available.

Background:

On March 2, 2017, the Province of Ontario (the Province) announced Ontario's Fair Hydro Plan (the Plan) aimed at reducing electricity bills by 25 percent on average for all residential consumers in the province. As part of the Plan, the Province has proposed financing a portion of the Global Adjustment costs over a longer time period for Regulated Price Plan eligible customers (e.g., residential, farm, small businesses).

On April 13th, the Province requested that OPG consider administering the financing associated with the Plan, because of OPG's participation in the market, regulatory knowledge and the potential ability to consolidate the related financing activities. To undertake this financing, OPG will establish a Financing Entity Trust (the Trust) to finance and administer the Global Adjustment costs through a mixture of external financing and an equity injection from the Ontario Financing Authority. It is expected that OPG will control the Trust for accounting purposes and that its financial position and results will be consolidated within OPG's consolidated financial statements.

Assumptions made to perform accounting analysis which are not yet addressed in Legislation – it is expected that these matters will be addressed in Regulations, Trust documents, and various other agreements:

- The Regulation must require interest, carrying and administrative costs to be paid to the Trust in cash on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs.
- The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.
- The Minister of Energy will have the ability to replace the Financial Services Manger (OPG) if there is a failure to perform. There will be a bifurcation of roles where the Province could not remove OPG as manager/administrator with respect to the existing debt placed by the Trust, but could remove OPG's responsibility/right to prepare the Financing Plan going forward. The ability for the Minister of Energy to remove OPG as the Financial Services Manager should not impact the recoverability of existing intangible assets.

- The calculation of the Fair Allocation Amount will be performed by the Minister of Energy.
- OPG has the ability to appoint and remove the Trustee (or Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust.
- Neither the OEB nor any other party can discretionally reduce the management fee or performance fee except due to a calculation error.
- The margin on the interest rates associated with Tranche B and Tranche C which will be recovered from the ratepayers will be reflective of the risk profile of the debt and the associated market terms.
- The indemnification provided to the Trust by the Minister of Finance on behalf of the Province as described in *Part I – General - Section 5.3 Guarantee, indemnification Protection and assurances* will be subject to terms and conditions in a separate Provincial support agreement. The guarantee is expected to be in place only in the event of a Payment Guarantee Event, such as if the Legislative Assembly of Ontario repeals the Fair Hydro Act or amends the Act in a way that adversely impacts the ability of the Trust to fully recover an intangible asset in order to pay the obligations of the Trust.
- The approval by the Ontario Energy Board of the Financial Services Manager (i.e. OPG's) fees as described in *Part IV – Implementation - Section 14.4 Same, Board Approval* will not allow them to change or limit the management fee structure, but only ensure that it is prudent by ensuring it is calculated in accordance with the Regulations.
- In the event that a different Financial Services Manager is appointed by the Minister of Energy, the IESO is required to continue to make cash payments for interest to the Trust for the existing debt. Principal repayments on existing debt will continue to be repaid by ratepayers to the Trust in accordance with the terms of the issued debt.
- All other items as indicated in *Appendix A.*

Accounting Analysis:

In order to meet the accounting definition of 'control', accounting guidance must be considered. There are no bright lines to determine whether OPG has exposure, or rights, to variable returns from its involvement with the Trust, or whether it has the ability to affect the returns of the Trust through its power over the Trust. Rather, all facts and circumstances are considered when assessing whether an entity has control over another entity.

In order to consolidate the Trust, OPG must be able to demonstrate that it controls the Trust.

Control

An investor controls an investee if and only if the investor has all the following:

a) *power over the investee;*
b) *exposure, or rights, to variable returns from its involvement with the investee; and*
c) *the ability to use its power over the investee to affect the amount of the investor's returns.* [IFRS 10, paragraph 7]

Purpose and design of the investee
When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities. [IFRS 10, paragraph B5]

Criteria	Analysis
Purpose and design of the Trust	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
Relevant activities of the Trust and how decisions are made about those activities	Relevant activities: The relevant activities of the Trust are: • To evaluate and make decisions on financing alternatives, duration, and the strategy to minimize financing costs. • To effectively manage funding obtained through the capital markets and be able to make or lose any spread from financing • To provide funding to the IESO in return for an interest in a future cash flow stream • To obtain funding through the capital markets and other vehicles available to OPG to be able to provide the IESO funding. • To make capital and funding decisions required to meet the Fair Allocation Plan objectives as set out in Legislation • To finance the requirements associated with the short-fall amount • To raise debt, pay bond debt holders, and determine capacity for the Trust to raise additional financing Financing Plan (Legislation: Part IV – Implementation) • OPG's plan for managing the assets of the Trust will be dictated through a 'Financing Plan'. • The Financial Services Manager (i.e. the Trust) shall provide the Financing Plan to the Minister. The Financing Plan is expected to follow Principles as stipulated in the Legislation which indicate that the assumptions must be reasonable and that the Trust has the power to determine what is reasonable and cost-effective. The Trust makes all the decisions in determining the relevant activities as listed above. • OPG can amend the Financing Plan at any time without the approval of the Minister. Fair Allocation Amount (Legislation: Part IV – Implementation) • The 'Fair Allocation Amount' ("FAA") is the amount of the deferral for the reference period and includes finance amounts. The current Legislation dictates that the Minister of Energy is to calculate the FAA. • This does not impact OPG's relevant activities in the Trust as OPG's variable returns are based on financing decisions which are not dictated by the FAA. OPG can choose to accept or reject the purchase of the intangible asset which is based on the Fair Allocation Amount.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
	<u>Decisions made and voting rights of the Trust:</u> OPG has the ability to appoint and remove the Trustee (and if applicable Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust. **[NOT YET ADDRESSED IN CURRENT LEGISLATION]** *Voting of members:* Except as otherwise stated, all decisions of the members (if applicable) shall be made by the Trustee who will be appointed by OPG. <u>Termination Rights</u> OPG cannot be removed from its role in the Trust. The Province has the right to remove OPG as the 'Financial Services Manager' for failure to perform. This will not impact debt that has already been issued for which OPG is already managing through the Trust or the recoverability of existing intangible assets. It the right is exercised, it serves to reduce or eliminate the scope of new business activities of the Trust but it does not affect OPG's ability to control the Trust. Should a new Financial Services Manager be appointed, a separate assessment would be made as to which party if any would control it.
Assessment	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees. For the reasons noted above, OPG has control over the decisions to be made about the relevant activities.

Power over the investee	
Criteria	**Analysis**
Identify whether OPG's rights give it the current ability to direct the relevant activities of the Trust (Substantive rights)	See above for relevant activities of the Trust.
Assessment	OPG has the ability to direct the relevant activities of the Trust. OPG can amend the Financing Plan at any time, without approval from the Minister. Further, if the Minister of Energy chooses not to continue with OPG's current Financing Plan, OPG can withdraw its Financing Plan, without impacting the existing debt and related intangible assets that is already in the Trust. The Province would just appoint a new party to participate in future securitizations and OPG would continue to manage the debt that already exists in the Trust. If future financing transactions are with a different SPV, a separate consolidation analysis would be prepared at that time as to which party if any would consolidate the SPV.

Exposure or rights to variable returns	
Criteria	**Analysis**
Dividends, other distributions of economic benefits from an investee and changes in the value of the investor's investment in that investee [IFRS 10, paragraph B57(a)]	OPG is expected to realize management fees from its activities with the Trust.
Remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee [IFRS 10, paragraph B57(b)]	**[NOT YET ADDRESSED IN CURRENT LEGISLATION]** OPG has exposure and rights to variable returns from the Trust in the form of the following: • The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns. • OPG, through ownership of the most subordinated debt, is exposed to risk of non-collection. Given that the program is expected to run until 2047, this 30 year time period results in uncertainty about the future collection of OPG's amount at risk. OPG and the OFA (5% out of 44% contribution) would be the last parties to get paid in the event that the program stops running due to a change in Government, if electricity demand is not high enough to allow for collection from ratepayers in a timely manner, etc. The end date of 2047 that is prescribed in the Legislation results in uncertainty toward whether this program will continue and whether OPG will have collected its amount at risk at that time. • In the event that there is a market disruption whereby OPG is not able to obtain debt from the financial markets (e.g. due to a recession), the Province will provide funding in the event that OPG wishes to continue purchasing intangible assets from the IESO. This is considered to be a protective right as it does not impact the relevant activities of the Trust, but is designed to protect both parties and does not give either party more or less power over the Trust. It is designed to allow OPG to keep purchasing intangible assets if it wishes to. • Protective rights are typically held to prohibit fundamental changes in the activities of an investee that the holder does not agree with and usually apply only in exceptional circumstances (i.e., upon a contingent event). This is true for this right as it is only applicable if there is a market disruption and the Trust is not able to obtain financing from external markets. Further, the fundamental activities of the Trust would change if it were not able to obtain financing from external markets.
Returns that are not available to	• OPG will have synergistic benefits from combining operating

Exposure or rights to variable returns	
other interest holders. For example, an investor might use its assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the investor's other assets [IFRS 10, paragraph B57 (c)]	functions with the Trust given its extensive knowledge on the market and current regulatory knowledge.
Assessment	To determine which party is the most 'at risk' in the event that the loans default, expected loss rates were obtained from Moody's and DBRS. Using the *Moody's Investors Service – Loss Given Default for Speculative Grade Companies* dated December 4, 2015, the 4-year Idealized Expected Loss ranges from 0.00% for a triple A rated bond to 0.30% for an A3 rated bond. DBRS Expected Loss Ratings give an indication of the expected loss of a loan portfolio. As per a November 2016 publication, the 10-year expected loss rates range from 0.1% for a AAA rated bond to 1.7% for an A (low) rated bond. Given that OPG's subordinated debt is equal to 5% of the total debt, which is higher than the default rates above, 100% of the risk is with both OPG and the OFA since they are the last parties to get paid should there be any default with the debt. OPG is also exposed to variable returns from the Trust from its performance on decisions made on financing alternatives, duration, and the strategy to minimize financing costs through the variable fee component of the management fee. Therefore, OPG has the exposure to variable returns from the Trust.

Ability to use power to affect returns	
Criteria	**Analysis**
Ability of investor to use its power to affect the investor's returns from its involvement with the investee	OPG needs to have both power over the Trust (i.e. as a Principal, not an agent), exposure or rights to the variable returns from the Trust, and the ability to use its power to affect OPG's returns from its involvement with the Trust OPG has the ability to use its power over the relevant activities of the Trust to affect its returns from its involvement with the Trust through the variable fee component.

Ability to use power to affect returns	
	Further, the Trust's ability to use its power to affect returns is in a manner that is consistent with being a principal. See *Appendix B* for Principal-Agent analysis.
Assessment	OPG has the ability to use its power to affect returns of the Trust.

Conclusion:

Based on the current **[May 1, 2017]** draft of the legislation, the conditions to ensure the ability of OPG to consolidate the operations of the Trust have not fully been reflected. As noted in Appendix A, several conditions must be evident in the Regulations, Trust documents, and various other agreements which are not yet drafted and therefore not yet available for our review and assessment. In OPG's assessment, while no current clause of the Legislation would hamper the ability to effect a consolidation within OPG Inc.'s financial statements, there are several key conditions for consolidation that are currently not present within the Legislation. On the assumption that future Regulations, Trust documents and various other agreements fully capture these operating conditions, and that no new conditions that would conflict with OPG's control of the trust are introduced, OPG believes that consolidation of the Trust is supportable.

APPENDIX A:

Terms necessary for OPG to consolidate the Global Adjustment Trust

Note that these are assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. These are subject to change as subsequent drafts of the Legislation are issued.

Legend:

✓ **- Addressed by the Legislation drafted May 1, 2017**

RT – Not addressed by Legislation and must be addressed in Regulations, Trust Documentation or various other agreements

Ω - Will not be addressed in Legislation/Regulations or Trust but is the intended plan

Issue	No.	Requirements
Directive	1 ✓	The Trust must be undertaken by OPG as a business initiative on its merits. A Shareholder Directive is to be limited to direct OPG to investigate the option of establishing a Trust vehicle to administer, finance and operate the Global Adjustment plan and the operation of that Trust and the control, risk and rewards of that Trust will determine its consolidation into OPG as a business enterprise. ***MET - The Province will not direct OPG to participate in the Fair Hydro Plan. A letter was issued from the Minister of Energy to OPG on April 13th requesting OPG's involvement in the implementation of the Fair Hydro Plan. OPG's Board Chair responded to the Minister on April 18th committing OPG to work with the IESO and OEB to develop a plan. OPG will have the option to prepare, implement and amend a financing plan (in accordance with principles set out in legislation) and propose the adoption of such plan as the 'Financing Plan'. OPG will have the right to withdraw its financing plan at any time.***
Trust	2 **RT**	The Trust should not operate in a predetermined way such that OPG does not have decision-making authority over the Trust's ongoing activities after its formation (i.e. should not operate on 'autopilot'). ***OPG will be the sole unit holder of the Trust. All decisions over the relevant activities of the Trust (as described above) will be made by OPG.***
	3 **RT**	OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the Trust. ***OPG will be the sole unit holder of the Trust. The Province will be involved in the Board of Trustees, but OPG is expected to have the majority vote.***

<table>
<tr><th>Issue</th><th>No.</th><th>Requirements</th></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td>4
RT</td><td>The Province cannot have the right to veto OPG's decisions about the relevant activities of the Trust. OPG must have the power over the relevant activities of the Trust and be compensated. The relevant activities of the Trust include (but are not limited to) the evaluation and decisions on financing alternatives, duration, and the strategy to minimize financing costs. OPG must have the power to establish operating and capital budgets of the Trust.

OPG will have the ability to make decisions about the financing alternatives, duration, and the strategy to minimize financing costs. OPG will have the power to establish operating and capital budgets of the Trust with no veto right by the Province.</td></tr>
<tr><td></td><td>5
RT</td><td>OPG must have the power to determine or change operating and financing policies of the Trust, which will affect the variability of risks and returns.

The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.</td></tr>
<tr><td></td><td>6
Ω</td><td>The Province or its agencies must not directly or indirectly fund (through debt or equity) more than 50% of the following:
a. The Trust
b. The most subordinated debt of the Trust

See below for financing structure.

<table>
<tr><th></th><th>Risk Profile</th><th>Source</th><th>% of Total Fundin Requirement</th></tr>
<tr><td>Tranche A Senior Debt</td><td>the least risky</td><td>Capital Markets</td><td>51%</td></tr>
<tr><td>Tranche B Sub Debt</td><td>In between A&C</td><td>OPG via OEFC</td><td>39%</td></tr>
<tr><td>Tranche C Sub Debt</td><td>the most risky</td><td>OPG via OEFC</td><td>5%</td></tr>
<tr><td></td><td></td><td>OPG via Capital Markets</td><td>5%</td></tr>
</table>
</td></tr>
<tr><td></td><td>7
Ω</td><td>OPG must own at least 50% of the most subordinated debt and must be no less than 5% of the debt of the Trust. Such ownership must be financed entirely by OPG through operating cash flows or external debt, without assistance from Provincial sources.

See chart in Point 6 above.</td></tr>
</table>

Issue	No.	Requirements
	8 **RT**	OPG must have the ability to earn variable returns by exercising its authority, which shall be accomplished as follows: a. The cash flow from the restructured asset shall include interest determined based on a relevant benchmark that is appropriate relative to the restructured asset, plus an appropriate margin consistent with the relevant market and other risks ***The cash flow from the restructured asset will include interest income that is equal to the interest expense (i.e. interest expense is passed back to the ratepayers). The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	✓	b. OPG shall have the authority to determine the financing strategy, which will vary the financing costs with the objective of enabling the Trust to achieve a more favourable return compared to the benchmark for interest on the restructured asset ***OPG will determine the financing strategy through the proposal of its 'Financing Plan'. The 'Financing Plan' will only be required to follow general Parameters and Principles as set forth in the Legislation but funding decisions will be made entirely by OPG. The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	Ω	c. The Trust shall establish classes of liabilities (senior, subordinated and the most subordinated). The classes would allow the Trust to delineate financing of lower risk investment and investment that would bear higher residual risk. The delineation would limit OPG's self-funded investment to a reasonable level in order to allow OPG to remain a self-sustaining entity. ***OPG's portion of the most subordinated debt will be limited to a reasonable level. If it is determined that OPG's portion is not at a reasonable level, OPG has the option to withdraw its Financing Plan.***
	RT	c. OPG shall, through its ownership of the most subordinated liability, be able to capture and retain the pricing difference between cost of financing and benchmark for interest on the restructured asset, or any residual risk of restructured asset. The targeted return of the subordinated liability should be reflective of the underlying risks and compensate holders for active management that would be required.

Issue	No.	Requirements
		OPG will be able to capture the pricing difference between cost of financing and benchmark for interest through the performance fee which is described in point 5) above and the 'Exposure or rights to variable returns' section above.
	Ω	d. OPG should participate in the detailed design of the above and the Trust documentation to ensure that it has substantive power and variability, which will allow OPG's Board of Directors to evaluate the opportunity as a business initiative instead of through a shareholder directive. ***OPG will be involved in the Trust documentation.***
	RT	Defined Forced Majeure for emergency events (e.g. unlikely credit market event or disruption where it is not possible to borrow from the market at a reasonable rate), OFA may provide bridge financing beyond the designated percentage for a defined period. ***This will be structured through a separate indemnification agreement. This is not expected to impact consolidation of the Trust because this is seen as a protective right which is only in affect when a contingency arises and not as a result of the relevant activities of the Trust.***
Legislation	9 ✓	The Legislation must require interest, carrying and administrative costs to be paid to the Trust on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs. ***Under Part III – Clean Energy Adjustment – Section 8.3 Terms, of the Legislation, the expectation is that the Legislation will allow for interest payments to be paid to the Trust on a monthly basis in cash. The Trust will not accrue interest to the current intangible asset balances but this interest amount could form part of future intangible assets that are purchased from the IESO.***
	10 RT	The Legislation must dictate the manner in which the restructured asset would be determined, collected, and the period of collection, so that the determination of the restructured asset will not be subject to the Province's decisions on an ongoing basis, but determined based on a formula. Alternatively, the Legislation may allow for an adjustment to the pre-determined deferral formula based on specific parameters that would limit the adjustment to the restructured asset. Adjustments beyond the specific parameters would require approval by the Board of Trustee. **The Regulations are expected to dictate the 'Fair Allocation Plan' which will be based on high level Principles and Parameters of the Plan, including the attribution methodology. The Legislation or Regulation determines the following principles:** • **25% Reduction (June 1, 2017) where the average bill will**

Issue	No.	Requirements
		reduce by 25% including of HST and social programs noted above • **Inflation Period (November 2017 – April 2022) where bill increases are capped at inflation** • **Straight-line Increase Period (May 2022 – April 2027) where bills increased at a straight-line rate (i.e., 8% per year) which is set so that borrowing will not exceed the Trust's capacity.** • **Amortization Period (May 2027 – April 2047) where debt built up over the previous periods is repaid by ratepayers.** **OPG will determine the manner in which the intangible asset, once purchased from the IESO will be collected and the period of collection.** **The recoverability of the existing intangible assets cannot be impacted by the Province.** **Although the Province may determine the Principles and Parameters around the 'Fair Allocation Plan', it does not impact the activities of the Trust once OPG has purchased the intangible asset.**
	11 **RT**	The Legislation must be written to avoid legal or constitutional challenges and be irrevocable to reduce the cost of borrowing and with a specific formula which determines the deferral amount. **See above.**
	12 **RT**	The spirit of the above terms should be reflected in the Trust Indenture Agreement as well as Legislation, wherever possible. ***Trust Indenture and Regulations still outstanding.***

APPENDIX B:

Link between power and returns: principal-agency situations

The third criterion for having control is that the investor must have the ability to use its power over the investee to affect the amount of the investor's returns. When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether the decision-maker is a principal or an agent to determine whether it has control. This is because if the decision-maker has been delegated rights that give it power, the decision-maker must assess whether those rights give it power for its own benefit, or merely power for the benefit of others. As an agent cannot have control over the investee, it does not consolidate the investee. A principal may have control over the investee, and if so, would consolidate the investee.

A decision maker shall consider the overall relationship between itself, the investee being managed and other parties involved with the investee, in particular all the factors below, in determining whether it is an agent:

a) the scope of its decision-making authority over the investee

   As discussed above, OPG has decision-making authority over the Trust and its relevant activities. The Province has no right to determine what sort of funding decisions OPG should make to fund the intangible assets that they will purchase and OPG can choose not to purchase future intangible asset purchases.
   Terms and Conditions to support this point: 1, 2, 3, 4, 5

b) the rights held by other parties (paragraphs B64–B67).

   There are no substantive removal rights held by the Province for debt that already exists in the Trust.

   Terms and Conditions to support this point: 3, 4, 5

c) the remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs B68–B70).

   See section on 'Exposure or rights to variable returns' above.

   Terms and Conditions to support this point: 6, 7, 8, 9

d) the decision maker's exposure to variability of returns from other interests that it holds in the investee (paragraphs B71 and B72).

   See section on 'Exposure or rights to variable returns' above.

   OPG will receive a 44% equity injection from the Province of Ontario, indirectly through the Ontario Financing Authority. Given that currently, the majority (currently 51%) of the Trust debt will be from External Markets and not the Province, it can be argued that OPG did not receive the majority of its interest in the investee as a contribution or loan from the Province. This shows that OPG is a principal, not a de-facto agent.

   Terms and Conditions to support this point: 6, 7, 8, 9

Conclusion: OPG is not an agent for the Province as the arrangement does not provide for the Province to directly absorb any variability associated with the structure. If the Province decides to intervene at a later date due to evolving market conditions, an assessment would be made at that future date.

Analysis on whether OPG is an agent for ratepayers

OPG is not an agent for the ratepayers because OPG has substantive exposure to risk of loss of its own funds. The ratepayers do not have any of their own funds in any of the subordinated tranches and further, no decision making authority is delegated to the ratepayers relating to the relevant activities of the Trust.

Analysis on whether OPG is an agent for the IESO

OPG is not an agent of the IESO because the IESO faces no continuing risk of loss after sale of the intangible asset to OPG.

From: Hindmarch-Watson, Tim (CAB) [Tim.Hindmarch-Watson2@ontario.ca]
To: Felix Fung (MOF) [Felix.Fung@ontario.ca]; James Strang (MOF) [James.Strang@ontario.ca]
Subject: Fw: OFHP - LRC Submission
Date: Sunday, May 07, 2017 15:35:25
Attachment 1: LRC_MinistryApprovalForm OFHP May 7.doc
Attachment 2: GOV2017.089.e01.docx
Attachment 3: OFHA Compendium FINALv04.docx
Attachment 4: OFHP Variance Memo v03.doc

Fyi

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Sunday, May 7, 2017 2:09 PM
To: Hindmarch-Watson, Tim (CAB)
Cc: Moore, Karen (CAB)
Subject: OFHP - LRC Submission

Hi Tim,

Please find attached the final LRC submission. Also attached are the final legislation, compendium and variance memo.

This is Minister signed and hard copies will be delivered first thing on Monday morning.

Thanks,
Martin

Ontario

LEGISLATION AND REGULATIONS COMMITTEE: MINISTRY APPROVAL FORM

+LRC Tracking #: (DLEG-847)
EVista Tracking #: (SUB—DL-2017-00665)

Ministry of Energy

Ontario Fair Hydro Act, 2017
Legislation

Profile at a Glance

Priority: Key
Public Interest: Very High
Key Stakeholder Interest: High
New Costs/Burdens: Yes for Government, Yes for Stakeholders
New Savings/Opportunities: Yes for Stakeholders; No for Government

Proposed Items for Review

1. New legislation titled the Ontario Fair Hydro Act, 2017

Approvals required prior to LRC

	Committee and date	Cabinet Date
Policy	Cabinet approval received March 1	
TB/MBC	TB/MBC approval received March 9	

Deputy Minister _____ Date _____

Minister _____ Date _____

s. 1 Proposal and Context

- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), intended to lower bills on average by 25% for a typical residential consumer, starting in the summer of 2017. About half a million small businesses and farms are also expected to benefit.

- Any rate increases for residential consumers over four years would be held to the rate of inflation.

- These measures include the 8% rebate introduced in January and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

- The OFHP also announced enhancements to a number of existing programs targeted at more vulnerable electricity consumers, including funding some or all of the costs of these programs from the tax base rather than the electricity ratebase.

- OFHP is part of a significant system restructuring that will address long-standing policy challenges and ensure greater fairness.

- To implement OFHP, the Ministry has prepared the Fair Hydro Act, 2017 in close collaboration with key ministries (i.e., Treasury Board, Finance, Attorney General, Cabinet Office), agencies (i.e., OEB, IESO, OPG) and third party financial advisors and local distribution companies (LDCs).
    - The proposed Fair Hydro Act, 2017 would be an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998 and Electricity Act, 1998.

- The proposed OFHP legislation, supporting regulations and amendments to existing legislation (e.g., Electricity Act and Ontario Energy Board Act) will, if passed, enable implementation of the following key components of the Plan:

    A. Refinancing the Global Adjustment (GA) – The proposed legislation outlines how costs would be fairly allocated among eligible consumers over time.

    B. Helping Vulnerable Electricity Consumers – The proposed legislation broadens the Rural or Remote Rate Protection Program (RRRP) by creating a new distribution rate protection component, expands the Ontario Electricity Support Program (OESP) and establishes a new On-Reserve First Nations Delivery Credit. The legislation also allows for these programs to be funded (partially for RRRP) through the tax-base.

A. GA Refinancing

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in clean energy initiatives are allocated fairly among present and future generations of consumers.

- Refinancing the Global Adjustment (GA) would be achieved through the proposed stand-alone legislation, regulations and amendments to existing legislation and regulations.

- Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the GA. These mechanisms are described below.

B. Social Programs

- The proposed Ontario Fair Hydro Plan would help vulnerable electricity consumers by enhancing electricity support programs and shifting program costs onto the tax-base:
    - Enable Rural or Remote Electricity Rate Protection (RRRP) costs to be funded through provincial revenues;
    - Enhance Rate Protection through creation of new tax-base funded Distribution Rate Protection (DRP);
    - Enable Ontario Electricity Support Program (OESP) costs to be moved to tax base;
    - Create a new First Nation On-Reserve Delivery Credit, funded through provincial revenues

s. 2 Approach and Intended Outcomes

A. GA Refinancing

- The Fair Hydro Act, 2017 attempts to balance several key factors including financeability, accounting requirements and legal considerations.

- Following an extensive consultation process with internal and external experts, the proposed legislation strikes a balance between these three factors by:
    - Supporting financeability through a number of features, including enabling a provincial guarantee and provisions intended to provide certainty to investors in order to reduce borrowing costs and attract a wide investor base;

  - Addressing the necessary accounting requirements through mechanisms to record funding, interest and the transfer of regulatory assets to avoid a fiscal impact to the province; and
  - Mitigating legal risk by developing a methodology that attempts to fairly aligns costs and benefits.

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of clean energy initiatives are allocated fairly among present and future generations of consumers.
  - Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The proposed legislation would outline:
  - Roles and responsibilities for the OEB, IESO, OPG and the Province;
  - A detailed Preamble, Purpose and Definitions;
  - Details with respect to cost allocation, rate reduction methodology, implementation and financing;
  - Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
  - Amendments to other acts.

- The associated amendments to existing legislation and regulations include:
  - Electricity Act, 1998: amendments to provide OPG with the authority to establish a special purpose vehicle (SPV) for the investment asset and Ontario Energy Board Act, 1998: amendments to allow for OEB to set rates recognizing GA refinancing.

Preamble and Purpose

- The preamble of the proposed legislation establishes the rationale for the allocation of "clean energy costs" over time. That is, the development of a clean, modern and reliable electricity system has increased costs for ratepayers.

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of these investments are allocated fairly among present and future generations of consumers.
  - Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the Global Adjustment. Note: These mechanisms are described below.

- The legislation also restricts the OEB, Minister of Energy and the Crown from reducing, impairing or ending Clean Energy Adjustments in the future:
  - The Lieutenant Governor in Council may authorize the Ministers of Finance and Energy to enter into guarantees and indemnities related to the Act.

- The proposed legislation aligns eligibility with the Ontario Rebate for Electricity Consumers Act, 2016.

Fair Adjustment

- Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for a typical residential consumer, and to achieve comparable bill reductions for other eligible consumers, for the period July 1, 2017 to April 30, 2018.
    - Under the legislation, the OEB must determine the amount within 15 business days of the legislation receiving Royal Assent.

- The Fair Adjustment also allows the LGIC to make regulations prescribing electricity rates after April 30, 2018.

Clean Energy Adjustment

- The Clean Energy Adjustment is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period.

- The proposed Act outlines:
    - The process for determining the total Clean Energy Adjustment amount;
    - The obligation on individual ratepayers for the repayment of the amount; and
    - The inability to offset or bypass re-collection of the amount.

Fair Allocation Amount

- The Fair Allocation Amount is a calculation and allocation of clean energy costs and clean energy benefits over time.
    - The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager. Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
    - It is expected that the calculation would lead to decreased rates in the near term with upward pressure on rates in the long term.

- Under the legislation the calculation of the Fair Allocation Amount is guided by the principles and purposes of the Act including the proportional allocation of clean energy costs and benefits.

Financial Services Manager

- The legislation appoints OPG as the Financial Services Manager.

Financing Plan

- The Fair Allocation Amount is a calculation and allocation of clean energy costs and clean energy benefits over time.

  - The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager. Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
  - It is expected that the calculation would lead to decreased rates in the near term with upward pressure on rates in the long term.

- Under the legislation the calculation of the Fair Allocation Amount is guided by the principles and purposes of the Act including the proportional allocation of clean energy costs and benefits.

Regulatory Asset

- IESO will have a funding deferral resulting from the reduction in amounts collected during the first four years.

- The legislation enables IESO to record the under-collection of GA in a variance account, and deems the rights associated with this under-collected amount to be a Regulatory Asset.
  - OEB would determine rates to allow IESO to recover under-collection recorded in its variance account in the event the Regulatory Asset is not sold.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust.

Investment Asset

- The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

  - The legislation establishes property rights for the Investment Asset such as the right to collect principal and interest and financing costs in the form of the clean energy adjustment from eligible consumers.

- The Investment Asset may in turn be sold to other investors or group of investors.

- Through the legislation, the Board, Minister and Crown undertake not to hinder the charging and remittance or collection of clean energy adjustments.
  - The Province, through the Minister of Finance and the Minister of Energy may agree to guarantee performance, any debts and obligations and backstop its undertaking.

Amendments to Other Acts

- The legislation stipulates required amendments to existing legislation such as:
  - The Electricity Act, 1998 – to expand the objects of IESO and OPG to enable them to perform their rights and obligations in the proposed Act

- The Ontario Energy Board Act, 1998 – to address license conditions and the determination of regulated payments.

B. Social Programs

- The proposed legislation provides the authority to implement two new rate mitigation programs and expands upon two existing programs.

- To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

- The proposed legislation is intended to provide rate relief and assistance for:

    - **High Distribution Cost Customers**: Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
    - **Low-Income Customers**: Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
    - **First Nation On-Reserve Customers**: On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

Proposed Changes to the Ontario Energy Board Act, 1998 ("OEBA" or "Act")

- The Ontario Energy Board Act, 1998 would be amended to facilitate the roll out, expansion or change in funding of the following programs.

i. Rural or Remote Rate Protection (RRRP)

- RRRP is an existing program currently funded by ratepayers through the regulatory line of the electricity bill. Currently costs $1.58/month for a 750kWh consumer.
- Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province. For R2 customers the enhanced RRRP, or Distribution Rate Protection (DRP), is provided in addition to the RRRP the customers are already eligible for under the existing RRRP.

- Section 79 would be amended to provide the government the ability to fund a portion of the Rural or Remote Rate Protection Program through the tax base by prescribing certain classes of consumers who will be funded through a legislative appropriation.

- This includes the ability to pass regulations respecting the making of rules for the compensation of distributors with the money appropriated flowing from the legislature through the IESO to the various LDCs who would then provide the rate relief directly on consumers' bills.
- Should the legislation pass, Energy proposes to amend O. Reg 442/04 to enable provincial funding to compensate Hydro One for provision of RRRP to its R2 customers.

ii. Expanded RRRP - Distribution Rate Protection

- While the RRRP helps mitigate some of the higher distribution costs for Hydro One R2 customers, there is an opportunity to provide further relief to consumers in relatively high-distribution cost outlier LDCs. This relief would be financed from the tax base.
- Mitigation would be provided by harmonizing distribution rates for prescribed LDCs, as set by the Ontario Energy Board. The mechanism for determining this rate would be set out in regulation.

- The new section 79.3 of the Act would enable Distribution Rate Protection, which satisfies the commitment to expand RRRP.
  - The section includes the power to pass regulations prescribing LDCs, the classes of consumers or consumers designated as distribution rate protected consumers, the maximum amount of the monthly base distribution charge, limitation periods, and the type of information required by the Board and Ministry to implement and administer the program, including financial transactions.

iii. Ontario Electricity Support Program (OESP)

- Section 79.2 would be repealed and replaced in order to provide the government with the ability to shift funding for the OESP (once existing rate-based pooled funding has been depleted) from the rate base to the tax base, and the ability to share information with MCSS to coordinate OESP and social assistance programs. The Ministry has already completed a regulatory amendment that, effective May 1, 2017:
  - Increases the existing OESP credit scales by an additional 50%; and
  - Expands the categories of OESP credits.
  - Provides for OESP to be funded from the tax-base once the IESO's OESP variance account has been depleted.

- The legislative amendments would provide authority to make regulations to replace existing O. Reg. 314/15 to implement these changes.

- The total fiscal impacts to the province from the newly enhanced OESP will amount to: $140 million in 2017-18, $261 million in 2018-19, $325 million in 2019-20 and $375 million in 2020-21.

- Schedule 2 amends the OESP provisions by prescribing the ability to fund the program from the tax base.
    - The section also provides that the Ontario Energy Board or any other entity prescribed in legislation would be responsible for administering the program.
    - In addition, the licenses of LDCs, the IESO, unit-sub meter providers or electricity retailers are deemed to include anything which is necessary to administer and implement the program as may be set out in regulations or by the Board.
    - The section also requires that the Ontario Energy Board continue funding the program using the amounts previously accumulated in the IESO's OESP variance account which is the difference between funds collected through the regulatory charge and expended on OESP to date, until these amounts are depleted and the program shifts to the tax-base.
    - The section provides for broad regulation making power and includes the provision for the creation of different classes of rate assisted consumers and establishing rules for the calculation of the rate assistance to be provided.
    - New provisions also provide the necessary authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers in the future to support increased participation in the OESP program among social assistance clients.

- Note: the intended approach involves proclaiming s.79.2 into force on a future date to be named by proclamation. This would allow time for the funds accumulated in the IESO's OESP variance account to be more fully expended prior to the repeal and replacement of s.79.2.
    - However, the MCSS data sharing provisions, along with ss. Amendments to s. 79.2.1, the new sections 79.3 and 79.4, would come into force upon Royal Assent.
    - The OESP charge has been removed from electricity bills, however a surplus account has been accumulated which the OEB will continue to use until depleted.

iv. First Nations On-Reserve Delivery Credit

- On June 27, 2016, following discussions on Hydro One shares and rates at COO's All Chiefs Conference, the Minister of Energy issued a letter directing the OEB to prepare a report providing "*advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers*".

- The program is premised around the findings in the OEB report on a First Nations Delivery Rate Assistance. The proposed program features include:
    - Eliminating the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, from the bills of prescribed on-reserve customers. Regulations would then prescribe those on reserve consumers which are eligible for the on reserve credit.

  - Continue to provide eligibility to OESP while not disturbing eligibility for the Low Income Energy Assistance Program (LEAP) currently funded by distributors outside of these amendments to the OEBA; and
  - The program would be carried out by the 11 affected LDCs serving on-reserve consumers identified by the OEB in its report, including; Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution.

- The program is anticipated to have a fiscal impact on Government of $20 million, as estimated by the Ontario Energy Board, to implement.

- The new section 79.4 of the Act would establish the First Nation On-Reserve Delivery Credit. The section provides that for all prescribed consumers, living on-reserve, the entirety of their delivery line items will be removed from their bill as a delivery credit.
  - The program would be entirely funded through the tax base.
  - The section includes the power to make regulations prescribing further program details such as eligibility and funding parameters.

v. Ministry of Finance Accountability Provisions

- The social programs all involve the expenditure of tax money to fund the partial or entire program costs. As a result, the Ministry of Finance and Treasury Board Secretariat require that such money be tracked and accounted for throughout the process.

- Therefore, the OEBA has been amended to include new provisions between ss. 79.5 to 79.11 as follows
  - Section 79.5 – imposes information sharing and auditing requirements for the Ministry of Finance.
  - Section 79.6 – Defines the Finance Minister as the Minister responsible for ss. 79.7 to 79.11.
  - Section 79.7 – mandates record keeping, retention and content requirements.
  - Section 79.8 – enables the Minister of Finance to appoint inspectors who may carry out inquiries
  - Section 79.9 – sets out the regime for the recovery of overpayments
  - Section 79.10 – imposes confidentiality requirements on Ministry staff for the collection of information
  - Section 79.11 – creates offences for false or deceptive statements, fraud and the unlawful destruction of records.

s. 3 **Direction and Urgency**

A. GA Refinancing

- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower bills for residential consumers as well as most small businesses and farms. The initiative was announced as starting in the summer of 2017.

- The legislation for GA refinancing requires the OEB to make further rate adjustments no later than fifteen business days after the legislation receives Royal Assent for Regulated Price Plan (RPP) consumers to achieve the full 25% for a typical residential consumer, and for other eligible consumers to also receive a comparable bill reduction.

- The full reduction from the OFHP is expected to be addressed through a July 1st RPP rate adjustment.

B. Social Programs

- The direction for the creation and implementation of the social programs is found in a variety of sources including the Cabinet Minute, throne speech given on the government's efforts to mitigate the high price of electricity in Ontario, and public commitments made by the Minister and other key government spokespeople.

- The program has been announced to commence as of July 1, 2017. This includes both local announcements and organized speeches and press conferences.

s. 4 Impact Assessment and Costs

A. GA Refinancing

- The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.
    - o The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recovered.
    - o The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year.

- It is still possible that the full value of the Regulatory Asset may not be purchased.

- In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

- In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt.
    - The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line.
    - The Ministry of Energy has received an appropriation for $1.1 billion operating asset to support these injections for the fiscal year 2017/18, and will report back through PRRT for future funding. Based on the final fair allocation amount calculation, the equity injections would be required until the period of recovery begins.
    - The injections will be fiscally neutral for the province as they will be offset with the value of shares purchased from OPG.

- OPG will seek to achieve the highest possible credit rating (AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV/Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

B. Social Programs

i. Social Programs

Government Impact

- As approved in the TB/MBC submission of Mach 1st, 2017 and confirmed in Vote-Item 2905-1, the financial impacts on Government of the social programs for the period July 1 2017- March 31 2018 are anticipated to be as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection	344,000,000
Ontario Electricity Support Program	140,000,000
On-Reserve First Nations Delivery Credit	15,000,000

- ENERGY will report back to TB/MBC in fall 2017-18 with an update on out-year projections following analysis on rate applications before the Ontario Energy Board.

Stakeholder Impact

The Schedule 2 social programs will impact Local Distribution Companies and their consumers.

- For example, the Distribution Rate Protection program would involve 8 LDCs, the First Nations On-Reserve Delivery Credit will involve 11 LDCs and the only impacted LDC from the changes to the legacy RRRP program is Hydro One Networks Inc. (the R2 rate class).
- There may be modest impacts on unit sub-meter providers and retailers, due to the requirement to flow financial assistance through to consumers served such entities.

- The compliance costs for LDCs will involve the expenditure of money to alter their billing systems in order to carry out the program. This includes costs to alter the bill presentment and to include a new line on the bill that highlights the First Nations On-Reserve Delivery Credit.

Agency Impact

- The Ontario Energy Board would have a role in continuing to administer the OESP and in setting the harmonized monthly base distribution charge for the purposes of the Distribution Rate Protection Program.

- The Independent Electricity System Operator would be responsible for for flowing the funds used to reimburse/compensate LDCs for the costs of delivering the social programs from the money appropriated for such purposes from the legislature. This requires the IESO to monitor program specific variance accounts and flow the amounts necessary to compensate LDCs for the costs incurred in carrying out the programs.

- The proposal advances the government's overarching goal of reducing the cost of electricity paid by residential customers, especially those facing the highest costs of delivery.

s. 5 Implementation

A. GA Refinancing

- On April 20, 2017, the Ontario Energy Board (OEB) announced new Regulated Price Plan (RPP) rates effective May 1 that include a portion of the bill reduction proposed under the OFHP.

- These new RPP rates will include 50% of the estimated reduction in GA. This reduction in RPP rates, along with the removal of the OESP charge and the existing 8% rebate, will mean that May bills will be 17% lower than they would otherwise have been for an average consumer (15% lower for the typical Toronto Hydro consumer).

- The legislation for GA refinancing requires the OEB to make further rate adjustments no later than fifteen business days after the legislation receives Royal Assent for

RPP consumers to achieve the full 25% for a typical consumer and for other eligible consumers to receive a comparable bill reduction.

- The full reduction from the OFHP is expected to be addressed through a July 1st RPP rate adjustment.

- Regulations will be required to supplement the framework of the legislation to ensure that the OEB can make the required rate adjustments and to enable the financing contemplated by OPG SPV/Trust.

- The regulations are anticipated to be brought forward in mid and late June.

B. Social Programs

- The social programs would be implemented through subsequent regulations to follow that will expand upon the legislative framework to provide actual program specifications.

- The regulations are anticipated to be brought forward by late June, to allow for a July 1st program implementation.

- The efforts required to implement the programs would primarily fall upon the impacted LDCs who would need to adjust their billing systems in order to carry out the program.
    - For the OESP, the legislation contains transitional retroactive application of the provisions to offset any potential lapses in implementation.
    - The transitional retroactivity powers mitigate the risk of LDCs being unable to actualize the necessary OESP-related changes to their billings systems in time for the July 1st roll out and provides the utilities an extra prescribed time period (anticipated to be in the range of three months) to sort out any billing system alterations.
    - For the high-cost distribution rate protection and the on-reserve credit, there are more limited transitional provisions provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided.

C. Legal Considerations

- In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a “low” risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the “short” term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in

order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

- Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:
    - The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
    - If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
    - By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
    - The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

- The bill provides for provincial assurances, guarantees and a statutory cause of action.

- **The provincial assurance provision** is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

- The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

- In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the

Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

- **The guarantee provisions** are intended to backstop the provincial assurance provision and provide that:
    - the Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - the Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted.

A statutory cause of action may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

s. 6 Delivery and Results Tracking

A. GA Refinancing

- The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister. Such update calculations will be required given uncertainty related to electricity demand, interest rates and actual GA costs.

- The legislation establishes a framework for processes once the ratepayer relief is set. There is limited control once the plan is set, which could represent challenges for electricity planning and rate mitigation in future Long-Term Energy Plans.

- Under the legislation, OPG, as the Financial Services Manager, must prepare a Financing Plan and submit it to the Minister.
    - The Financing Plan sets out the funding obligations and amounts related to the financing of the under-collected GA amounts.

B. Social Programs

- As the social programs are funded through the tax-base, and in keeping with normal practice, Treasury Board Secretariat and the Ministry of Finance require that provisions be included that track the flow of tax money and hold all parties accountable for the proper allocation of tax money (proposed new OEBA s. 79.5-79.11).

- The actual implementation of the programs would be required to be shown on the bill (timelines will be in stated in the regulations). This timeline is in accordance with the feedback provided to the Ministry and the Board by affected LDCs.

s.7 Stakeholder Consultations

A. GA Refinancing

- In the development of the proposed legislation, the Ministry of Energy has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors (lawyers and accountants) and third party financiers (i.e., investment dealers).

- In addition, the Ministry hosted LDC workshop sessions on March 16 and April 19, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation.

B. Social Programs

- The Ministry has consulted with Energy agencies such as the Ontario Energy Board and the Independent Electricity System Operator on their respective roles and responsibilities.

- The Chief of Ontario (COO) have publicly supported the introduction of the First Nations Delivery Credit. ENERGY met with COO on April 26, 2017 to discuss implementation.

- The Ministry held working groups with all affected LDCs:
    - The Ministry received several quantitative data submissions from LDCs to help support the program and to buttress the implementation issues flagged by the utilities.
    - The consultations occurred in person and over teleconference.

- The consultations respecting the RRRP, the DRP and the On-Reserve First Nations Delivery Credit revealed concerns from LDCs over the costs of implementation and the timelines and obstacles to implementing the billing system changes.
- The feedback from the OEB helped to shape the estimates for the program costs of the proposed On-Reserve First Nations Delivery Credit as well as implementation timelines for the aforementioned program.

- Other key Ministries such as the Ministry of Finance and Treasury Board Secretariat were consulted as their will be a role for them to play in overseeing the implementation of the program funding.

s.8 Other Jurisdictions and Harmonization

A. GA Refinancing

- The program would not impact upon any other jurisdiction.
- GA refinancing does not harmonize Ontario rules with other jurisdictions and are not comparable to other Canadian jurisdictions.

B. Social Programs

- The program would not impact upon any other jurisdiction.
- The social programs do not harmonize Ontario rules with other jurisdictions and are not comparable to other Canadian jurisdictions.

s. 9 Communications

A. GA Refinancing

- The communications for GA refinancing will be referenced in ongoing announcements related to OFHP broadly, and as necessary targeted communications for specific stakeholder group can be developed.
- Energy has prepared a Communications Snapshot which summarizes the approach to communications.

B. Social Programs

- Energy has prepared a Communications Snapshot which summarizes the approach to communications.
- In respect of the First Nations On-Reserve Delivery Credit, the LDCs will work in collaboration with the Chiefs of Ontario and the Ministry to promote and advertise the availability of the credit to all eligible on-reserve customers.

s. 10 **Contacts and Appendices**

Contacts

	Name	Phone Number
Ministry Policy/Program	Tim Christie/Sunita Chander	5-6708/5-6594
Ministry Legal	Carolyn Calwell	2-8392
Ministry Communications		
Assistant or Deputy Minister's Office		
Cabinet Office Policy		

Appendices

Appendix A: Variance Memo
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Fair Hydro Act, 2017

EXPLANATORY NOTE

The Bill enacts a new Act and makes amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*.

SCHEDULE 1
ONTARIO FAIR HYDRO PLAN ACT, 2017

The Schedule enacts the *Ontario Fair Hydro Plan Act, 2017*. The Act establishes a framework under which the costs and benefits associated with the "clean energy initiative" are to be allocated among present and future consumers of electricity. The "clean energy initiative" is defined in Part I as consisting of the policies of the Government of Ontario related to such matters as eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies.

Under Part II, the Ontario Energy Board is required to determine reduced electricity rates and to determine other adjustments to be made for certain classes of consumers in respect of specified periods of time. For example, for the class of consumers referred to as "regulated rate consumers", the electricity rates payable for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would achieve a 25 per cent reduction in certain costs for a hypothetical member of the class who meets prescribed criteria. Details regarding the determinations are prescribed by regulations.

Part III requires certain electricity consumers to pay an amount in respect of the "clean energy adjustment". The clean energy adjustment is determined by the Financial Services Manager in accordance with rules set out in the Act and the regulations. (Section 18 of the Act appoints Ontario Power Generation Inc. as the Financial Services Manager.) Part III also specifies the roles and responsibilities of electricity vendors and the Independent Electricity System Operator ("IESO") with respect to the collection and remittance of amounts in respect of the clean energy adjustment.

Part IV requires the Minister of Energy to calculate a "fair allocation amount" by taking specified steps in accordance with principles and assumptions set out in the Act. For example, the Act provides that the purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among certain consumers. Part IV also requires the Financial Services Manager to prepare a written

plan entitled the “Financing Plan”, which is to be used to evaluate whether potential funding obligations should be incurred. Principles and limitations regarding the preparation and implementation of the plan are provided.

Part V requires the IESO to determine the “IESO deferral” in accordance with the regulations and to establish and maintain a variance account in which it records the IESO deferral each month. A “regulatory asset” is created under section 25; the IESO has the right to recover the balance recorded in the variance account from certain consumers. The IESO is authorized to transfer a specified portion of the regulatory asset to a financing entity; this transfer results in the creation of the investment asset and the acquisition by the transferee of a corresponding “investment interest”. Various rules respecting the validity and priority of such a transfer are set out.

In Part VI, rules in respect of the “investment asset” are provided. Section 29 provides that the investment asset constitutes a current and irrevocable property right and interest, consisting collectively of various specified rights and interests of investment interest owners. Rules respecting the validity and priority of such a transfer and the granting of a security interest by an investment interest owner are included.

Part VII deals with various miscellaneous matters, including regulation-making authority of the Lieutenant Governor in Council.

The *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* are amended to address various matters relating to the enactment of the new Act. For example, the objects of the IESO and Ontario Power Generation Inc. are expanded to address powers and duties under the new Act.

SCHEDULE 2
AMENDMENTS TO THE ONTARIO ENERGY BOARD ACT, 1998

The *Ontario Energy Board Act, 1998* is amended. Among the amendments:

1. Section 79 of the Act is amended so that compensation for the rate protection provided to certain classes of rural or remote consumers may be funded out of money appropriated by the Legislature, rather than by consumers.

2. Section 79.2 of the Act, which governs the Ontario Electricity Support Program, is repealed and replaced. The program is continued, but will be funded out of money appropriated by the Legislature after the variance account maintained by the Independent Electricity System Operator, formerly established under the Plan, is exhausted, rather than by consumers. There are provisions relating to the sharing, use and disclosure of information relating to the administration of the Ontario Electricity Support Program.

3. Programs are established to aid certain distribution rate-protected residential consumers and on-reserve consumers.

4. Various amendments of a technical and administrative nature are made to support the implementation and oversight of these programs including provisions related to auditing, record-keeping, inspections and inquiries, offences and penalties.

Bill **2018**

An Act to enact the Ontario Fair Hydro Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

Her Majesty, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows:

Contents of this Act

1. This Act consists of this section, sections 2 and 3 and the Schedules to this Act.

Commencement

2. (1) Subject to subsections (2) and (3), this Act comes into force on the day it receives Royal Assent.

Schedules

(2) The Schedules to this Act come into force as provided in each Schedule.

Different dates for same Schedule

(3) If a Schedule to this Act provides that any of its provisions are to come into force on a day to be named by proclamation of the Lieutenant Governor, a proclamation may apply to one or more of those provisions, and proclamations may be issued at different times with respect to any of those provisions.

Short title

3. The short title of this Act is the *Fair Hydro Act, 2017*.

SCHEDULE 1
ONTARIO FAIR HYDRO PLAN ACT, 2017

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Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects. These commitments can only be achieved if costs are shared fairly among consumers, today and in the future.

Electricity rates have risen for two key reasons. First, decades of under-investment in the electricity system resulted in the need to invest more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable. Second, the decision to eliminate Ontario's use of coal and produce clean, renewable power has created additional costs.

The actions taken to achieve a clean, modern and reliable electricity system have resulted in significant costs to residential consumers. The burden of financing these system improvements and funding key programs has unfairly fallen almost entirely on the shoulders of those consumers.

The Government of Ontario is committed to ensuring that the costs of financing these investments and the associated charges to consumers are allocated fairly among present and future generations.

Recognizing that the electricity infrastructure that has been built and the policy decisions that have been made will create benefits for years to come, costs should be allocated fairly over time, so that residential consumers in the future pay their fair share for the benefits that they receive from the investments already made.

PART I
GENERAL

Interpretation

Definitions

1. (1) In this Act,

"Board" means the Ontario Energy Board; ("Commission")

"clean energy adjustment" means the amount determined under section 15 and payable by specified consumers; ("ajustement pour l'énergie propre")

"clean energy benefits" means the value of the benefits determined to be derived by or accruing to specified consumers as a result of the clean energy initiative, including as a result of clean energy costs; ("avantages de l'énergie propre")

"clean energy costs" means the value of the costs allocated to specified consumers as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

(a) the amounts to be paid or reflected by the IESO in adjustments made under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts or amounts for,

(i) renewable energy generation or capacity,

(ii) conservation and demand management,

(iii) energy storage,

(iv) energy efficiency,

(v) natural gas generation and capacity, excluding contracts relating to amounts payable by the IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed,

(b) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(c) such other costs or estimated costs as may be prescribed; ("coûts de l'énergie propre")

"clean energy initiative" means the policies of the Government of Ontario related to,

(a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,

(b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

(c) promoting conservation, demand management and energy efficiency, and

(d) investing in energy infrastructure to ensure a clean, modern and reliable system; (“initiative pour l’énergie propre”)

“electricity vendor” means,

(a) a licensed distributor,

(b) a licensed retailer,

(c) the IESO in circumstances where it directly invoices a specified consumer for electricity used in Ontario, or

(d) such other person as may be prescribed; (“vendeur d’électricité”)

“fair allocation amount” means an amount calculated under section 20; (“French”)

“finance amount” means the finance amount determined in accordance with the regulations; (“French”)

“Financial Services Manager” means the Financial Services Manager appointed under section 18; (“gestionnaire des services financiers”)

“financing entity” means an entity established or caused to be established by the Financial Services Manager as described in subsection 22 (2); (“entité de financement”)

“Financing Plan” means the plan prepared under section 21; (“plan de financement”)

“funding obligation” means a payment obligation incurred by or on behalf of an investment interest owner to fund its ownership of an investment interest or a payment obligation that meets such other criteria as may be prescribed; (“obligation financière”)

“funding rebate” means a payment obligation incurred by the IESO as part of the transfer of the regulatory asset; (“French”)

“IESO” means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; (“SIERE”)

“IESO deferral” means the amount determined under section 23; (“French”)

"investment asset" means the rights and interests described in section 29; ("actif d'investissement")

"investment interest" means,

(a) an ownership interest in the investment asset, and

(b) in circumstances where the ownership interest is transferred, the rights and benefits specified in the agreement under which the interest is transferred; ("participation d'investissement")

"investment interest owner" means a financing entity that has acquired and holds an investment interest; ("propriétaire de l'actif d'investissement")

"licensed distributor" means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system within the meaning of that Act; ("distributeur titulaire d'un permis")

"licensed retailer" means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; ("détaillant titulaire d'un permis")

"Minister" means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; ("ministre")

"Ontario Power Generation Inc." means the corporation incorporated as Ontario Power Generation Inc. under the *Business Corporations Act* on December 1, 1998; ("Ontario Power Generation Inc.")

"prescribed" means prescribed by the regulations; ("prescrit")

"reference period" means,

(a) the period beginning on July 1, 2017 and ending on October 31, 2017, and

(b) during the period beginning on November 1, 2017 and ending on either April 30, 2047 or such later day as may be prescribed,

(i) every six-month period following the period mentioned in clause (a); or

(ii) any period shorter than six months, as may be prescribed; ("période de référence")

"refinancing" means, subject to the regulations, the incurrence of debt in connection with a redemption, repayment or repurchase of a funding obligation; ("refinancement")

"regulation" means a regulation made under this Act; ("règlement")

"regulatory asset" means the right established under section 25; ("actif réglementaire")

"specified consumer" means,

(a) a person who has an account with an electricity vendor for the supply of electricity in Ontario and meets the criteria set out in subsection (2), or

(b) such other person as may be prescribed; ("consommateur déterminé")

"transfer" includes, when used in relation to an investment interest, the assignment, conveyance, disposition or sale of the investment interest; ("transfert")

"true up amount" means a true up amount determined in accordance with the regulations; ("French")

"unit sub-metering" has the same meaning as in the *Energy Consumer Protection Act, 2010;* ("activités liées aux compteurs divisionnaires d'unité")

"unit sub-meter provider" has the same meaning as in the *Energy Consumer Protection Act, 2010;* ("fournisseur de compteurs divisionnaires d'unité")

"variance account" means the variance account established by the IESO under subsection 24 (1). ("French")

Specified consumer

(2) For the purposes of clause (a) of the definition of "specified consumer" in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of not more than 50 kilowatts, or such other amount as may be prescribed.

2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.

3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or has had the

obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.

4. The person's account with the electricity vendor relates to,

    i. a dwelling,

    ii. a property within the meaning of the *Condominium Act, 1998*,

    iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or

    iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.

5. The person satisfies such criteria as may be prescribed.

Transfer of regulatory asset

(3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 26 (3):

1. A reduction in the balance in the variance account.

2. The adjustment of the regulatory asset.

3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Effect of invalidity

2. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if one or more provisions are held to be invalid, the intention of the Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect the validity or enforceability of a funding obligation incurred before the day that the provision is held to be invalid or ceases to be in effect, or any rights or obligations associated with the funding obligation.

Purposes

3. The purposes of this Act are,

(a) to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers;

(b) to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province; and

(c) to align clean energy costs with clean energy benefits, in order to provide fairness for specified consumers over time.

Crown bound

4. This Act binds the Crown.

Protection and assurances

Prohibition

5. (1) No action or omission by the Board, the Minister or the Crown shall be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.

Agreements

(2) The Minister and the Minister of Finance may together, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding the performance of the IESO or electricity vendors under this Act or related transactions.

Guarantee, indemnification

(3) The Lieutenant Governor in Council may by order,

(a) authorize the Minister and the Minister of Finance, acting together on behalf of the Province,

(i) to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and

(ii) to determine terms and conditions of the guarantee or indemnity and the maximum liability for the guarantee or indemnity;

(b) specify terms and conditions that must be included in any guarantee or indemnity given by the Minister and the Minister of Finance; and

(c) specify a maximum liability for the guarantee or indemnity.

PART II
FAIR ADJUSTMENT

Definitions

6. In this Part,

"regulated rate consumer" means a specified consumer who meets the following criteria:

1. The consumer is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1998 for the purposes of subsection 79.16 (1) of that Act.*

2. The consumer would, if the consumer were not subject to this Act, be invoiced the rates determined by the Board under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*. ("French")

Regulated rate consumers, first adjustments

7. (1) Despite any order under subsection 78 (3.1) of the *Ontario Energy Board Act, 1998 and despite section 79.16 of that Act, t*he electricity rates payable by regulated rate consumers for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would result in a hypothetical regulated rate consumer who meets the prescribed criteria being charged an invoice amount that is 25 per cent less than the invoice amount that would have been charged to that consumer under the comparison rates described in subsection (2).

Comparison rates

(2) The comparison rates are the rates that would have been effective May 1, 2017 if they had been determined by the Board *solely using the method prescribed by the regulations made under clause 79.16 (1) (b) of the Ontario Energy Board Act, 1998*, without taking into account any forecasted impact of any other provisions of this Act.

Invoice amounts

(3) The types of amounts to be included or excluded in each invoice amount mentioned in subsection (1) are the types of amounts specified in the regulations.

Other specified consumers, first adjustments

8. (1) For the period beginning on July 1, 2017 and ending on April 30, 2018, the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998 shall, with respect to specified consumers who are not regulated rate consumers, be further adjusted*

*by e*lectricity vendors in accordance with the determinations of the Board under subsection (2).

Board to make determinations

(2) The Board shall, in accordance with the regulations, determine the adjustments to be made by electricity vendors.

Same, regulations

(3) The regulations may specify different adjustments to be made in respect of prescribed classes of specified consumers who are not regulated rate consumers.

Determinations by Board

9. The Board shall make the determinations mentioned in sections 7 and 8 no later than 15 business days after the day this section receives Royal Assent and, regardless of whether the Board makes the determinations before or after July 1, 2017, the determinations shall be effective as of July 1, 2017.

Implementation by electricity vendors

10. (1) As soon as possible after the Board makes determinations under section 9, each electricity vendor shall, in respect of electricity used on or after July 1, 2017, ensure that its invoices reflect the determinations of the Board.

Same

(2) The electricity vendor shall ensure that, if any of its customers who are specified consumers have been invoiced in a manner that does not reflect the determinations of the Board under section 9, the specified consumer receives the difference between the amounts shown on the invoice and the amounts reflecting the Board's determinations, provided as a lump sum credit on the first invoice issued after the electricity vendor has adapted its invoices or by such other means as may be prescribed.

Subsequent adjustments

11. (1) Despite clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998 and s*ubject to subsection (2), the Lieutenant Governor in Council may prescribe the methodology to be applied by the Board after April 30, 2018 for the purpose of determining,

(a) electricity rates for regulated rate consumers; or

(b) adjustments to be applied by electricity vendors to the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998 in respect of prescribed classes of specified consumers who are not regulated rate consumers.*

Limitation

(2) Any prescribed methodology shall have regard to the following:

1. The purposes of this Act.

2. The clean energy costs borne by specified consumers over time.

3. Such other matters as may be prescribed.

Sub-metering

12. (1) This section applies if a specified consumer provides to another person electricity in respect of which a determination of the Board referred to in section 9 or 11 applies.

Same

(2) If an invoice for the electricity is issued to the person by the specified consumer or a unit sub-meter provider providing unit sub-metering for the specified consumer, the amount payable for the electricity by the person who is liable to pay the invoice shall be determined in accordance with the regulations.

PART III
CLEAN ENERGY ADJUSTMENT

Specified consumers to pay

13. (1) Upon receipt of an invoice from an electricity vendor that includes an amount in respect of the clean energy adjustment, a specified consumer shall pay the amount to the electricity vendor as agent of the investment interest owners.

Same

(2) For greater certainty, subsection (1) applies regardless of,

(a) whether the clean energy adjustment was determined in a manner that was inconsistent with this Act; and

(b) whether the amount payable in respect of the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan, including in a manner that failed to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Terms

(3) The payment shall be made in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Indebtedness of specified consumer

(4) An unpaid amount that is required to be paid by a specified consumer under this section constitutes indebtedness of the specified consumer to each investment interest owner to the extent of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer.

Unit sub-metering

(6) A specified consumer who provides electricity through unit sub-metering may collect amounts in respect of the clean energy adjustment payable under this section in accordance with the regulations.

Irrevocability of amount

14. (1) An amount in respect of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness resulting from the clean energy adjustment and is irrevocable upon invoicing the consumer and may not be set off or bypassed.

Exception

(2) Subsection (1) does not apply to the extent that the invoice reflects a clerical, typographical or calculation-related error.

Determination of clean energy adjustment
Financial Services Manager to determine

15. (1) The Financial Services Manager shall determine the clean energy adjustment payable by all specified consumers in respect of each month in a reference period by taking the following steps:

1. Calculate the sum of the following:

    i. The estimated finance amount in respect of the reference period.

    ii. The true up amount in respect of the reference period.

2. Divide the sum calculated under paragraph 1 by the number of months in the reference period.

Regulations re true up amount

(2) The Lieutenant Governor in Council shall, in making regulations with respect to the determination of the true up amount, have regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the finance amount when it is due.

2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

   i. differences between the estimated and actual finance amount for the applicable reference period,

   ii. differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and

   iii. variations in billings due to variations in electricity consumption.

Financial Services Manager to notify Board

(3) The Financial Services Manager shall, in accordance with the regulations, notify the Board of the clean energy adjustment in respect of a reference period and such other information related to the determination of the clean energy adjustment as may be prescribed.

Board to determine rates

(4) Without changing the clean energy adjustment, the Board shall, in accordance with the regulations, determine the rates at which specified consumers are invoiced to recover the clean energy adjustment in respect of the reference period.

IESO to receive amounts

16. (1) The IESO shall, as agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the market rules made under section 32 of the *Electricity Act, 1998 or the regulations*.

Account

(2) All of the following amounts received by the IESO shall, until remitted to or for the benefit of the investment interest owners in accordance with subsection (4), be

deposited promptly into an account established for the purposes of receiving those amounts:

1. Amounts described in subsection (1).

2. Payments made by specified consumers directly to the IESO as electricity vendor under subsection 13 (1).

3. Proceeds of amounts described in paragraphs 1 and 2.

Same, held in trust

(3) All amounts received by the IESO in respect of the clean energy adjustment shall, until remitted to or for the benefit of the investment interest owners, be held in trust by the IESO for the investment interest owners.

IESO to remit

(4) The IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the amounts referred to in subsection (1), to or for the benefit of the investment interest owners in accordance with the regulations.

Electricity vendor to invoice specified consumers

17. (1) Each electricity vendor shall issue an invoice to each of its customers who is a specified consumer for the amount payable by the consumer in respect of the clean energy adjustment, as determined by applying the rate set by the Board under subsection 15 (4) and in accordance with the regulations.

Electricity vendor to report

(2) Each electricity vendor shall, in accordance with the regulations, promptly report to the IESO the total amount invoiced to its customers who are specified consumers in respect of the clean energy adjustment, the amount collected and such other information as may be prescribed.

Electricity vendor to collect

(3) Each electricity vendor shall, as agent of the investment interest owners, collect amounts in respect of the clean energy adjustment from specified consumers in accordance with the regulations.

Pro rating of payments

(4) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

Held in trust

(5) Payments received by an electricity vendor from or on behalf of specified consumers in respect of the clean energy adjustment and all proceeds of the payments shall, until remitted to the IESO for the benefit of the investment interest owners in accordance with subsection (6), be held by each electricity vendor in trust for the benefit of the investment interest owners.

Remittance to IESO

(6) Each electricity vendor shall remit amounts in respect of the clean energy adjustment to the IESO for the benefit of the investment interest owners in accordance with the regulations.

PART IV
IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

18. Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act.

Duties and powers

19. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

Same

(2) The administration of the investment asset may include providing information to the IESO in respect of obligations under Part III and such other activities as may be prescribed.

Fees

(3) Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees in relation to such matters as may be prescribed in accordance with the regulations, which regulations may provide for the ability to recover costs and expenditures and to earn a return.

Same, Board approval

(4) Before establishing fees under subsection (3), the Financial Services Manager shall submit them to the Board for approval in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Minister to calculate fair allocation amount

20. (1) Subject to subsections (2) and (3), before the first funding obligation is incurred the Minister shall calculate a fair allocation amount in respect of each reference period, applying such method as the Minister considers appropriate and in accordance with the following steps:

1. Determine the estimated clean energy costs and estimated clean energy benefits allocated to specified consumers in respect of the reference period.

2. Determine the estimated reduction in the amounts payable by specified consumers as a result of determinations of the Board under Part II in respect of all previous reference periods, including the estimated reduction in clean energy costs described in clause (a) of the definition of "clean energy costs" in subsection 1 (1) that would otherwise have been payable by specified consumers in the absence of this Act.

3. Determine the amount, if any, by which the determination under paragraph 1 exceeds the determination under paragraph 2.

4. Calculate the sum of the amount determined under paragraph 3 and such other amounts as may be prescribed.

Principles

(2) In calculating the fair allocation amount, the Minister shall have regard to the following principles:

1. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among the specified consumers in respect of each reference period.

2. Calculations should be made having regard to the need to align each fair allocation amount with the estimated finance amount payable during the reference period.

3. Estimated clean energy costs allocated to specified consumers in respect of a reference period should be allocated in proportion to the estimated clean energy benefits attributed to the specified consumers in respect of the reference period.

4. Such other principles as may be prescribed.

Assumptions

(3) In calculating the fair allocation amount, the Minister shall make such assumptions as the Minister considers to be reasonable regarding the following:

1. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.

2. The expected number of specified consumers in respect of each reference period.

3. The expected electricity consumption rates in respect of each reference period.

4. Such other assumptions as may be prescribed.

Minister to provide amount to Financial Services Manager

(4) The Minister shall provide the fair allocation amount in respect of each reference period to the Financial Services Manager.

Recalculation

(5) A calculation of the fair allocation amount under this Part may be changed by such person as may be prescribed in accordance with such requirements as may be prescribed.

Same

(6) No change under subsection (5) shall affect any clean energy adjustment that has already been determined under section 15 or any funding obligations that have already been incurred before the change.

Information

(7) The Minister, the IESO, the Financial Services Manager, the Board and electricity vendors shall provide such information as may be prescribed in accordance with the regulations for the purposes of facilitating a change to a calculation of the fair allocation amount.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

21. (1) The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of a refinancing.

Plan to be provided to Minister

(2) The Financial Services Manager shall provide the Financing Plan to the Minister.

Principles

(3) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Funding obligations should be incurred such that, along with any funding obligations already incurred, the estimated finance amount that would, subject to any refinancing, become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period, in each case after reducing the fair allocation amount to reflect determinations of the Board under Part II in respect of the reference period.

2. Incurrences should be implemented in a manner that, in the opinion of the Financial Services Manager, is reasonable, cost effective and that reflects prevailing market terms and conditions.

3. Reasonable assumptions should be made regarding such matters as may be prescribed.

4. Such other principles as may be prescribed.

Limitation

(4) In respect of each reference period from July 1, 2017 to April 30, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment in respect of the reference period unless,

(a) the amounts are payable in respect of a reference period in respect of which the Board has not made any determinations under Part II; or

(b) if the Board has made a determination under Part II in respect of the reference period, the funding obligations incurred would not result in amounts payable in respect of the clean energy adjustment during the reference period in an amount that exceeds the limit determined in accordance with the regulations.

Other reports

(5) The Financial Services Manager shall submit to the Minister such reports and information as the Minister may require from time to time and shall, if required by the Minister to do so, examine, report and advise on any question relating to the Financing Plan.

Amendments to plan

(6) The Financial Services Manager may amend the Financing Plan at any time.

Same

(7) In the event that the Financing Plan is amended, any reference in this Act to the Financing Plan is deemed to be a reference to the plan as amended.

Incurrence of funding obligations

22. (1) The Financial Services Manager shall ensure that funding obligations incurred for the purposes of this Act are incurred in a manner that is consistent with the applicable Financing Plan.

Financing entities

(2) In accordance with the Financing Plan, the Financial Services Manager may establish or cause to be established one or more financing entities that may incur funding obligations.

Prohibition

(3) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, Ontario Power Generation Inc., the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation or other agreement.

Effect of amendment to fair allocation amount

(4) Each funding obligation incurred and each transfer made by a financing entity is deemed to be consistent with the Financing Plan and to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Same

(5) For greater certainty, subsection (4) applies despite the failure of the Financial Services Manager to comply with subsection (1).

PART V
THE REGULATORY ASSET

IESO deferral

23. (1) The IESO deferral for each month, commencing May 1, 2017, shall be determined by the IESO in accordance with the regulations.

Same, retrospective amounts

(2) For greater certainty, the regulations may provide for the IESO deferral to include an amount that was incurred by the IESO on or after May 1, 2017 and before the day this section comes into force.

Electricity vendors to provide information

(3) Electricity vendors shall provide to the IESO such information as the IESO may reasonably request for the purposes of determining the IESO deferral under subsection (1) and such further information as may be prescribed.

Same

(4) The IESO may rely on information provided by electricity vendors for the purposes of the determination under subsection (1).

Variance account to be established, maintained

24. (1) The IESO shall establish and maintain a variance account in which it records the following:

1. The IESO deferral for each month.

2. All payments received by the IESO resulting from the exercise of the right of recovery under section 25 and any transfer under section 26.

3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences on or after May 1, 2017 and before the day this section comes into force.

Recording determinative

(2) Subject to the correction of any obvious error by the IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

Rights of investment interest owner

(3) No change made by the IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 26, affect the rights acquired by the investment interest owner under the transfer.

Regulatory asset established

25. (1) Effective May 1, 2017, the IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

Board to set rates

(2) Subject to subsection (3), the Board shall, from time to time and in accordance with the regulations, determine and set rates payable by specified consumers to allow for the IESO to recover the balance recorded in the variance account.

Limitation

(3) The IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

Transfer of regulatory asset

26. (1) The IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

Agreement

(2) An agreement between the IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to the IESO in an amount equal to the amount of the specified portion.

Effect of payment

(3) Upon receipt by the IESO of the payment by the financing entity,

(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) the IESO shall retain no further right, title or interest in the corresponding investment interest.

Validity of transfer

27. (1) A transfer of a specified portion of the regulatory asset under section 26 constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

Same

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for the IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of the IESO's right to

recover the corresponding amount in the variance account and not merely as a security interest.

Deemed perfection, etc.

(3) At the time a transfer of the regulatory asset is made under section 26, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI
THE INVESTMENT ASSET

Investment asset established

28. (1) The transfer of a specified portion of the regulatory asset under section 26 creates an investment asset or, if it is not the first transfer, adds to the investment asset.

Same

(2) Upon transfer of a specified portion of the regulatory asset under section 26 to a financing entity, the investment asset resulting from the transfer is immediately vested in the financing entity, free and clear of any adverse claim.

Investment asset, irrevocable rights and interests

29. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that is imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, the IESO and other prescribed parties.

3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.

4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge and invoice for the clean energy adjustment.

5. The right to enforce the duties and obligations under this Act of each electricity vendor and the IESO to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by any electricity vendor to recover payment of the clean energy adjustment.

6. All rights of any kind related to any of the other property rights or interests that comprise the investment interest, including any rights to receive funding rebates.

7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether it is invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

Not affected by failure to impose etc. clean energy adjustment

(2) An investment interest is not affected by any failure to impose, attribute, invoice, accrue or collect amounts in respect of the clean energy adjustment.

No set off, etc.

(3) The investment asset shall not be set off,

(a) by a consumer, an electricity vendor, the IESO, an agent of the investment interest owners or an owner in the Province of a distribution system within the meaning of the *Electricity Act, 1998*;

(b) in connection with any default of a person mentioned in clause (a); or

(c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(4) The rights of the investment interest owners to collect and enforce their rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with Part III of this Act.

Collective action required

(5) If one investment interest owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment interest

owner collectively and in coordination with all other investment interest owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment interest owners as a collective in accordance with its terms.

Transfer of investment interest

30. An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

31. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the transferee a valid property right and interest in, to and under the applicable investment interest acquired in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment interest owner's right, title and interest in, to and under an investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected as described in the *Personal Property Security Act*, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer, and the property rights and interests acquired by the investment interest owner shall have priority over any liens in favour of such other persons.

Investment interest owner may grant security interest

32. (1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment interest owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any account of any electricity vendor, an agent of an electricity vendor or other person who may have commingled such revenues or other proceeds with other funds.

Notice required

(7) The secured party shall be entitled to exercise the rights of an investment interest owner only after the secured party has given notice of the enforcement of its security interest to the IESO.

Definition

(8) For the purposes of this section, a security interest is perfected when it is perfected as described in the *Personal Property Security Act.*

PART VII
MISCELLANEOUS

Appointment of agent, invoicing or collection

33. (1) If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Same, not Crown agent

(2) For greater certainty, a person appointed under this section is not an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Board's authority

34. (1) Each electricity vendor, the IESO and the Financial Services Manager shall maintain such accounts and provide such information to the Board as the Board may require for the purposes of carrying out its responsibilities under this Act, in the form and manner and within the time required by the Board.

No hearing required

(2) Despite anything to the contrary in the *Ontario Energy Board Act, 1998*, the Board may exercise any of its responsibilities under this Act without a hearing.

Sequestration

35. (1) A court in the Province may, upon application by an investment interest owner or a secured party, order the sequestration and payment of amounts in respect of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment interest owner or secured party by any person or entity authorized to collect amounts in respect of the clean energy adjustment, including defaults on any required remittance of amounts in respect of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Choice of law

36. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to a transfer under this Act or the creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section 5 shall be the laws of the Province.

Conflict

37. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

38. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required to be taken under the Financing Plan or in relation to the determination of the fair allocation amount.

Liability

39. (1) No action or other civil proceeding shall be commenced against any employee of the Province or Ontario Power Generation Inc. for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under this Act, the regulations under this Act or for any alleged neglect or default in the exercise or performance in good faith of such a power or duty.

Same

(2) Nothing in subsection (1) shall be read as limiting the effect of subsection 19 (1) of the *Electricity Act, 1998* or subsection 11 (1) of the *Ontario Energy Board Act, 1998.*

Same

(3) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.*

References in marketing materials and offering documents

40. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under section 5 unless the prescribed requirements, if any, are satisfied.

Regulations

41. (1) The Lieutenant Governor in Council may make regulations in respect of the following matters:

1. Governing anything that is required or permitted to be prescribed or that is required or permitted to be done by, or in accordance with, the regulations or as authorized, specified or provided in the regulations.

2. Defining, for the purposes of a regulation, words and expressions used in this Act that are not defined in the Act.

3. Governing the incurrence of debt for the purposes of the definition of "refinancing" in subsection 1 (1).

4. Governing the inclusion of information under this Act on or with invoices, which may include requiring notice to be provided by electricity vendors to specified consumers and other prescribed persons regarding the adjustments, including providing for different requirements in different circumstances and for different classes of specified consumers.

5. Governing the inclusion of information about the clean energy adjustment and any other matters provided for under this Act on or with invoices issued to specified consumers, including the form that the information must take and the form of the invoices and the form of any notice to be provided to the specified consumer under this Act.

6. Governing the manner by which invoices or notices provided for under this Act are to be provided to specified consumers and other prescribed persons.

7. Providing for a right of compensation for investment interest owners affected by a breach under section 29 and the manner in which such a right may be enforced under this Act.

8. Prescribing the time within which any action required by this Act may be required to be done.

9. Providing for such other matters as the Lieutenant Governor in Council considers advisable to carry out the purpose of this Act.

Limitation

(2) Despite subsection (1) or any other Act, no regulation under this Act shall have the effect of reducing, impairing, postponing or terminating the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or impairing or postponing the invoicing, collection, remittance or recovery of the clean energy adjustment.

PART VIII
AMENDMENTS TO OTHER ACTS

Electricity Act, 1998

42. (1) Subsection 6 (1) of the *Electricity Act, 1998* is amended by adding the following clause:

(q.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,

(i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*,

(ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities,

(iii) engaging in activities related to the transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,

(A) incurring liabilities in relation to the regulatory asset,

(B) transferring the regulatory asset under section 26 for consideration, and

(C) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

(2) Subsection 25.33 (1) of the Act is amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by the IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*.

(3) Subsection 25.33 (2) of the Act is amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by the IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*.

(4) Clause 25.33 (4) (b) of the Act is amended by adding "or as may be required by a regulation made under this Act or the Ontario Fair Hydro Plan Act, 2017" at the end.

(5) Subsection 25.33 (5) of the Act is amended by adding "or under the Ontario Fair Hydro Plan Act, 2017" at the end.

(6) Section 53.1 of the Act is amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

(1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

Deemed assets, non-subsidiary

(1.3) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is not a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of the financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries shall not form part of the assets and liabilities of the financing entity.

Deemed assets, subsidiary

(1.4) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of that financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries shall not form part of the assets and liabilities of that financing entity.

Definition, financing entity

(1.5) For the purposes of this section,

"financing entity" has the same meaning as in the *Fair Hydro Plan Act, 2017*.

Ontario Energy Board Act, 1998

43. (1) Subsection 70 (2.1) of the *Ontario Energy Board Act, 1998* is amended by adding the following paragraph:

4. The licensee is required to comply with the *Ontario Fair Hydro Plan Act, 2017*.

(2) Section 70 of the Act is amended by adding the following subsection:

Deemed condition of licences, unit sub-meter provider, *Ontario Fair Hydro Plan Act, 2017*

(2.4) Every licence issued to a unit sub-meter provider is deemed to contain the condition that the unit sub-meter provider is required to comply with the *Ontario Fair Hydro Plan Act, 2017* and the regulations made under it.

(3) Section 78.1 of the Act is amended by adding the following subsections:

Same, limitation re Ontario Power Generation Inc.

(3) The determination of a payment to Ontario Power Generation Inc. under this section shall not include any consideration of amounts related to activities of Ontario Power Generation Inc. carried out in relation to the *Ontario Fair Hydro Plan Act, 2017*.

Same

(3.1) The amounts referred to in subsection (3) include, without limitation, the following:

1. Amounts related to the appointment of Ontario Power Generation Inc. as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

2. Amounts related to the charging of fees for performing duties as the Financial Services Manager.

3. Amounts related to exercising the powers and performing the duties of the Financial Services Manager.

4. Amounts related to the consolidation of the assets and liabilities for accounting purposes of any special purpose financing entities established under and for the purposes of that Act.

(4) Subsection 79.16 (3) of the Act is repealed.

PART IX
COMMENCEMENT AND SHORT TITLE

Commencement

44. This Schedule comes into force on the day the *Fair Hydro Act, 2017 receives* Royal Assent.

Short title

45. The short title of the Act set out in this Schedule is the *Ontario Fair Hydro Plan Act, 2017*.

SCHEDULE 2
AMENDMENTS TO THE ONTARIO ENERGY BOARD ACT, 1998

1. (1) Subsection 79 (4) of the *Ontario Energy Board Act, 1998* is repealed and the following substituted:

Liability

(4) All consumers are required, in accordance with the regulations, to contribute towards the amount of any compensation required under subsection (3) that is not otherwise provided under subsection (4.1).

Payments for certain classes

(4.1) Compensation required under subsection (3) may be provided with respect to one or more prescribed classes of consumers who receive rate protection under this section, in a manner provided for in the regulations.

Money appropriated by the Legislature

(4.2) The compensation provided for in subsection (4.1) shall be paid for out of the money appropriated for those purposes by the Legislature.

Information, etc.

(4.3) If provided for in the regulations, the Board, the IESO and distributors, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of the rate protection or of anything else provided for in this section.

(2) Clause 79 (5) (e) of the Act is repealed and the following substituted:

(e) prescribing rules respecting the amounts that must be collected to compensate distributors, taking into account any compensation provided under subsection (4.1), including rules,

(i) respecting the calculation of those amounts,

(ii) respecting the calculation of any off-set to the liability of consumers under subsection (3) having regard to those amounts,

(iii) establishing the time and manner of collection,

(iv) requiring the amounts to be paid in instalments and requiring the payment of interest or penalties on late payments,

(v) prescribing methods of ensuring that the amounts required cannot be bypassed, and

(vi) respecting the distribution of those amounts to consumers;

(e.1) prescribing classes of consumers for the purposes of subsection (4.1), and governing how and when the compensation is to be provided with respect to the rate protection provided to them, including, without restricting the generality of the foregoing, requiring the IESO to receive payments or amounts from the Minister of Energy and to make payments to licensed distributors or to prescribed persons and prescribing how and when payments are to be made;

2. Section 79.2 of the Act is repealed and the following substituted:

Rate assistance

79.2 (1) The Minister shall make provision for rate assistance for rate-assisted consumers having regard to their economic circumstances, and where the Minister makes such provision, shall do so out of the money provided for in subsection (4).

OESP

(2) The program known as the "Ontario Electricity Support Program" in English and "Programme ontarien d'aide relative aux frais d'électricité" in French is continued for the purpose of providing rate assistance to rate-assisted consumers having regard to their economic circumstances.

Administered by Board

(3) The Ontario Electricity Support Program shall be administered by the Board, or when the regulations so provide, by a Minister of the Crown or other entity provided for in the regulations.

Money appropriated by the Legislature

(4) The money required for the purposes of the Ontario Electricity Support Program shall be paid out of the money appropriated for those purposes by the Legislature, once the amounts recorded in the variance account referred to in subsection (5) are no longer sufficient to provide for the funding of the program when taken on their own.

Variance account

(5) The money required for the purposes of the Ontario Electricity Support Program shall be provided out of the credit balance in the variance account maintained by the IESO under the Program as it existed before the coming into force of section 2 of Schedule 2 to the *Fair Hydro Act, 2017* until the amounts recorded in the account are no longer sufficient, when taken on their own, to fund the Program.

Variance account depleted

(6) The IESO shall provide the Ministry of Energy with advance notice, on a timely basis, of the time the IESO estimates that the amounts reflected in the variance account would be less than the amount required to meet its obligations related to funding the Ontario Electricity Support Program for the upcoming month.

How provided

(7) Rate assistance provided under this section shall be provided with respect to consumers prescribed in the regulations, and shall be provided at the times provided for in the regulations and in the amounts and in the manner provided for in the regulations.

Payments with respect to prior use

(8) The regulations may require provision of rate assistance to prescribed classes of rate-assisted consumers with respect to electricity consumed during a period prior to the date of the making of the regulation, but no such rate assistance shall be required under the regulations with respect to electricity consumed before January 1, 2016.

Transitional

(9) The regulations may require the provision of rate assistance for a rate-assisted consumer with respect to a period prior to the date on which the consumer became a rate-assisted consumer if the consumer meets all of the criteria prescribed by the regulations.

Distributors, etc.

(10) A distributor, a unit sub-meter provider and any other person or entity that may be prescribed is entitled to be compensated from the money referred to in subsection (4) or subsection (5), as the case may be, for any lost revenue resulting from the provision of rate assistance under the Ontario Electricity Support Program.

Deemed licence conditions, IESO, settlements, payments, etc.

(11) Every licence issued to the IESO, a distributor or unit sub-meter provider or a retailer of electricity shall be deemed to contain conditions requiring the licensee to do anything necessary to implement and administer the provision of rate assistance under this section as may be required by the regulations or the Board, including requirements with respect to,

(a) making payments to the IESO, distributors, unit sub-meter providers and other persons and entities identified by the regulations;

(b) receiving payments or other amounts from the IESO, distributors, unit sub-meter providers and other persons and entities identified by the Minister;

(c) requiring licensees to pass any rate assistance provided for under this section through to rate-assisted consumers in the manner provided for in the regulations;

(d) engaging in settlement activities;

(e) providing information to and receiving information from the Ministry of Energy, the Board, the IESO, distributors, unit sub-meter providers, retailers of electricity and any other prescribed persons and entities in the time and in the manner provided for by the Board or as may be prescribed; and

(f) entering into agreements or arrangements with licensees and other persons.

Information, etc.

(12) If provided for in the regulations, the Board, the IESO, distributors, retailers of electricity and unit sub-meter providers, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of rate-assistance or of anything else required under this section.

Conflicts, etc.

(13) Where any conflict exists between an order of the Board, a code issued by the Board or a licence condition and this section or a regulation made under this section, this section or the regulation made under this section shall prevail to the extent of the conflict.

Regulations

(14**)** The Lieutenant Governor in Council may make regulations governing anything dealt with in this section and without limiting the generality of the foregoing, may make regulations,

(a) governing anything that is described in this section as being prescribed or as being provided for in the regulations or that is required to be done in accordance with the regulations;

(b) governing the time or times at which rate assistance shall be paid or become payable to rate-assisted consumers;

(c) governing the determination of classes of consumers who are rate-assisted consumers, including providing for different classes of rate-assisted consumers;

(d) requiring that certain costs and expenditures related to the Ontario Electricity Support Program be only incurred with the prior approval of the Minister, and governing those costs and expenditures;

(e) establishing rules for the calculation of the amount of the rate assistance to be provided;

(f) governing payments under this section, including determining the method or methods of calculating the amount of rate assistance to be provided;

(g) setting maximum amounts of the total annual value of rate assistance that may be provided;

(h) requiring a distributor, the IESO or a unit sub-meter provider or other prescribed person or entity to make or receive payments in respect of rate assistance, including requiring them to make or receive payments directly to or from the Ministry of Energy or to receive overpayments directly or indirectly from consumers or other persons entitled to receive the rate assistance and prescribing the circumstances in which such payments are to be made and received and such overpayments are to be received as well as methods for determining the amounts payable or to be received;

(i) requiring the IESO to receive payments from the Minister and requiring the IESO to make payments to the Board, to licensed distributors, to unit sub-meter providers or to prescribed persons, in respect of the rate assistance provided under this section and governing methods for determining the amounts payable;

(j) governing the Board's or other prescribed entity's administration and program-related costs in administering the Ontario Electricity Support Program;

(k) governing transitional matters arising from the changes made to the Ontario Electricity Support Program as a result of the enactment of the *Fair Hydro Financing Plan Act, 2017*.

Retroactivity

(15) A regulation made under this section is, if it so provides, effective with reference to a period before it is filed.

General or particular

(16) A regulation under this section may be general or particular in application, may provide for different classes of persons and entities and may prescribe different rules for different persons or entities or different classes of persons or entities.

Verification of eligibility

(17) Section 11 of the *Ministry of Revenue Act* applies with respect to the Ontario Electricity Support Program as a government assistance program administered by the Board.

Definitions

(18) In this section,

"Government assistance program" has the meaning provided for in subsection 11 (2) of the *Ministry of Revenue Act*; "(programme d'aide gouvernementale)"

"rate-assisted consumer" means a consumer referred to in subsection (7). "(consommateur admissible à l'aide tarifaire)"

3. The Act is amended by adding the following section:

Confidentiality, information sharing, etc.

79.2.1 (1) For the purposes of section 79.2, the Board or the Minister or entity having responsibility for administering the Ontario Electricity Support Program may enter into an agreement with the Minister of Community and Social Services to provide the services to the public listed in subsection (2) on behalf of the Board, Minister or the entity, as the case may be, in relation to the administration of the Ontario Electricity Support Program.

Agreement, etc.

(2) The services that may be included in an agreement referred to in subsection (1) are the following:

1. Providing documents and information about the Ontario Electricity Support Program.

2. Processing applications for the Ontario Electricity Support Program.

Arrangements with others

(3) The Minister of Community and Social Services may arrange with another person or entity to provide, on behalf of that Minister, services that that Minister is authorized to provide under an agreement referred to in subsection (1).

Personal information

(4) The Minister of Community and Social Services is authorized to collect, use, disclose and retain personal information necessary to provide the services authorized by

an agreement referred to in subsection (1), but shall not collect, use, disclose or retain more personal information than is reasonably necessary to provide the services.

Limitation

(5) Except where otherwise authorized under subsection (7), the Minister of Community and Social Services shall not collect, use, disclose or retain personal information provided for in subsection (4) without the consent of the individual to whom the information relates.

Duty to transfer personal information

(6) The Minister of Community and Social Services shall transfer an individual's personal information provided for in subsection (4) into the control of the Board, Minister or entity responsible for administering the Ontario Electricity Support Program promptly after processing an application for the Ontario Electricity Support Program, but may retain such personal information as is reasonably necessary to confirm that an individual has been provided a service.

Use of personal information, etc.

(7) The Minister of Community and Social Services may use personal information maintained by that Minister in connection with the administration of the Ontario Disability Support Program and the program established pursuant to the *Ontario Works Act, 1997*, for the purpose of identifying and contacting individuals eligible for the rate assistance provided under the Ontario Electricity Support Program, and to provide services authorized under an agreement referred to in subsection (1).

Deemed compliance

(8) The use of personal information as allowed by subsection (7) is deemed to comply with section 41 of the *Freedom of Information and Protection of Privacy Act*.

Disclosure of list

(9) In order to assist the Minister of Community and Social Services to identify individuals eligible for rate assistance, the Board or the Minister or entity having responsibility for administering the Ontario Electricity Support Program shall, as soon as practicable after the coming into force of this section, disclose to the Minister of Community and Social Services a list of individuals who are enrolled in the Ontario Electricity Support Program, together with their mailing address and other contact information.

Use of list

(10) The Minister of Community and Social Services may use the information on the list provided under subsection (9) to determine whether an individual who is currently enrolled in the Ontario Disability Support Program or the program established under the *Ontario Works Act, 1997* is also enrolled in the Ontario Electricity Support Program.

Destruction of list

(11) The Minister of Community and Social Services shall destroy the list provided under subsection (9) no later than one year after receiving the list.

Notification about the management of personal information

(12) The Minister of Community and Social Services shall ensure that a notice is published on a website describing,

(a) the purpose for which that Minister collects, uses, discloses and retains personal information in connection with the Ontario Electricity Support Program;

(b) the types of personal information that may be collected, used, disclosed and retained in connection with the Ontario Electricity Support Program, and the circumstances in which the personal information may be collected, used, disclosed and retained in connection with that Program; and

(c) the title, and contact information, including an email address, of an employee who can answer an individual's questions about the use of the personal information under this section.

4. The Act is amended by adding the following sections:

Distribution rate-protected consumers

79.3 (1) The Minister shall provide for distribution rate protection to distribution rate-protected residential consumers having regard to the costs of the distribution of electricity to such consumers with respect to electricity consumed on or after the date prescribed by the regulations.

Money appropriated by the Legislature

(2) The money required for the purposes of the provision of distribution rate protection under this section shall be paid out of the money appropriated for those purposes by the Legislature.

Maximum charge

(3) Despite any order of the Board, or anything else under this Act, where the regulations so provide, a prescribed distributor who distributes electricity to distribution rate-protected residential consumers shall not charge those consumers, or a prescribed class of those consumers, any amount for monthly base distribution charges more than,

(a) the maximum amount for the charge that is provided for in the regulations; or

(b) the amount determined by the Board after applying any calculations, processes or methods provided for in the regulations.

Distributors

(4) A distributor who is prescribed under this section is entitled to be compensated from the money referred to in subsection (2) for lost revenue resulting from the provision of the distribution rate protection to distribution rate-protected residential consumers under this section.

Information, etc.

(5) If provided for in the regulations, the Board, the IESO and distributors, or any of them shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of distribution rate protection or of anything else required under this section.

Limitation periods for distribution rate protection, consumer

(6) Despite any past entitlement of a consumer who is eligible to distribution rate protection under this section, no distribution rate protection is payable to a consumer after a limitation period prescribed by the regulations in respect of the consumer, other than in such circumstances as may be prescribed by the regulations.

Limitation, reimbursement of distributor, etc.

(7) Despite any requirement under this Act to reimburse a prescribed distributor or other person for distribution rate protection provided by them to distribution rate-protected residential consumers under this section, no amounts for reimbursement are payable to the prescribed distributor or other person after a limitation period prescribed by the regulations in respect of the prescribed distributor or other person, where such reimbursement is based on a consumer's past entitlement under this section which has not yet been paid or reimbursed under this section, other than in such circumstances as may be prescribed by the regulations.

Transitional

(8) If, for technical or operational reasons, a distributor referred to in subsection (3) is unable to adapt its invoices to comply with this section and the regulations by the time it issues its first invoice for electricity consumed after the prescribed date in respect of an account of a consumer who is eligible for distribution rate protection under this section,

(a) the distributor shall adapt its invoices as soon as possible and, in any event, no later than a date prescribed in the regulations; and

(b) consumers continue to be entitled to receive the distribution rate protection to which they are entitled under this Act and may receive it as a lump sum credit

on the invoice for the first billing period after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Regulations

(9) The Lieutenant Governor in Council may make regulations,

(a) prescribing consumers or classes of consumers as distribution rate-protected residential consumers for the purposes of this section;

(b) prescribing dates for the purposes of subsections (1) and (8);

(c) prescribing distributors for the purposes of this section;

(d) governing anything that is described in this section as being prescribed or as being provided for in the regulations or that is required to be done in accordance with the regulations;

(e) governing the provision of distribution rate protection by the Minister in respect of distribution rate-protected residential consumers under this section including determining the method or methods of calculating the amount of rate protection to be provided;

(f) requiring the IESO to receive payments from the Minister and to make payments to licensed distributors, or to persons prescribed by the regulations, in respect of the distribution rate protection provided for under this section and prescribing methods for determining the amounts payable to distributors or distribution rate-protected residential consumers in respect of that protection.

Interpretation

(10) In this section,

"distribution rate-protected residential consumer" has the meaning provided for in the regulations; **(French)**

"monthly base distribution charges" has the meaning provided for in the regulations. (frais de distribution mensuels de base)

Delivery credit for on-reserve consumers

79.4 (1) The Minister shall provide a delivery credit to on-reserve consumers who meet the criteria prescribed under this section with respect to electricity consumed on or after the date prescribed by the regulations.

Money appropriated by the Legislature

(2) The money required for the purposes of the provision of the credits required under this section shall be paid out of the money appropriated for those purposes by the Legislature.

Eligible costs

(3) The eligible costs for the delivery credit referred to in subsection (1) are,

(a) the sum of the following charges for which the consumer would otherwise be liable,

(i) all variable and fixed distribution charges,

(ii) all charges based on the retail transmission network service rate,

(iii) all charges based on the retail transmission connection service rate,

(iv) all charges related to losses incurred in the distribution of electricity, except for such amounts that are included in regulatory charges provided for in the regulations, and

(v) any other charges that may be prescribed in the regulations; or

(b) where no separate charges for delivery are provided for by the distributor or other person or entity that may be prescribed in the regulations, the monthly service charge or such other amount as may be prescribed for or in respect of a prescribed distributor.

Delivery credit

(4) A distributor, person or entity shall, unless the regulations provide otherwise, provide the delivery credit referred to in subsection (1) by crediting the account of an on-reserve consumer.

Same

(5) The regulations may require that distributors and any other persons or entities provide a delivery credit to an on-reserve consumer who is entitled to a delivery credit under subsection (1) in such manner or in accordance with such methods as may be prescribed.

Same

(6) A distributor or any person or entity as may be prescribed is entitled to be compensated from the money referred to in subsection (2) for any lost revenue resulting from the provision of the delivery credits under this section.

Information, etc.

(7) If provided for in the regulations, the Board, the IESO and distributors, and other persons or entities, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of the delivery credits or of anything else required under this section.

Limitation periods for delivery credit, consumer

(8) Despite any past entitlement of an on-reserve consumer who is eligible for a delivery credit under this section, no delivery credit is payable to an on-reserve consumer after a limitation period prescribed by the regulations in respect of the on-reserve consumer, other than in such circumstances as may be prescribed by the regulations.

Limitation, reimbursement of distributor, etc.

(9) Despite any requirement under this Act to reimburse a distributor or other persons or entities for delivery credits provided by them to on-reserve consumers under this section, no amounts for reimbursement are payable to the distributor or other persons or entities after a limitation period prescribed by the regulations in respect of the distributor or other persons or entities, where such reimbursement is based on an on-reserve consumer's past entitlement under this section which has not yet been paid or reimbursed under this section, other than in such circumstances as may be prescribed by the regulations.

Transitional

(10) If, for technical or operational reasons, a distributor referred to in subsection (4) is unable to adapt its invoices to comply with this section and the regulations by the time it issues its first invoice for electricity consumed after the prescribed date in respect of an eligible account,

(a) the distributor shall adapt its invoices as soon as possible and, in any event, no later than a date prescribed in the regulations; and

(b) on-reserve consumers continue to be entitled to receive the delivery credit to which they are entitled under this Act and may receive it as a lump sum credit on the invoice for the first billing period after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Regulations

(11) The Lieutenant Governor in Council may make regulations,

(a) governing who is an on-reserve consumer for the purposes of this section and, without limiting the generality of the foregoing, may provide that consumers

who occupy certain areas are on-reserve consumers, and may do so without regard to whether those areas constitute a "reserve" under any other Act or law;

(b) prescribing dates for the purposes of subsections (1) and (10);

(c) governing provision of the delivery credits provided to on-reserve consumers under this section and, without restricting the generality of the foregoing, governing anything that under this section is to be prescribed or provided for in the regulations, or that is to be done in accordance with the regulations;

(d) determining the method or methods of calculating the amount of the delivery credits to be provided by the Minister in respect of on-reserve consumers under this section;

(e) requiring the IESO to make and receive payments to and from the Minister and to make payments to licensed distributors, or to persons prescribed by the regulations, in respect of the delivery credits provided for under this section and prescribing methods for determining the amounts payable to distributors or on-reserve consumers in respect of the credits provided.

Interpretation

(12) In this section,

"on-reserve consumer" has the meaning provided for in the regulations.

Application

79.5 Sections 79.6 through 79.11 apply to the programs provided for under sections 79, 79.2, 79.3 and 79.4 to the extent that they are funded by money appropriated for those purposes by the Legislature.

Definition

79.6 In sections 79.7 to 79.11,

"Finance Minister" means the Minister of Finance or such other member of the Executive Council to whom the administration of those sections is assigned under the *Executive Council Act*.

Records

79.7 (1) Every distributor and every other person prescribed by regulation shall keep at a location in Ontario such records as are necessary to determine and verify compliance with sections 79, 79.2, 79.3 and 79.4 and the regulations associated with them and any records required by those regulations to be kept.

Electronic records

(2) If a person keeps records in an electronic form, the person shall ensure that, from the time the records are first made and for as long as they are required to be retained,

(a) they remain complete and unaltered, apart from any changes or additions made in the normal course of communication, storage or display; and

(b) they are capable of being printed and of being produced in electronically readable format for inspection, examination or audit.

Retention of records

(3) Records required to be kept under subsection (1) shall not be destroyed unless authorization has been given in writing by the Finance Minister.

Offence

(4) Every person who fails to keep records in accordance with this section is guilty of an offence and, on conviction, is liable to a fine of not less than $50 and not more than $5,000.

Inspections and inquiries

79.8 (1) The Finance Minister may appoint one or more inspectors who are authorized to exercise any of the powers and perform any of the duties of a person authorized by the Minister under subsection 31 (1) of the *Retail Sales Tax Act* for any purpose related to the administration and enforcement of sections 79, 79.2, 79.3 and 79.4 of this Act.

Same

(2) Subsections 31 (1), (2), (2.1) and (2.2) of the *Retail Sales Tax Act* apply, with necessary modifications, with respect to the administration and enforcement of sections 79, 79.2, 79.3 and 79.4 of this Act.

Admission of evidence

(3) The Finance Minister, or a person authorized by the Finance Minister, may, for any purpose related to the administration of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them, reproduce from original data stored electronically any information previously submitted as required under those sections or regulations in any form by any person, and the electronically reproduced document shall be admissible in evidence and shall have the same probative force as the original document would have had if it had been proved in the ordinary way.

Inquiry

(4) The Finance Minister may, for any purpose related to the administration of sections 79, 79.2, 79.3 and 79.4 of this Act or the regulations made in association with

them, authorize any person, whether or not the person is an employee in the Ministry of the Finance Minister, to make such inquiry as the Finance Minister considers necessary with reference to anything relating to the administration of this Act or the regulations.

Copies

(5) If a book, record or other document is examined or produced under this section, the person by whom it is examined or to whom it is produced or any officer of the Ministry may make, or cause to be made, one or more copies of it, and a document purporting to be certified by the person to be a copy made pursuant to this section is admissible in evidence and has the same probative force as the original document would have if proved in the ordinary way.

Compliance

(6) No person shall hinder or molest or interfere with any person doing anything that the person is authorized by this section to do or prevent or attempt to prevent any person doing any such thing.

Same

(7) Despite any other law to the contrary, every person shall, unless the person is unable to do so, do everything the person is required by this section to do.

Administration of oaths

(8) Declarations or affidavits in connection with statements of information submitted pursuant to this section may be taken before any person having authority to administer an oath or before any person specially authorized for that purpose by the Lieutenant Governor in Council, but any person so specially authorized shall not charge any fee for doing so.

Application of *Public Inquiries Act, 2009*

(9) Section 33 of the *Public Inquiries Act, 2009* applies to an inquiry under subsection (4).

Recovery of overpayments

Definitions

79.9. (1) In this section,

"inspector" means an inspector referred to in section 79.8; ("inspecteur")

"overpayment" means an amount received by a person in excess of that to which the person is entitled under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them. ("trop-perçu")

Notice of overpayment

(2) If it appears to an inspector that a person has received an overpayment, the Finance Minister may send a written notice to the person advising the person of the following:

1. That the person has received an overpayment.

2. The amount of the overpayment and how it was calculated.

3. The required steps to be taken by the person with respect to the overpayment.

4. The date, not more than six months after the date of the notice, by which these steps must be completed.

5. That the Finance Minister has the authority to assess the person for the amount of the overpayment, plus interest, if the person fails to complete the required steps by the specified date.

Calculation of amount of overpayment

(3) For the purposes of this section, an inspector shall calculate an overpayment or the outstanding balance of an overpayment in the manner and form and using such procedures as the Finance Minister considers adequate and expedient.

Assessment

(4) If a person fails to complete the steps required in a notice under subsection (2) within the time specified in the notice, and any additional time requested by the person and permitted by the Finance Minister, the Finance Minister may assess or reassess the amount of the overpayment, or the outstanding balance of the overpayment, based on the inspector's calculation described in subsection (3).

Penalty

(5) If the Finance Minister makes an assessment or reassessment under subsection (4) and is satisfied that the person's non-compliance with the required steps in the notice was attributable to neglect, carelessness, wilful default or fraud, the Finance Minister may assess a penalty against the person equal to the outstanding balance of the overpayment when the penalty is assessed.

Time limit

(6) The Finance Minister shall not assess or reassess under subsection (4) more than 48 months after the end of the month in which the person received the overpayment.

Exception, where misrepresentation, etc.

(7) Subsection (6) does not apply if the Finance Minister establishes that the person has made a misrepresentation that is attributable to neglect, carelessness or wilful default or has committed any fraud in supplying information under this Act or the regulations or in omitting to disclose information.

Deeming

(8) An amount assessed or reassessed by the Finance Minister under this section is deemed, for the purposes of the administration and enforcement of this Act, to be a debt retirement charge owing and payable, as defined in subsection 85 (1) of the *Electricity Act, 1998*, that has been collected, on the last day of the month in which the person received the overpayment, by the person as a collector appointed under subsection 85.3 (1) of the *Electricity Act, 1998* and, for those purposes,

(a) sections 85.11, 85.12, 85.14, 85.17 and 85.30 of that Act apply with necessary modifications;

(b) in the application of sections 85.11 and 85.14 of that Act and without limiting the generality of clause (a) of this subsection, references to the Financial Corporation are read as references to the Minister of Finance and references to the Minister of Finance are read as references to the Finance Minister as defined in section 79.6 of this Act;

(c) the regulations made under that Act for the purposes of calculating the rate or rates of interest payable under section 85.11 of that Act and the manner of calculating the amount of interest apply with necessary modifications; and

(d) sections 23 and 36, subsections 37 (1), (1.1) and (2) and sections 37.1, 38 and 39 of the *Retail Sales Tax Act* apply with necessary modifications.

Disposition of repaid amounts

(9) If all or part of an overpayment is repaid to the Finance Minister, the Minister of Energy shall make such financial arrangements and payments as may be necessary to ensure that any person entitled to all or part of the overpayment receives the appropriate amount.

Confidentiality

79.10 (1) Except as authorized by this section, no person employed by the Government of Ontario shall,

(a) knowingly communicate or knowingly allow to be communicated to any person any information obtained by or on behalf of the Minister of Energy or

the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; or

(b) knowingly allow any person to inspect or to have access to any record or thing obtained by or on behalf of either Minister for the purposes of this Act.

Testimony

(2) No person employed by the Government of Ontario shall be required, in connection with any legal proceedings,

(a) to give evidence relating to any information obtained by or on behalf of the Minister of Energy or Finance Minister for the purposes of this Act; or

(b) to produce any record or thing obtained by or on behalf of either Minister for the purposes of this Act.

Exception

(3) Subsections (1) and (2) do not apply in respect of,

(a) criminal proceedings under any Act of the Parliament of Canada;

(b) proceedings in respect of the trial of any person for an offence under an Act of the Legislature; or

(c) proceedings relating to the administration or enforcement of this Act or Part V.1 or VI of the *Electricity Act, 1998*.

Communication

(4) A person employed by the Government of Ontario may, in the course of duties in connection with the administration or enforcement of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them,

(a) communicate or allow to be communicated to another person employed by the Government of Ontario in the administration or enforcement of any law or to an employee of the Board information obtained by or on behalf of either Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; and

(b) allow another person employed by the Government of Ontario in the administration or enforcement of any law or an employee of the Board to inspect or have access to any record or thing obtained by or on behalf of either Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

Reciprocal communication

(5) A person who receives information or obtains access to any record or thing under subsection (4) has a duty to communicate or furnish to that Minister on a reciprocal basis any information, record or thing obtained by the person that affects the administration or enforcement of this Act.

Use of information

(6) Any information, record or thing communicated or furnished under this section may be used only for the administration or enforcement of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them or an Act that is administered or enforced by the person receiving the information, record or thing.

Same

(7) The Finance Minister may permit information or a copy of any record or thing obtained by or on behalf of the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them to be given to,

(a) the person from whom the information, record or thing was obtained;

(b) any person by whom an amount is payable or has been paid under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; or

(c) the legal representative of a person mentioned in clause (a) or (b) or the agent of the person authorized in writing in that behalf.

Information

(8) The Finance Minister may permit information or a copy of any record or thing obtained by or on behalf of the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them to be given to any person employed by any government if,

(a) the information, record or thing obtained by that government for the purpose of any Act that imposes a tax or duty are communicated or furnished on a reciprocal basis to the Minister; and

(b) the information, record or thing will not be used for any purpose other than the administration or enforcement of a law that provides for the imposition of a tax or duty.

Offence

(9) Every person who contravenes any provision of this section is guilty of an offence and on conviction is liable to a fine of not more than $2,000.

Offences

False statements, etc., and fraud

79.11 (1) Every person who engages in any of the following acts or omissions is guilty of an offence:

1. Making, participating in, assenting to or acquiescing in the making of a false or deceptive statement in any document or answer required or submitted under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

2. Destroying, altering, mutilating, hiding or otherwise disposing of information or records of any person, for the purpose of evading compliance with sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

3. Making, assenting to or acquiescing in the making of a false or deceptive entry of a material particular in a record of any person required to maintain records for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

4. Omitting to make or assenting to or acquiescing in the omission of an entry of a material particular in a record of any person required to maintain records for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

5. Wilfully evading or attempting to evade, in any manner, compliance with an obligation under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

Penalty upon conviction

(2) A person convicted of an offence under subsection (1) is liable to either or both of the following penalties in addition to any other penalty assessed under this Act:

1. A fine in an amount that is not less than $1,000 and not more than $10,000.

2. Imprisonment for a term of not more than two years.

General offence

(3) Every person who contravenes, by any act or omission, any other requirement imposed under sections 79, 79.2, 79.3 and 79.4 is guilty of an offence and, on conviction, is liable, where no other penalty is provided for the offence, to a fine of not less than $50 and not more than $5,000.

Limitation period

(4) A proceeding to prosecute an offence provided for in this section must be commenced within six years after the date on which the matter of the offence arose.

Payment of fines

(5) Fines imposed on conviction of an offence provided for in this section are payable to the Finance Minister on behalf of the Crown in right of Ontario.

Commencement

5. (1) Subject to subsection (2), this Schedule comes into force on the day the *Fair Hydro Act, 2017* receives Royal Assent.

(2) Section 2 comes into force on a day to be named by proclamation of the Lieutenant Governor.

Fair Hydro Act, 2017

COMPENDIUM

The proposed Bill, the *Fair Hydro Act, 2017*, if enacted, would enact the *Ontario Fair Hydro Plan Act, 2017* and amend various Acts according to the provisions of Schedules 1 and 2 set out in greater detail below.

Schedule 1
Ontario Fair Hydro Plan Act, 2017

Schedule 1 enacts the *Ontario Fair Hydro Plan Act, 2017*. The Act establishes a framework under which the costs and benefits associated with the "clean energy initiative" are to be allocated among present and future consumers of electricity. The "clean energy initiative" describes the policies of the Government of Ontario related to fostering the development of a clean, modern and reliable electricity system.

Part I of the Act sets out the purposes of the Act and includes protections and assurances related to investor interests.

Under Part II of the Act, the Ontario Energy Board is required to determine reduced electricity rates that would achieve a 25% reduction in monthly invoice amounts from July 1, 2017 to April 30, 2018 for a hypothetical "regulated rate consumer" who meets prescribed criteria. The methodology to be applied by the Ontario Energy Board to determine electricity rates after April 30, 2018 would be prescribed by regulations.

Part III of the Act requires "specified consumers" to pay an amount in respect of the "clean energy adjustment". The clean energy adjustment is determined by the Financial Services Manager in accordance with rules set out in the Act and the regulations. Part III also specifies the roles and responsibilities of electricity vendors and the Independent Electricity System Operator ("IESO") with respect to the collection and remittance of amounts in respect of the clean energy adjustment.

Part IV of the Act requires the Minister of Energy to calculate a "fair allocation amount" by taking specified steps in accordance with principles and assumptions set out in the Act. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among specified consumers.

Also under Part IV, Ontario Power Generation Inc. is appointed as the Financial Services Manager. The Financial Services Manager is required to prepare a written "Financing Plan" to evaluate whether potential funding obligations should be incurred to acquire and

finance investment assets (under Part V). Constraints are placed on incurring funding obligations that would result in amounts becoming payable in respect of the clean energy adjustment from July 1, 2017 to April 30, 2021. In accordance with the Financing Plan, the Financial Services Manager may establish financing entities that may incur funding obligations.

Part V of the Act requires the IESO to determine the "IESO deferral" in accordance with the regulations and to establish and maintain a variance account in which it records the IESO deferral for each month. The balance in the variance account becomes a "regulatory asset", which the IESO has the right to recover from specified consumers through rates set by the Ontario Energy Board. The IESO is authorized to transfer a specified portion of the regulatory asset to a financing entity. The transfer results in the financing entity acquiring a corresponding "investment interest". The Act sets out various rules respecting the validity and priority of such a transfer.

In Part VI, the Act provides various rules in respect of the "investment asset" created by the transfer under Part V of a specified portion of the regulatory asset. Part VI provides that the investment asset constitutes a current and irrevocable property right and interest, consisting collectively of various specified rights and interests of investment interest owners. The Act also includes rules respecting the validity and priority of transfers of investment interests and the granting of a security interest in an investment interest by an investment interest owner.

Part VII deals with various administrative and miscellaneous matters, including regulation-making authority of the Lieutenant Governor in Council.

Part VIII includes consequential amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1999* to address various matters relating to the enactment of the new Act.

Schedule 2
Amendments to the Ontario Energy Board Act, 1998

Schedule 2 amends the *Ontario Energy Board Act, 1998*.

Section 79 of the Act is amended so that the rate protection provided to certain classes of rural or remote rate protected (RRRP) consumers may be funded out of money appropriated by the Legislature, rather than by consumers. Consumers would still be required to fund the remaining portion of RRRP not funded through appropriations.

Section 79.2 of the Act, which governs the Ontario Electricity Support Program (OESP), is repealed and replaced on a date to be named by proclamation of the LGIC. Once s.79.2 is proclaimed, the program would be continued, but will be funded out of money

appropriated by the Legislature after the variance account maintained by the IESO is exhausted, rather than by consumers. There are provisions relating to the sharing, use and disclosure of information relating to the administration of the OESP.

New provisions are created in the Act to establish programs to provide rate protection to certain distribution rate-protected residential consumers and a delivery credit to on-reserve consumers.

The Schedule also contains various amendments of a technical and administrative nature to support the implementation and oversight of these programs including provisions related to auditing, record-keeping, inspections and inquiries, offences and penalties.

The Schedule contains regulation-making authority in order to specify the details required to implement the various government-funded.

Ministry of the Attorney General

Legal Services Branch

Ministry of Energy
Ministry of Economic Development and Growth
Ministry of Research, Innovation and Science
Ministry of Infrastructure
Accessibility Directorate of Ontario

56 Wellesley Street West
18th Floor,
Toronto, ON
M7A 2E7

Telephone: (416) 325-1841
Fax: (416) 326-1021

Ministère du Procureur général

Direction des services juridiques

Ministère de l'Énergie
Ministère du Développement économique et de la Croissance
Ministère de la Recherche, de l'Innovation et des Sciences
Ministère de l'Infrastructure
Direction générale de l'accessibilité pour l'Ontario

56, rue Wellesley Ouest
18e étage,
Toronto, ON
M7A 2E7

Téléphone: (416) 325-1841
Télécopieur: (416) 326-1021

PRIVILEGED AND CONFIDENTIAL

Memorandum To: The Honourable Glen Murray
Chair of the Legislation and Regulations Committee

From: Carolyn Calwell
Director, Legal Services Branch

Date: May 5, 2017

Re: Ontario's Fair Hydro Plan
An Act to enact the Ontario Fair Hydro Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

I have examined the draft of the above-referenced item being submitted to Legislation and Regulations Committee on May 10, 2017 and have compared that draft with the policy approved by Cabinet on March 1, 2017.

As a result of this comparison, I am able to advise you that the draft corresponds to the approved policy with the exception of the variances identified on the attached chart.

_____
Carolyn Calwell
Director

Ontario's Fair Hydro Plan
An Act to enact the Ontario Fair Hydro Act, 2017
and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

Minute Item	Approved Policy/Policy Sought to be Approved	Proposed Variance	Degree of Variance	Rationale/Commentary
1.A	Total projected bill increases will be kept in line with Consumer Price Index (CPI) **until the end of 2021.**	Bill increases will be prescribed by regulation for the period May 1, 2018 **to June 30, 2021**.	Low	June 30, 2021 aligns with public communications that rate increases will be held to inflation over the next four years. This regulation making authority would enable the government to keep bill increases in line with CPI.
1.A	Cap bill increases due to repayments at around 10% of the total bill.	Bill increases will not be capped.	High	Consultation with stakeholders and external advisors revealed that a legislated cap would undermine investors' certainty in recovering their investment. However, the debt rating will be impaired if modelling suggests that rates could increase more than 10%, providing a cap in practical terms.

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – March 1, 2017	**Tracking to: Fast Track** LRC at Cabinet – March 10, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan Legislation

I. DECISION BEFORE THE BOARD

Receive a report back on Ontario Fair Hydro Plan implementation, supporting implementation decisions and recommending the proposed Ontario Fair Hydro Plan Act to proceed to LRC and Cabinet for approval.

II. RECOMMENDATIONS:

• Receive a report Ontario Fair Hydro Plan implementation: o Proposed legislation ▪ Note key aspects of proposed legislation ▪ Recommend proposed legislation o Approve up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program to fully recover costs for the public education campaign.	*Board Judgement*
• Direct the Ministry to return to TB/MBC with regulations support implementation prior to going to LRC. • Note outstanding report back requirements, • Direct in-year reporting through quarterly reporting and PRRT planning process on spending to date versus funding allocation for Electricity social programs and Global Adjustment Refinancing	

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Affordability Fund	0.0	0.0	0.0
	Global Adjustment Refinancing*^	0.0	0.0	0.0
	Electricity social programs*	499.0	753.0	829.0
	Ontario Rebate for Electricity Consumers	939.0	882.0	882.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

* Subject to enacting proposed Ontario Fair Hydro Plan legislation.
^ As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget, linked to proposed legislation

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017 the Ministry received TB/MBC approval for additional rate mitigation actions that support up to a 25% electricity bill reduction (including the 8% reduction announced in 2016 for an average household in 2017. The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017. This submission deals with three key elements of the OFHP:

- Refinancing Portion of Global Adjustment (GA) to partially defer RPP eligible ratepayer GA costs (Implementing a non-fiscal impact approach over government funding).
- Expanding, enhancing ratepayer funded electricity social programs and shifting them to being government funded (OESP, RRRP), along with a new government funded On-Reserve First Nations Delivery Credit.
- Expansion of Industrial Conservation Initiative (ICI).

The Ministry was directed to report back to the Board with proposed legislation supporting OFHP implementation, including the following specific direction regarding a non-fiscal mechanism (approach) to refinancing a portion of Global Adjustment costs (Appendix C provides the March 1, 2017 minute):

- Formal accounting opinions from OPG and IESO auditors.
- Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
- Report on the multi-year profile of GA smoothing, identifying specific assumptions.
- Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
- Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

Direction was also given to report back with final details for electricity support programs, as well as programs' effectiveness, efficiency, and sustainability.

The current submission does not address all report back requirements. The proposed legislation would establish the legislative framework, to be followed by further program related details being set by regulations at a later date (Ministry is targeting June 2017).

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two Schedules (Appendix D provides details of each part):

- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment partial refinancing)
- Schedule 2: Legislative amendments for electricity social programs

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment (GA) Refinancing)

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

The Ministry indicates under OFHP, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017 (This includes the 8% Ontario Rebate for Electricity Consumers). In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Reflecting March 2017 approvals (See Appendix C for March 2017 TB/MBC minute), proposed legislation for GA Refinancing is designed to establish a non-fiscal impact mechanism. Minuting indicated proceeding with GA Refinancing requires completed legal, accounting and financing risk assessments.

The proposed approach to GA Refinancing is complex. Appendix D provides proposed legislative details.

- At a high level, the proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future.

    - July 1, 2017, to April 30, 2018, reduces, on average, after-tax electricity costs for "specified consumers" by 25% (inclusive of the 8% rebate and shifting of support program to be government funded).
    - May 1, 2018, to June 30, 2021, electricity rates will be prescribed by regulation with the intention to keep increases in line with the Consumer Price Index (CPI).
    - July 1, 2021, to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs.
    - Through the bill and amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998, expands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to provide for appropriate oversight, put in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the refinanced GA costs.

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG, through a special purpose vehicle (OPG Trust) is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Schedule 2: Legislative amendments for electricity social programs

Electricity social programs becoming government funded under OFHP target residential electricity customers disproportionately affected by increased electricity costs.

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The bill amends the *Ontario Energy Board Act, 1998* for various electricity social programs:

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001. The bill enables the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial appropriations, rather than from electricity.

Appropriated funds would be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the government funding provided.

Distribution Rate Protection (Broadened RRRP)

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

The proposed legislation would enable a broader government funded Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge for consumption on or after July 1, 2017.

If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The legislation contains retroactive application of the provisions to offset any potential lapses in implementation and ensure that consumers receive the benefit following the July 1st effective date through to the final effective date of October 1st, 2017.

On-Reserve First Nations Delivery Credit

The proposed bill would enable the provision of a government funded on-reserve First Nations Delivery Credit (FNDC), which would eliminate the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The program is premised around the findings in an OEB Report submitted to the Ministry on December 29, 2016 providing advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers.

Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program to being government funded, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid

by all Ontario consumers on May 1, 2017. On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will come into effect on May 1, 2017.

The proposed bill would move the recently expanded Ontario Electricity Support Program (OESP) to government funding, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program (ODSP) and Ontario Works (OW) to potentially allow for automatic enrolment procedures to be established.

The Ministry indicates the proposed legislative amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

Expansion of Industrial Conservation Initiative (ICI)

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and “1114”) in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

The Ministry is also undertaking targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants.

- The extent of the impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

Financials

Electricity Social Programs:

March 1, 2017 TB/MBC approvals supporting OFHP included full year projected costs. The 2017 Ontario Budget included refined projected costs shifting expanded/enhanced electricity social programs from ratepayers to being government funded starting in 2017-18, lowering the total amount from $665M to $499M to reflect rollout timing not full year costs. The table below shows expense amounts currently in the PRRT multi-year fiscal plan related to these support programs for the most vulnerable consumers.

Government Funded Social Programs ($million)	2017-18	2018-19	2019-20	2020-22
Rural or Remote Rate Protection (RRRP)	344	472	484	497
Ontario Electricity Support Program	140	261	325	375
On-Reserve First Nations Delivery Credit	15	20	20	20
Total	**499**	**753**	**829**	**892**

GA Refinancing:

The 2017 Budget also includes an investment operating asset of $1.1B related to the Province's equity injection to OPG, enabling the OPG Trust to regularly purchase IESO's regulatory asset through 2017-18. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. The Province's net debt will remain unchanged as the equity investment in OPG would offset the additional Provincial borrowing.

Projected annual amounts of GA deferrals (i.e., the regulatory asset) are shown below and are not part of the province's multi-year fiscal plan (2017 Budget(Assumed to be funded from electricity ratepayers udner the proposed legisation). Appendix E provides analysis of financial models.

($million)	2017-18	2018-19	2019-20	2020-22
GA Refinancing - Residential Bills lowered by 25%	2,534	2,668	2,942	3,420
Interest Portion (5% annually, compounded monthly)	32	162	298	449

Under GA refinancing, ratepayers will incur interest costs and will be added to the GA payments ratepayers make.

- OPG intends to use a Special Purpose Vehicle (OPG Trust) to purchase the "right to collect" assets from the IESO in return for cash. OPG Trust will be structured to finance 51% of its funding requirements through the capital market with the remaining 49% being provided by OPG as subordinated debt. The 49% subordinated debt from OPG will be financed though debt from the capital markets (about 5%) and through equity injections from the Province (44%).

- The proposed legislation does not compel the OPG Trust to purchase 100% of the regulatory asset created by IESO at any given time. IESO have noted that it may need to cover clean energy costs if for some reason the OPG Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. On behalf of IESO, the Ministry is requesting a credit facility for IESO, up to about $3B, and notes the use of this credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO. Appendix F provides more information.

Financial, Accounting, Legal Risk Assessments:

In the March 1, 2017 TB/MBC Minute, refinancing the Global Adjustment to partially defer RPP eligible ratepayer GA costs, was subject to completed legal, accounting and financing risk assessments. Appendix G provides more details from the Ministry.

Financial

The Ministry indicates it has prepared legislation and is working on developing regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure

that the full value of any investment is recoverable.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year.

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

The Ministry indicates the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost.

The Ministry also acknowledges given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term, and the rate of inflation.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The Ministry indicates the following:

- Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations, satisfying accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

KPMG:

- The proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements.
- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.
- The regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG/E&Y:

- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.
- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-

making, funding and ongoing operation.

- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.
- Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.
- Judges can be expected to take a careful look at the government's evidence in support of the re-allocation of Global Adjustment.
- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.
- The provincial assurance provision - Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes. The proposed legislation focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers.
- The provincial guarantee provisions are intended to backstop the provincial assurance provision Legal risk to the province will be assessed as the agreements are negotiated and drafted.
    - The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.
- Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry indicates it retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements.

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. The Ministry indicates Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social,

health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

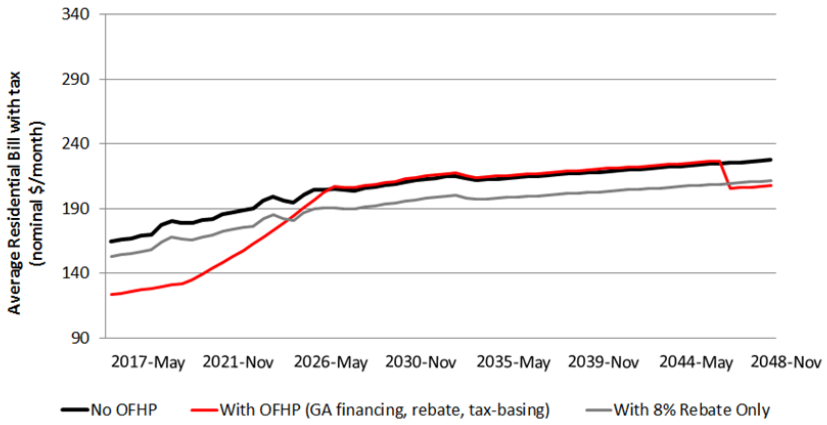
The Ministry's signed submission included external opinions and assessments for Ontario Power Generation (Accounting), KPMG Letter to the Independent Electricity System Operator (Accounting Opinion), Ernst &Young (as auditors) letter to OPG concurring with OPG's description of OPG accounting considerations of OFHP.

TBS staff note external opinions and assessments are supportive of the Ministry's intended plan for implementing Ontario's Fair Hydro Plan, noting the opinions and assessments must be revisited once key implementation details are finalised (e.g. draft legislation, regulations, special purpose vehicle documents, terms of conditions within various other agreements etc). Future reassessments and other factors such as Ontario electricity demand, interest rates in the medium to long-term, and the rate of inflation may contribute to fiscal plan implications emerging over time.

TBS staff also note, while submission details and related discussions have not indicated a non-fiscal mechanism cannot be established, the complexity of the transaction and the time frame involved suggest it is not reasonable, at present, to support a claim of no impact on the province's fiscal plan as the Ontario Fair Hydro Plan is implemented (Appendix H includes a strategic level risk assessment prepared by TBS staff). .

Ultimately, GA Refinancing being a sustainable strategy assumes electricity consumers' willingness to accept later to bear the extra costs of deferring electricity price hikes.

- The following graphic from the Ministry indicates the multi-year profile of GA Refinancing:



The chart above shows the expected multi-year profile under GA Refinancing for each Regulated Price Plan (RPP) period. In the first year, residential bills are projected to be 25 per cent lower as result of the OFHP. In the early years, bills increases are held to the rate of inflation – assumed to be 2% per year in the chart above. From July 1, 2021 onwards, prices increase at a higher rate compared to the first four years on the OFHP.

In the medium to longer term, residential bills exceed what they would have been but for the OFHP. However, in any given year, a typical residential bill under the OFHP cannot exceed what it would have been without OFHP by more than 10 per cent.

Media Procurement Request

The Ministry is requesting approval up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program to fully recover costs for the public education campaign.

The Ministry indicates spending about $1M on media planning and buying for radio and digital media. The Ministry is forecasting $2.5M in 2017-18 (Q clarifying the remaining $1M).

Name of analyst:	James Strang With input from CO, COE, OPCD and OFA	**Phone number:**	416-327-2071
Date:	May 8, 2017	**Log number:**	
Branch / Division:	GGPR, PEMD, COE, OPCD/Treasury Board Secretariat Ontario Financing Authority/ Ministry of Finance		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

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

Receive the report back on proposed legislation supporting implementation of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

i) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

a) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
b) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
c) Shift from electricity consumer funding to funding out of voted appropriations for Ontario Electricity Support Program, and for majority of costs for existing RRRP.
d) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

a) Establishing the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
b) Requirement for future consumers to pay the clean energy adjustment that backs financings
c) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
d) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
e) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights
f) Sets out that security interests can be granted in investment interests in the investment asset

ii) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

iii) Note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments.

iv) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC.

In this regard,

a) Direct the Ministry to include a report on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates
b) Direct the Ministry to report back with final program details for 2017-18 for GA Refinancing and Social Programs, including fiscal plan implications.

Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the broadened program now government funded
- Report on and assessment of impacts of consolidation of LDCs
- Assessment of distribution rates and implications for the program

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

- Identify eligibility criteria, and refinements being made.
- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

…Placeholder for media procurement minute…

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX D: PROPOSED FAIR HYDRO ACT OVERVIEW

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two schedules:

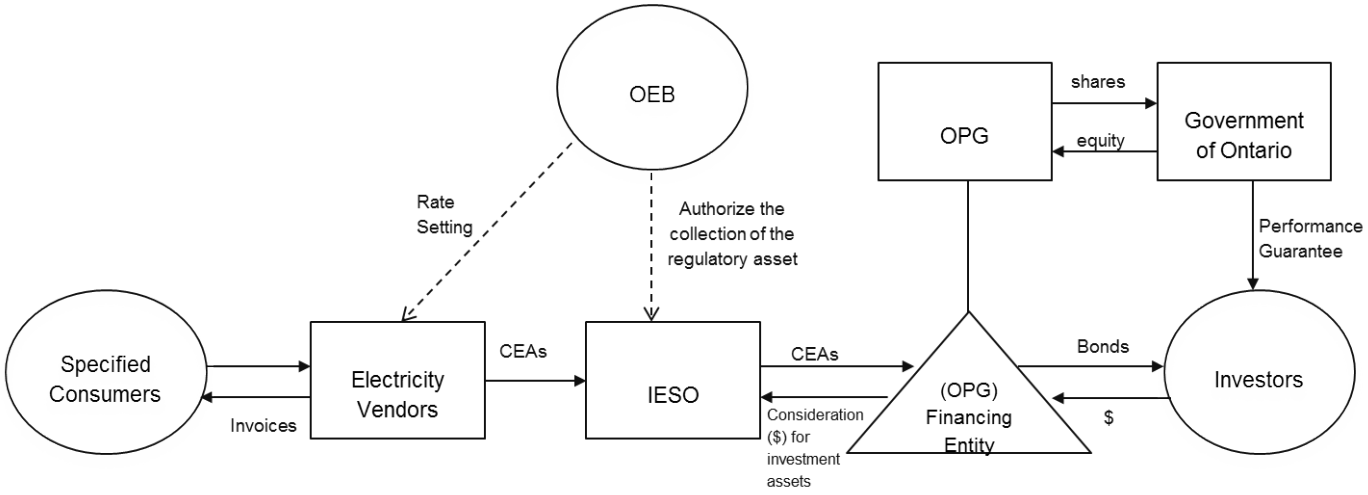
- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Dealing with Global Adjustment (GA) refinancing).
- Schedule 2: Legislative amendments for electricity social programs (See Appendix D1)

The Ministry has provided the following overview of the proposed legislation:

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (GA refinancing).

Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system (Clean Energy Initiative) creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations. The diagram below outlines how the refinancing of GA would be implemented.



Note: CEAs are "clean energy adjustments"

Clean Energy Costs and Benefits:

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (the Global Adjustment provisions) which relate to contracts for:
  - Renewable energy generation or capacity
  - Conservation and demand management, including shortage
  - Energy efficiency
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*
  - Other such costs to be included in "clean energy costs" may be prescribed

- These are the costs to be distributed fairly among the specified consumers through the "fair allocation amount".

Fair Allocation Adjustment:

- Part II establishes that the rate that will be payable by "specified RPP consumers" from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the "comparison rate". The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.
- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).
- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.
- The Minister sets the fair allocation amount.

    - The establishment of the "fair allocation amount" is required to,
        - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods"; and
        - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).
    - The "fair allocation amount" is to have regard to:
        - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the "specified consumers" (in the applicable "reference periods");
        - Reasonable assumptions regarding the time value of money, the number of consumers in the "reference period"; and
        - Expected electricity consumption for the reference period.

Regulatory Asset and Investment Asset:

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets.
- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a "regulatory asset". In simple terms, the regulatory asset is IESO's right to recover the revenues that it has deferred collecting.
- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities. OPG financing entities are not required to purchase the regulatory asset.
- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".
- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

Issuance and Payment of Debt:

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.
- The financings will be backed primarily by the "clean energy adjustments" payable by specified consumers. The "clean energy adjustments" will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the "fair allocation amounts" ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).
- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity's related funding obligations.
- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario's undertakings not to adversely affect the program through subsequent legislation.

Financing Plan:

- The Financing Plan is prepared by the Financial Services Manager (OPG).
- The Financing Plan is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.
- There are rules that apply to the Financing Plan:
  - It must align with the "estimated finance amount" that will become due and payable during a "reference period";
  - It must take into account the "fair allocation" and any "fair adjustment";
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancing, redemption opportunities and liquidity, and similar assumptions).
- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.
- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

Who Does What?

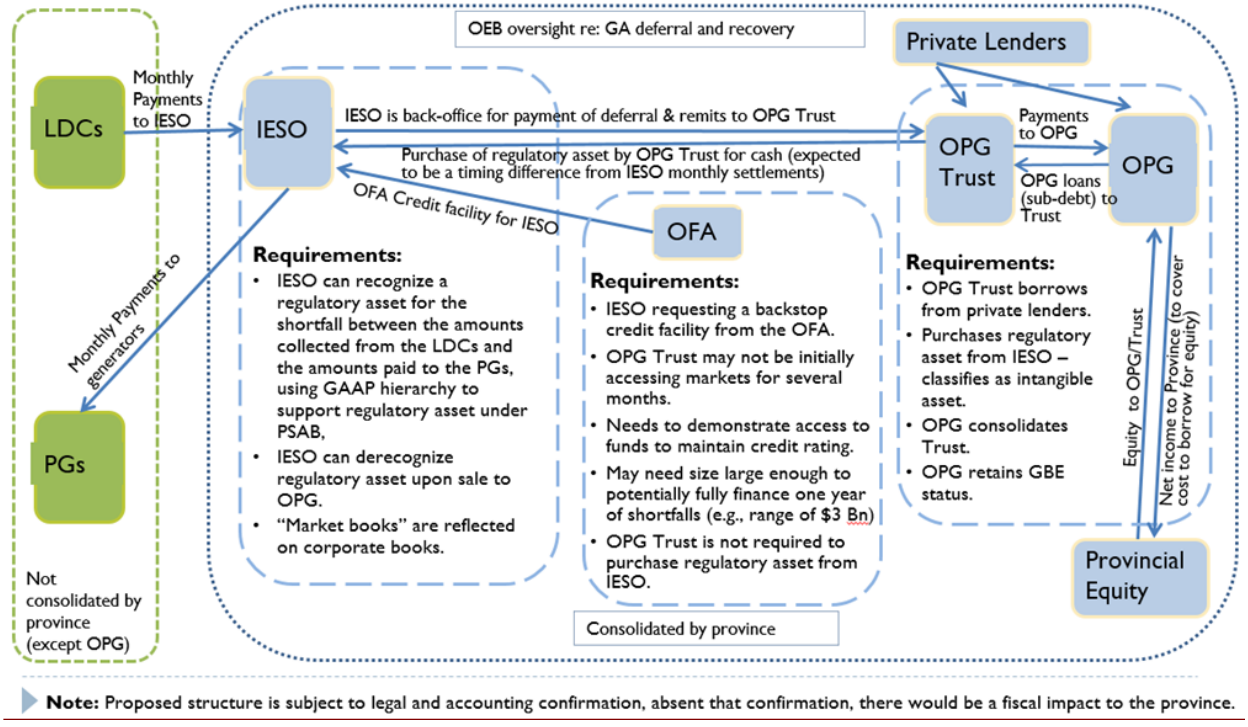
- Minister of Energy – Determine the "fair allocation amount" applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.
- Ontario Power Generation (OPG) – As financial services manager, OPG will be responsible for the following under the Act:
  - Prepare and implement Financing Plan.
  - Establish and administer the financing entities.
  - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.

- Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

- Independent Electricity System Operator (IESO):
  - Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.
  - Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.
  - Coordinates the collection of "clean energy adjustments" from Electricity Distributors.
  - Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.
  - Fund initial interest costs and expenses during the first 4 years.

- Local Distribution Companies (LDCs):
  - Obligation to invoice specified consumers.
  - Collect, as agent of the investment interest owners, "clean energy adjustments" from specified consumers.
  - Hold money received for clean energy adjustments in trust until remittance to the IESO.

- Ontario Energy Board:
  - Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).
  - Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).
  - Review the administrative costs of OPG in connection with the administration of the program.



Schedule 2: Legislative amendments for electricity social programs moving to being government funded

As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:

- Enhancing and providing government funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates
- Enhancing and providing government funding for the Ontario Electricity Support Program (OESP)
- Creating a new First Nation On-Reserve Delivery Credit and providing for government funding

Overview of RRRP and Broadened Distribution Rate Protection:

- Section 79 of the Ontario Energy Board Act would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution cost.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program:

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.
- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.
- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.

- Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
- This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit:

- Energy is proposing legislative amendments that would establish a First Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.
- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

APPENDIX E: ANALYSIS OF FINANCIAL MODELS AND RISKS (UNDER DEVELOPMENT)

Treasury Board Secretariat received two models related to global adjustment refinancing.

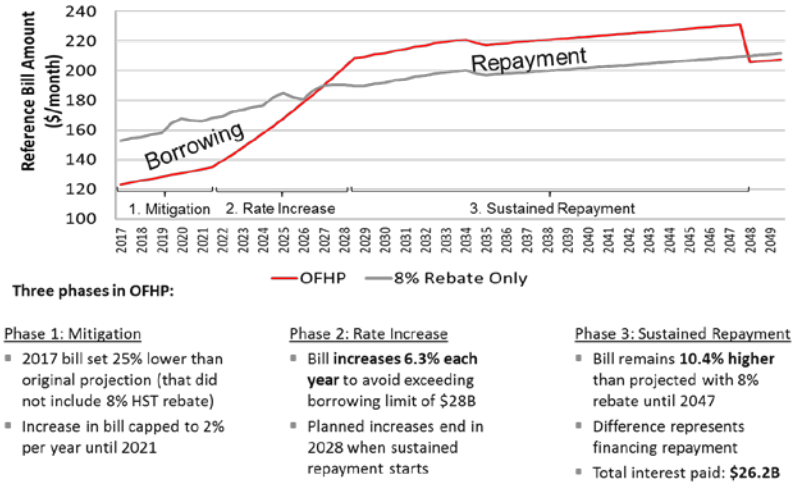
- The model the Ministry of Energy developed and used to support the March 2017 submission
- The financial model that was developed by the Ontario Power Generation (OPG) that provides details regarding the financing of the proposed structure

TBS staff noted the models received are based on high level aggregates and do not allow for running different scenarios that would allow TBS to determine the financial impact of potential changes in variables. In discussions with the Ministry of Energy and OPG, it has been agreed that these scenarios must be developed – both to help creation of a risk-based outlook for the province, as well as to respond to questions that will inevitably arise from the credit rating agencies.

- For example, the current model is based on a static interest rate of 5%. While this assumption is accurate within the current historically low interest rate environment, should interest rates increase above 5% after 2020, residential bills would also significantly increase during the repayment phase of the plan. For instance, if the interest rates increase from 5% to 7% (historical 30 year average) between 2020 and 2024, financing costs would increase by $11.2B (for a total of $37B), requiring much higher price increases in the out-years. Under this scenario, the increases required from 2022 to 2029 would be 7.3% annually (compared to 6.3% per year increases required under the base case) and the bill would remain 12.5% higher (compared to 10.4% in the base case).

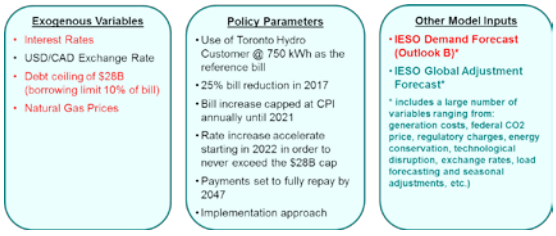
The OFHP can be thought of as having three phases:

The model is a high level and aggregate model, which is build on other independent forecasts (e.g. IESO demand forecast). There are a large number of assumptions built into the model explicitly and implicitly (as a large number of assumptions are embedded into the other forecasts that are used as inputs into this model).



Analysis is currently underway to better understand intergenerational costs and benefits and the impact of GA smoothing on recovery charges that would be allowed under the current Eurig compliance rules.

Depending on the legal determination, if the annual increases in bills or the commodity prices will be subject to caps, additional borrowing/provincial funding may be required.



With the shift of electricity social programs costs moving to being funded by government appropriations (Including the 8% rebate, total costs are forecast to be $1.4B in 2017-18), cost forecasting models/assumptions should also under go sensitivity analysis to inform future funding requests.

APPENDIX F: PROVIDING A CREDIT FACILITY TO IESO

After IESO's review of the proposed legislation, it has indicated to the Ministry and the Ontario Financing Authority (OFA)/MOF that IESO may need to cover clean energy costs if for some reason the Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. IESO noted that the proposed legislation does not compel the Trust to purchase 100% of the regulatory asset at anytime. Also, the establishment of the regulatory asset and purchase by the Trust is expected to take three to six months to implement following the introduction of enabling legislation.

The OFA currently provides a $975 million credit facility to the IESO for other purposes, it is proposed that the OFA provide a new credit facility to the IESO, in an amount of up to about $3 billion.

The use of this new credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO.

Approvals Required for OFA Financing

OFA indicates the recommended TB/MBC minute should note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An order-in-council will be sought to allow the OFA to be able to provide the new credit facility to the IESO, for an amount to be determined as per the requirements of the Fair Hydro Plan.

The following approvals are required by the OFA to accommodate the request to provide financing to the IESO:

1) An Order-in-Council is required for the Minister of Finance to lend to the OFA.
2) A Directive from Minister of Finance is required for the OFA to on-lend to the IESO.
3) An executed credit agreement between the OFA and the IESO.

1. Order-in-Council (OIC)

An OIC is required to authorize the Minister of Finance to lend to the OFA. Ministry of Finance Legal Services Branch would need to be engaged to facilitate the request.

- The existing $975 million credit facility was covered under OIC 675/97 which authorized the Minister of Finance to lend a revolving $2.16 billion to the OFA. This OIC was originally obtained in 1997.

It is understood that upon drafting the OIC (by MOF Legal), the OIC would need final approval from Lieutenant Governor in Council LGIC as required under section 22(1) of the *Capital Investment Plan Act*, 1993.

- The OIC would go through Deputy Minister of Finance, Minister of Finance, Chair of Cabinet for briefing/sign-offs and finally to the LGIC for approval.

To draft the OIC, the following details will be required:

i. Dollar Value of Loan from the Minister of Finance to the OFA
ii. Maturity Date of the Loan
iii. Interest Rate of the Loan

The following are recommended to accommodate IESO's need for financing:

i. Dollar Value of Loan:
   $3 billion, as per request. The OIC would provide the maximum limit of any loan to IESO and it may be advisable to add a cushion and provide an OIC for $3.5 billion.

ii. Maturity Date of the Loan:
OIC maturing March 31, 2048 would provide approximately 30-year term to match the Fair Hydro Plan. It may be advisable to add a cushion and set a maturity date to March 31, 2053 (cushion of 5-years).

iii. Interest Rate of the Loan
Interest rates on the loans from the Minister of Finance to the OFA have typically been a 1) Ontario 90-day t-bill rates, 2) flow-through of the rates charged to the third-party by the OFA and/or 3) the rate charged to the third-party by the OFA less 25bps.

OFA recommends to keep this unchanged to provide consistency with past OICs but also to provide flexibility in the rates that could potentially be charged to IESO, to be determined by the Minister of Finance, by way of the Minister's Directive.

2. Minister's Directive

Once the Minister of Finance has the authority under an OIC, a Minister's Directive can authorize the OFA to lend to IESO. The Directive can outline specific terms and conditions as needed.

3. Executed Credit Agreement

With a Minister's Directive approved, the OFA and IESO can work to execute a credit agreement, subject to any terms and conditions of the Directive and any policy considerations.

APPENDIX G: FINANCIAL, LEGAL, ACCOUNTING RISK ASSESSMENTS

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.
- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.
- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and
- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.
- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG’s capital structure:

- OPG would require monthly “equity injections” from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;
- Funds from the Province would flow from the Ontario Financing Authority (OFA); and
- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.
- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset ”OPG Share Purchase” and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG’s business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy’s concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual ratepayers. Note: The reverse is also true in regards to decreasing demand.
- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted. **A statutory cause of action** may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation.The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

APPENDIX H: OVERVIEW OF RISKS

Prepared by TBS staff, the following chart provides an overview of strategic (versus operational) risks to inform the approval/decision making process regarding the proposed legislation. Each part, GA Partial Refinancing & Electricity social programs, is a separate table.

Global Adjustment Partial Refinancing:

Objective: Provide immediate ratepayer relief by capping rate increases at Consumer Price Index (CPI) for four years and refinancing GA costs over a longer period of time. Develop and implement a financing structure that increases provincial borrowing, but has no impact on annual provincial surplus/deficit.

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA smoothing being allocated to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there would be a negative impact on the province's fiscal plan of $2.5B in 2017-18 and rising. • Rating agencies and investors in Province's debt may view all of the borrowing as an obligation of the Province, which could put pressure on the Province's credit rating and overall borrowing capacity. • Proposed structure may result in negative response from Ontario Auditor General (OAG) due to previous concerns regarding recognition of rate regulated assets and liabilities. The OAG may take this into account when the provincial books are audited. • Initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to justify structure of financial model and be utilized in discussions with the OAG.

Risk	Level of Risk	Risk Response
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.
A legal determination that the Province is spreading the costs of GA financing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Medium **Risk Impact:** High **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and close monitoring of costs and changes in variables built into model. • Analyze the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Moderate **Time Scale:** 12 to 24 months **Rationale** • The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the government to offset a part of the scheduled increases. • Risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.	Risk can be avoided by: • Province providing a potential guarantee for the cost of borrowing – however, would redirect risk back to the Province and negate benefits of proposed financing structure. Risk can be mitigated by: • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • Proposed legislation to enable GA refinancing has been draft with input from third-party financers. Provides a 'narrow' provincial guarantee and ensuring that debt holders have the right of action against a future government to recover the amount outstanding including interest, fees, expenses and any damages.

Electricity social programs (Enhancing Electricity Support & Conservation Programs):

Objective: Shift funding of existing and new electricity support programs (RRRP, OESP, Affordability Fund, First Nations Credit) from rate to tax base.

Risk	Level of Risk	Risk Response
Uncertainty in forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated fiscal impacts for the Province.	**Risk Likelihood:** Possible **Risk Impact:** Major **Timescale:** 12 to 24 months **Rationale:** • The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate. • Fiscal projection is highly dependent on factors which can fluctuate from year to year, including: o electricity usage; o distributions costs; and o consumer consumption patterns that may change due to extreme weather or other factors. • Fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. o Enhanced RRRP may create disincentives from the eligible LDCs towards productivity and performance improvements and/or cause ineligible LDC's to drive up distribution costs to gain access to program.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models.

From: Strang, James (TBS)
To: John Kim; Helen Graham (MOF)
Cc: Bruno Amara; Ronald Kwan
Subject: Draft ENERGY Notes for Chair"s
Date: Thursday, May 04, 2017 12:37:40 PM
Attachments: 3 RAN Ontario Fair Hydro Plan Proposed Leg v1 Clean.doc
5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc

TAB 3

TREASURY BOARD / MANAGEMENT BOARD OF CABINET

REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – March 1, 2017	**Tracking to:** LRC at Cabinet – March 10, 2017

SUBMISSION TITLE: Report back on Ontario Fair Hydro Plan Legislation

Prepared without draft submission

I. DECISION BEFORE THE BOARD

Receive a report back on Ontario Fair Hydro Plan implementation, and recommend the proposed Ontario Fair Hydro Plan Act to proceed to LRC and Cabinet for approval.

II. RECOMMENDATIONS:

• Receive a report on proposed legislation o Note key aspects of proposed legislation o Recommend proposed legislation	*Board Judgement*
• Direct the Ministry to return to TB/MBC with regulations support implementation prior to going to LRC. • Note outstanding report back requirements, • Direct in-year reporting through quarterly reporting and PRRT planning process on spending to date versus funding allocation for Social Programs and Global Adjustment Refinancing	

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Affordability Fund	0.0	0.0	0.0
	Global Adjustment Refinancing*^	0.0	0.0	0.0
	Social Programs*	499.0	753.0	829.0
	Ontario Rebate for Electricity Consumers	939.0	882.0	882.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

* Subject to enacting proposed Ontario Fair Hydro Plan legislation.

^ As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget, linked to proposed legislation

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017 the Ministry received TB/MBC approval for additional rate mitigation actions that support up to a 25% electricity bill reduction (including the 8% reduction announced in 2016 for an average household in 2017. The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017. This submission deals with two key parts of the OFHP:

- Refinancing Global Adjustment (GA) to partially defer RPP eligible ratepayer GA costs (Implementing a non-fiscal impact approach over government funding).
- Expanding, enhancing ratepayer funded social programs and shifting them to being government funded (OESP, RRRP), along with a new government funded On-Reserve First Nations Delivery Credit.

The Ministry was directed to report back to the Board with proposed legislation supporting OFHP implementation, including the following specific direction regarding a non-fiscal mechanism (approach) to refinance Global Adjustment costs (Appendix C provides the March 1, 2017 minute):

- Formal accounting opinions from OPG and IESO auditors.
- Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
- Report on the multi-year profile of GA smoothing, identifying specific assumptions.
- Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
- Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two components (Appendix D provides details of each part):

- Part 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment refinancing)
- Part 2: Legislative amendments for social programs

<u>Part 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment refinancing)</u>

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

The Ministry indicates under OFHP, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017 (This includes the 8% Ontario Rebate for Electricity Consumers). In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Reflecting March 2017 approvals (See Appendix C for March 2017 TB/MBC minute), proposed legislation for GA Refinancing is designed to establish a non-fiscal impact mechanism. Minuting indicated proceeding with GA Refinancing requires completed legal, accounting and financing risk assessments.

The proposed approach to GA Refinancing is complex. Appendix D provides a more detailed narrative. Appendix E provides proposed legislative details.

- At a high level, the proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future.

The bill establishes a structure in which the Independent Electricity System Operator (IESO) records the GA cost recovery deferral as a "regulatory asset" (regulated by the Ontario Energy Board (OEB)). "Specified consumers" would receive, on average, a 25% reduction in electricity rates from July 1, 2017 to June 30, 2018. The IESO may then sell the regulatory asset, at which time it becomes an "investment asset." The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation (backstopped by guarantees from the province).

Starting in July 2021, to recoup the costs associated with the fair adjustment, consumers would be invoiced the Clean Energy Adjustment on their electricity bills through existing IESO and Local Distribution Companies (LDC) processes, which will be channeled through to pay each financing entity's related funding obligations.

Part 2: Legislative amendments for social programs

Social programs becoming government funded under OFHP target residential electricity customers disproportionately affected by increased electricity costs.

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001. The legislative proposal enables, through regulation, the transfer government funding of the program costs for Hydro One's R2 customers from the ratepayers.

- R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province.

Appropriated funds would be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the government funding provided.

Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

Proposed legislation will enable government funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates for consumption on or after July 1, 2017. If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in

the province (as well as six additional higher-distribution cost LDCs).

Proposed legislation enables the establishment of a maximum monthly base distribution charge for those prescribed customers. If the proposed legislation is passed, the mechanism to set this charge will be established in regulation. LDCs and eligible customers would be prescribed in regulation. The Ontario Energy Board would be empowered by regulation to determine the rate at which affected LDCs would be harmonized.

- The legislation contains retroactive application of the provisions to offset any potential lapses in implementation and ensure that consumers receive the benefit following the July 1st effective date through to the final effective date of October 1st, 2017.

On-Reserve First Nations Delivery Credit

On June 27, 2016, following discussions on Hydro One shares and rates at COO's All Chiefs Conference, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The proposal is premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program proposal involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation. LDCs will need to enter into communication plans in order to work with local First Nations Band Councils and to spread awareness of the delivery credit to all eligible consumers.

Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program to being government funded, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid by all Ontario consumers on May 1, 2017. On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will come into effect on May 1, 2017.

The amendments to the *Ontario Energy Board Act, 1998* pertaining to OESP will move the program to being government funded, and enable alignment of the OESP with social assistance programs delivered by the Ministry of Community and Social Services.

A legislative amendment to the *Ontario Energy Board Act, 1998* will allow shift to government funding. The amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

Financials

March 1, 2017 TB/MBC approvals supporting OFHP included full year projected costs. The 2017 Ontario Budget included refined projected costs shifting expanded/enhanced social programs from ratepayers to being government funded starting in 2017-18, lowering the total amount from $665M to $499M to reflect

rollout timing (not full year costs). The table below shows expense amounts currently in the PRRT multi-year fiscal plan related to these support programs for the most vulnerable consumers.

Government Funded Social Programs ($million)	2017-18	2018-19	2019-20	2020-22
Rural or Remote Rate Protection (RRRP)	344	472	484	497
Ontario Electricity Support Program	140	261	325	375
On-Reserve First Nations Delivery Credit	15	20	20	20
Total	**499**	**753**	**829**	**892**

Regarding GA refinancing, the 2017 Budget also includes an investment operating asset of $1.1B related to the Province's equity injection to OPG, enabling the OPG Trust to regularly purchase IESO's regulatory asset through 2017-18. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. The Province's net debt will remain unchanged as the equity investment in OPG would offset the additional Provincial borrowing.

- OPG intends to use a Special Purpose Vehicle (OPG Trust) to purchase the "right to collect" assets from the IESO in return for cash. OPG Trust will be structured to finance 51% of its funding requirements through the capital market with the remaining 49% being provided by OPG as subordinated debt. The 49% subordinated debt from OPG will be financed though debt from the capital markets (about 5%) and through equity injections from the Province (44%).

  Projected annual amounts of GA deferrals (i.e., the regulatory asset) are shown below and not part of the province's fiscal plan.

($million)	2017-18	2018-19	2019-20	2020-22
GA Refinancing - Residential Bills lowered by 25%	2,534	2,668	2,942	3,420
Interest Portion (5% annually, compounded monthly)	32	162	298	449

Under GA refinancing, ratepayers will incur interest costs and will be added to the GA payments ratepayers make.

Central Agencies staff note the following risks:

GA Refinancing

- The structure is unique in Canada, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the United States, Ministry staff are unaware of any example that would compare to the size, complexity, or fluidity of what is proposed.
- Complexity of the structure and length of deferral/recovery increases risk and decrease transparency.
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan.
- Government would not know the price of private borrowing that would be required for the OPG Trust to work and will have limited control over OPG's direct operations as the Financial Services Manager. Removal of the Financial Services Manager is provided for in the bill, in practice this may prove problematic once the system is operational.
- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and therefore its saleability. This could in turn, decrease the amount of rate reduction achievable under this mechanism.
- If the government intends to keep rate increases to the pace of CPI from 2018 to 2022, this may require recourse to the fiscal plan to maintain the constitutionality of the GA refinancing structure.
- There is inherent risk in the financial estimates given the number of variables that are included in the calculations (e.g. cost of borrowing, electricity demand and electricity market conditions and

accounting assumptions). In addition, electricity prices are forecast to exceed forecast residential monthly bills by about 10 per cent each year from what otherwise would have been from 2028 to 2047. Additional work needed to enhance data modelling to determine the financial impact of potential changes in variables. See Appendix

- The public may expect that the government is committed to reducing or holding constant the absolute cost of electricity for consumers in the longer term. Under the mechanism, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future (See page 17- Fiscal Pressure).
- The proposed legislation also provides that no action or omission by the OEB, the Minister, or the Crown is effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay the clean energy adjustment. Additionally, to support the program, Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be to achieve the highest rated securities, although that will depend on issues such as the strength of the Ontario's undertakings not to adversely affect the program through subsequent legislation.

    - The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future

External Opinions – Under Development

- Former Supreme Court Justice Ian Binnie has provided a legal opinion which concludes that the current proposal is at a moderately high risk of being a tax. The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.

  If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).

  By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

The Ministry indicates the risk identified by Mr. Binnie could be eliminated, either up front or retroactively, by the imposition of a valid tax. Risk assessments would need to consider the implications of this kind of change.

…Review draft sub….

Name of analyst:	James Strang With input from CO, COE, OPCD and OFA	**Phone number:**	416-327-2071
Date:	May 4, 2017	**Log number:**	
Branch / Division:	GGPR, PEMD, COE, OPCD/Treasury Board Secretariat Ontario Financing Authority/ Ministry of Finance		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Receive the report back on proposed legislation supporting implementation of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

i) Note that the proposed Fair Hydro Act, 2017, includes:

Social Programs:

a) Establishment of new programs
b) Note shift from electricity consumer funding to funding out of voted appropriations for rate protection and OESP
c) Note for OESP, if proposed amendments are passed, the Ministry does not intend to seek proclamation of them until the IESO variance account is close to wound down.

Global Adjustment Refinancing:

a) Establishing the fair adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
b) Requirement for future consumers to pay the clean energy adjustment that backs financings
c) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
d) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
e) Setting out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights
f) Sets out that that security interests can be granted in investment interests in the investment asset

ii) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

iii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC.

In this regard,

a) Direct the Ministry to include a report on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates
b) Direct the Ministry to report back with final program details for 2017-18 for GA Refinancing and Social Programs, including fiscal plan implications.

Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

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

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

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

c) Affordability Fund – Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX D: OVERVIEW OF MINISTRY'S REPORT BACK ON OFHP INITIATIVES

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would reduce the electricity bills of residential consumers by 25 per cent on average starting in summer 2017. In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and bend the future cost curve of electricity (see Background for details).

On April 20, 2017, the OEB announced that it has adjusted the Regulated Price Plan (RPP) rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing. The Ministry anticipates that the OEB will set an interim rate adjustment following the passage of the proposed legislation to enable GA Refinancing that would account for the full impact (i.e., 25 per cent).

The Ministry's report back to TB/MBC focuses on the following OFHP initiatives:

1) GA Refinancing:

As part of OFHP, it was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The proposed legislation establishes the framework to defer some of the current Global Adjustment (GA) costs to future ratepayers by recognizing the longer term benefit of these assets to the electricity system. The methodology is based on the assumption that some generation assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets, and that they will also reduce the need to finance the development of new generation assets in the future. Similarly, conservation costs are recovered through the GA on an annual basis while conservation initiatives can provide benefits to the electricity system over many years.

The bill establishes a structure in which the Independent Electricity System Operator (IESO) records the GA cost recovery deferral as a "regulatory asset" (regulated by the Ontario Energy Board (OEB)), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time ("the Fair Adjustment" and "IESO deferral"). "Specified consumers" would receive, on average, a 25% reduction in electricity rates from July 1, 2017 to April 30, 2018. The IESO may then sell the regulatory asset, at which time it becomes an "investment asset." The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

The Minister, following the principles in the bill, would regularly calculate the "Fair Allocation Amount" to ensure a proper match of the allocation of the intergenerational costs and benefits in relation to each on the next 60 six month "reference periods." The financings will be backed primarily by the clean energy adjustments payable by specified consumers. The "clean energy adjustments" will track the actual payment obligations incurred by the financing entities when they become due and payable. OPG, in its role as the Financial Services Manager will calculate the aggregate clean energy adjustment payable in each month of the reference period, and to ensure intergenerational fairness, these amounts will be managed to align with the fair allocation amounts determined by the Minister. The OEB would set the rates at which the clean energy adjustment could be collected from specified consumers. Starting in May 2022, to recoup the costs associated with the fair adjustment, consumers would be invoiced the Clean Energy Adjustment on their electricity bills through existing IESO and Local Distribution Companies

(LDC) processes, which will be channeled through to pay each financing entity's related funding obligations.

OPG is planning to create a SPV or Trust to finance the GA smoothing. To maintain the integrity of the structure, OPG must have the ability to appoint and remove the Trustee (or Board of Trustees) of the SPV/Trust, with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the SPV/Trust. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. OPG will have the ability to direct the financing of the SPV/Trust and both benefit from its financing strategy and be at risk as a result of it.

Once the OPG Trust/SPV has purchased the regulatory asset, which is under no obligation to do, it will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG's debt would be funded through a combination of an equity investment by the Province through the OFA [TBC] and external financing through sale or securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG (to offset the interest on debt).

The legislation also provides that no action or omission by the OEB, the Minister, or the Crown is effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay the clean energy adjustment. Additionally, to support the program, the Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be to achieve the highest rated securities, although that will largely depend on issues such as the strength of the Ontario's undertakings not to adversely affect the program through subsequent legislation.

The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time, but could be as high as $2-3B annually [TBC]. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future.

Key elements of this component of the bill include:

<u>Specified Consumers:</u>

- The defined group of consumers to whom the "Fair Adjustment" applies. Primarily residences, farms and small businesses under the RPP.

<u>Fair Adjustment</u>

- The adjustment to rates, starting on July 1, 2017, to ensure intergenerational fairness.
- July 1, 2017- April 30, 2018- 25% average reduction in rates for "specified consumers."
- May 1, 2018- April 30, 2022- the bill allows for rates to be set by regulation (See page 17- Fiscal Pressure).

<u>Fair Allocation Amount</u>

- Principles established in the bill require proper match over time between the costs of providing facilities for clean electricity generation and conservation "clean energy costs" and the consumers who benefit from these investments in the system.
- The Minister sets the fair allocation amount, and is required to:
    - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods" (typically every 6 months); and

- Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers)(Page 16- Legal Risk; See page 17- Fiscal Pressure).

Clean Energy Adjustment

- Determined by Financial Services Manager (OPG), the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principle, interest, transaction costs and administrative costs associated with the fair adjustment and consistent with the fair allocation amount.
- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- July 1, 2017- April 30, 2022- OPG to internally capitalize the costs related to the fair adjustment, which will result in increased financing costs during this time.
- May 1, 2022- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing IESO and LDC processes.
- In accordance with the regulations, the OEB to set the rate at which specified consumers are invoiced to recover the clean energy adjustment.

Regulatory Asset and Investment Asset

- A regulatory asset is created as IESO defers its right collect a portion of the rates that it would have otherwise would have received from customers/LDCs if not for the implementation of the Fair Adjustment.
- Subject to OEB approval, IESO records the funding shortfall as a regulatory asset, as IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until May 1, 2022.
- The Financing Plan contemplates the Financial Services Manager (OPG) establishing financing entities (OPG Trust/SPV) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset for the investment asset owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests including by dividend or undivided interest, consistent with the Financing Plan. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 5 years (May 1, 2022) the IESO has the right to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority (OFA) (See page 17- Fiscal Pressure).
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

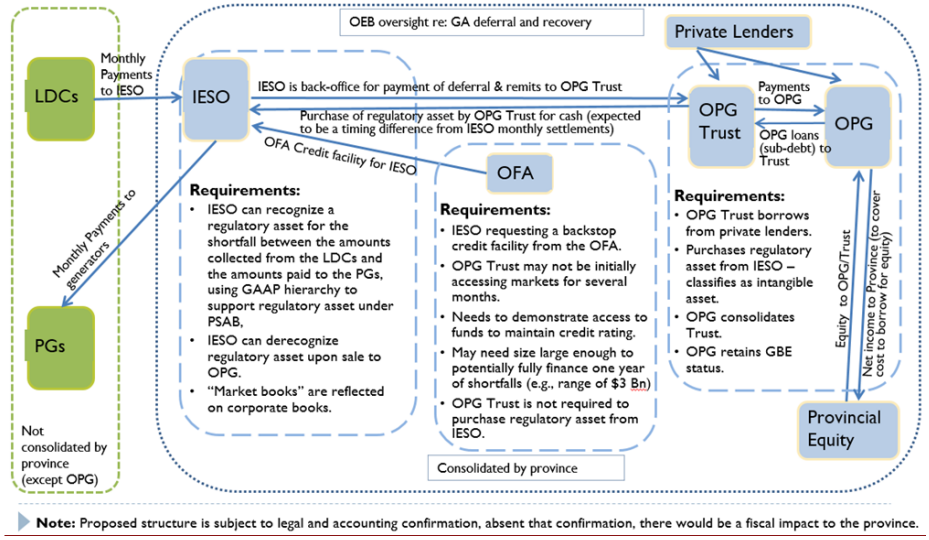
Financing Plan

- In practical terms, the Financing Plan is intended to show how debt (with varying degrees of incurrence dates, maturities, interest rates) will be used over time.
- Prepared by the Financial Services Manager (OPG) the Financing Plan is intended to set out when a “funding obligation” (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the “investment interest” from IESO.
- Provided to the Minister Energy who may remove the Financial Services Manager if the Financing Plan is not consistent with the principles of the bill and the Financial Services Manager has been given the opportunity to address the Minister’s concerns.

Crown Undertaking (Guarantee or Backstop)

- The bill provides that no action or omission of the Crown, the OEB, or the Minister would be effective to reduce, impair, or postpone or terminate the obligations of specified consumers to pay the clean energy adjustment.

- The Ministers of Energy and Finance together, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill, including agreements regarding the performance of the IESO or electricity vendors under the bill.
- The Ministers of Energy and Finance together, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.



Financing, Accounting and Legal Risk Considerations / Mitigations

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

Legislation
Proposed legislation to enable GA refinancing has been draft with input from third-party financers (i.e., dealers). OPG plans to borrow a small portion of the 49% from the market. This amount has not yet been finalized, but could represent up to 5% of the total financing requirement.

The proposed legislation sets out that the province would provide assurances in the form of a narrow provincial guarantee to OPG and investors regarding the permanence of the GA Refinancing framework. *… pending language on assurances*

Despite the assurances provided in the legislation it is still possible that the full value of the Regulatory Asset may not be purchased.

Commented [JS1]: Risk

[Placeholder comment for OFA/TD re financability]

OPG's Equity Financing

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

Under the proposed legislation, the mechanisms to enable this right and transfer of rights are the "Regulatory Asset" and "Investment Asset".

- IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.
- The Province will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG's capital structure:

- OPG would require monthly "equity injections" from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;
- Funds from the Province would flow from the Ontario Financing Authority (OFA); and
- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.

It is anticipated that the initial equity injection would take place as early as June 2017. To facilitate these ongoing equity injections, the Ministry of Energy, through the PRRT process received approval for the creation of an operating asset "OPG Share Purchase" in Vote/Item 2905-5 ($1.1billion in 2017-18, based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty). This approval is linked to passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG's business plan process. While included in the business plan, equity requirements will not form part of the Ministry of Energy's concurrence process. For future funding requirements, the Ministry will seek appropriation through the PRRT process.

<u>IESO's Credit Facilities</u>

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, ESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or the entire regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds. To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

The proposed legislation sets out that the OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This, the Ministry indicates, satisfies the accounting emphasis on having OEB oversight in the establishment of the Regulatory Asset.

[Placeholder comment regarding E&Y and KPMG accounting commentary / opinion/ letter]

Legal

…pending…

2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The proposed legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

If passed, the government proposes to identify Hydro One R2 customers, as having their RRRP funded through appropriated funds.

Distribution Rate Protection

New Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, would be established through proposed legislative amendments under the *Fair Hydro Act, 2017,* and the creation of consequential regulations. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

On-Reserve First Nations Delivery Credit

Eligible on-reserve customers will receive a 100% delivery credit or the elimination of their monthly service charge on their electricity bills. The eligibility requirements will be prescribed under regulation.

Ontario Electricity Support Program (OESP)

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by a rebate directly on bills. The OESP is currently funded by the rate base.

OESP credits vary by income level and family size, and there are two credit scales that include:

- The basic program credit ranges from $30/month to $50/month.
- An enhanced credit that ranges from $45/month to $75/month for consumers that are either Indigenous, use electric heat or use certain electrically intensive medical devices.

Ontario's Fair Hydro Plan (OFHP) committed to move the program from the rate base to the tax base, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

The proposed legislative changes will address the move to the tax base, and regulatory changes approved by Cabinet on April 10, 2017 will enable the expansion of the OESP effective May 1, 2017. Discussions are ongoing with the OEB and MCSS on aligning OESP delivery with other social assistance programs.

Roles and Responsibilities

Rural or Remote Rate Protection

The roles and responsibilities of the Board remain the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The Board (TBC?) would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

The Ministry expects the need to appropriate money from the legislature to cover the costs of administering the program.

Commented [JS2]: Fiscal pressure

On-Reserve First Nations Delivery Credit

The Ministry would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers. In addition, The Ministry would need to work with LDCs, Chiefs of Ontario and Band Councils to ensure the program is delivered to all eligible consumers.

Ontario Electricity Support Program

The OEB will continue to the deliver the OESP under the current legislative framework until the variance account is depleted. When legislative changes to shift the program from the rate base to the tax base are proclaimed, the OEB will continue to administer the program, but certain decision making responsibilities and oversights will shift to the Minister of Energy.

MCSS will begin supporting OESP uptake by helping social assistance clients to apply to the OESP. Legislative and regulatory changes will enable this work.

The IESO will continue to manage payments to utilities, unit sub-meter providers, and the OEB in relation to OESP credit delivery and program administration costs. When legislative changes are proclaimed, IESO will begin reporting costs to the Ministry to support forecasting and audit.

3) ICI Expansion:

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and “1114”) in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

In addition, the Ministry has retained the OCC and the CME to undertake targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants.

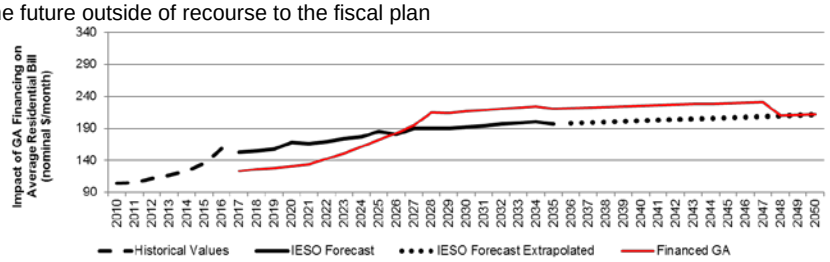
- The extent of the impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

Bill Impacts

The impact of proposed legislation to an eligible customer’s bill in July 2017 is an average 25% decrease combined with the 8% from ORECA effective Jan. 1, 2017 and shifting of the funding of OESP and RRRP to provincial revenues), followed by an increase in price over time. Between May 2018 and June 2021 electricity rates will be set by regulation with the intention that rate increases would be kept in line with CPI. Customers that are eligible for the RRRP enhancement, OESP, and the First Nations On-Reserve Delivery Credit will see further reductions in their electricity rates beyond the average 25% (as much as 40-50%).

Future impacts on Electricity Rates

Borrowing money to refinance GA costs for ratepayers would lower costs in the short term but result in substantial debt and higher electricity prices in the future. Based on the GA deferral portion of the plan, electricity prices would increase to about 10% [TBC] above the forecast cost of electricity which would have otherwise been paid over the recovery period (peaking at 13% [TBC]). The proposal may create the expectation that the government is committed to reducing or holding constant the cost of electricity for consumers. The government would not have the ability to control this portion of electricity rates in the future outside of recourse to the fiscal plan



Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at a maximum of 13% of total bill. IESO forecast is based on IESO’s revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. [TBC]

APPENDIX E: PROPOSED FAIR HYDRO ACT OVERVIEW

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two components:

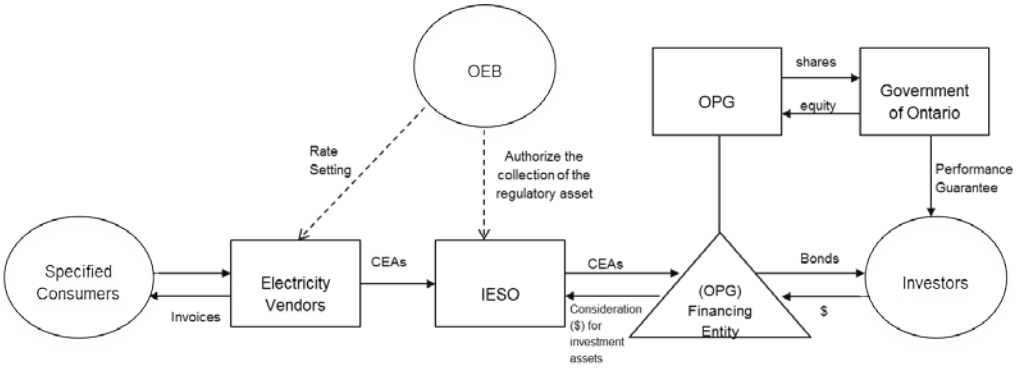
- Part 1: Legislation to provide for the fair allocation of costs of electricity over time (Dealing with Global Adjustment (GA) refinancing).
- Part 2: Legislative amendments for social programs (See Appendix D1)

The Ministry has provided the following overview of the proposed legislation:

Part 1: Legislation to provide for the fair allocation of costs of electricity over time (GA refinancing).

Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system (Clean Energy Initiative) creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations.



Note: CEAs are "clean energy adjustments"

Clean Energy Costs and Benefits:

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (the Global Adjustment provisions) which relate to contracts for:
  - Renewable energy generation or capacity
  - Conservation and demand management, including shortage
  - Energy efficiency
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*

- Other such costs to be included in “clean energy costs” may be prescribed
- These are the costs to be distributed fairly among the specified consumers through the “fair allocation amount”.

Fair Allocation Adjustment:

- Part II establishes that the rate that will be payable by “specified RPP consumers” from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the “comparison rate”. The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.

- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).

- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the “fair adjustment” until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.

- The Minister sets the fair allocation amount.

    - The establishment of the “fair allocation amount” is required to,
        - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the “specified consumers” for applicable “reference periods”; and
        - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).
    - The “fair allocation amount” is to have regard to:
        - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the “specified consumers” (in the applicable “reference periods”);
        - Reasonable assumptions regarding the time value of money, the number of consumers in the “reference period”; and
        - Expected electricity consumption for the reference period.

Regulatory Asset and Investment Asset:

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO’s funding deferral will be financed indirectly through the debt capital markets.

- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a “regulatory asset”. In simple terms, the regulatory asset is IESO’s right to recover the revenues that it has deferred collecting.

- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities.

- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".

- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

Issuance and Payment of Debt:

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.

- The financings will be backed primarily by the "clean energy adjustments" payable by specified consumers. The "clean energy adjustments" will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the "fair allocation amounts" ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).

- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity's related funding obligations.

- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario's undertakings not to adversely affect the program through subsequent legislation.

Financing Plan:

- The Financing Plan is prepared by the Financial Services Manager (OPG).

- The Financing Plan is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.

- There are rules that apply to the Financing Plan:
  - It must align with the "estimated finance amount" that will become due and payable during a "reference period";
  - It must take into account the "fair allocation" and any "fair adjustment";
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancing, redemption opportunities and liquidity, and similar assumptions).

- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.

- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by

financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

Who Does What?

- Minister of Energy – Determine the "fair allocation amount" applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.

- Ontario Power Generation (OPG) – As financial services manager, OPG will be responsible for the following under the Act:
    - Prepare and implement Financing Plan.
    - Establish and administer the financing entities.
    - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.
    - Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

- Independent Electricity System Operator (IESO):
    - Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.
    - Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.
    - Coordinates the collection of "clean energy adjustments" from Electricity Distributors.
    - Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.
    - Fund initial interest costs and expenses during the first 4 years.

- Local Distribution Companies (LDCs):
    - Obligation to invoice specified consumers.
    - Collect, as agent of the investment interest owners, "clean energy adjustments" from specified consumers.
    - Hold money received for clean energy adjustments in trust until remittance to the IESO.

- Ontario Energy Board:
    - Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).
    - Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).
    - Review the administrative costs of OPG in connection with the administration of the program.

Part 2: Legislative amendments for social programs moving to being government funded

As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:

- Enhancing and providing government funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates
- Enhancing and providing government funding for the Ontario Electricity Support Program (OESP)
- Creating a new First Nation On-Reserve Delivery Credit and providing for government funding

Overview of RRRP and Broadened Distribution Rate Protection:

- Section 79 of the Ontario Energy Board Act would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution cost.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program:

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.
- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.
- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.

- Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
- This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit:

- Energy is proposing legislative amendments that would establish a First Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.
- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

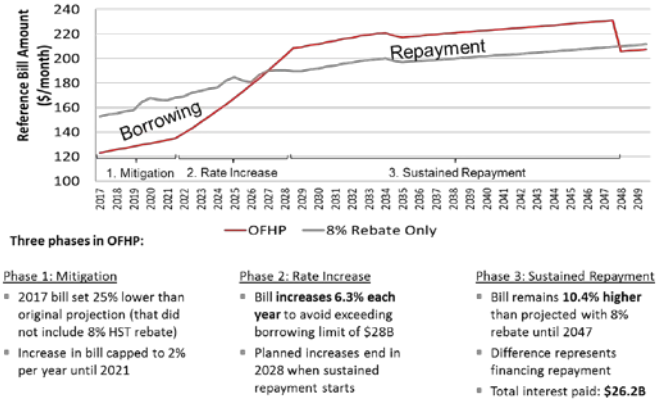
APPENDIX F: ANALYSIS OF FINANCIAL MODELS AND RISKS (UNDER DEVELOPMENT)

Treasury Board Secretariat received two models related to global adjustment refinancing.

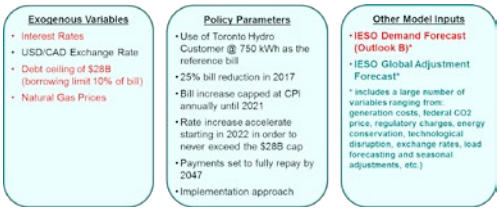
- The model the Ministry of Energy developed and used to support the March submission; and
- The financial model that was developed by the Ontario Power Generation (OPG) that provides details regarding the financing of the proposed structure.

TBS staff noted the models received are based on high level aggregates and do not allow for running different scenarios that would allow TBS to determine the financial impact of potential changes in variables. In discussions with the Ministry of Energy and OPG, it has been agreed that these scenarios must be developed – both to help creation of a risk-based outlook for the province, as well as to respond to questions that will inevitably arise from the credit rating agencies. ….Supporting Minute…

Through refinancing of the Global Adjustment (GA), which provides immediate rate relief by spreading the cost of electricity investments over a longer period of time, the OFHP reduces electricity bills by 25% for the typical residential customer in 2017, and holds rate increases to 2% (the expected rate of inflation). The OFHP can be thought of as having three phases:



The model is a high level and aggregate model, which is build on other independent forecasts (e.g. IESO demand forecast). There are a large number of assumptions built into the model explicitly and implicitly (as a large number of assumptions are embedded into the other forecasts that are used as inputs into this model).



Analysis is currently underway to better understand intergenerational costs and benefits and the impact of GA smoothing on recovery charges that would be allowed under the current Eurig compliance rules.

Depending on the legal determination, if the annual increases in bills or the commodity prices will be subject to caps, additional borrowing/provincial funding may be required.

TAB 4

TREASURY BOARD / MANAGEMENT BOARD OF CABINET

REQUEST ASSESSMENT NOTE

Ministry:	Energy	
Meeting Date:	May 9, 2017	
Agenda Class:	Discussion (In Camera)	
Last reviewed by: TB/MBC September 27, 2016		**Tracking to:** Cabinet (May 17, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2017-2019 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*Direct OPG review of delegated financial authority in consultation with TBS*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to

annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence. The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment refinancing, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would be financed by OPG raising a targeted up to 5% from capital markets, with the remaining 44-49% equity injection [and/or debt financing] from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection).

    - Provincial borrowing for an equity injection would be offset by an increase in an investment asset in OPG, so the Province's net debt position would remain unchanged.
    - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income.

The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan.

Financial figures from the OPG Business Plan are included and supplemented with more recent forecast adjustments from the Ontario Financing Authority, MOF, for more recent OPG in-year forecast updates, and for estimated OFHP implications, as part of Province's finalized fiscal plan for the 2017 Budget. Also identified are risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards.

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
    - 2017 Budget projections were based on the figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $291M in 2016-17 and $556M in 2017-18 compared to the 2016

Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of nuclear asset retirement obligations-related IFRS risks, followed by an increase of $12M in 2018-19 versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $463M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

Net income in 2018 and 2019, before OFA and MOF adjustments, is projected to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.

Also, in early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

The first table in Appendix E shows the OPG 2017-19 Business Plan fiscal impact changes to the Province's Budget 2016 fiscal plan.

- Key Operational Metrics:
  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

    OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.
- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and, as approved by Cabinet, the execution of the Darlington refurbishment consistent

with an approved budget of $12.8 billion (including assumed inflation escalation and interest), is now under way. First unit refurbishment, Unit 2, began in October 2016 and is assumed to be returned to service in February 2020, with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.

  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., upgrades at Sir Adam Beck and upgrades to DeCew II, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021, submitted in 2016. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

    TBS staff note that to obtain a special status, ministries are required to provide a comprehensive business case that would demonstrate how the special status would support the organization's business plan and mandate, and include details related to its annual forecast activity, internal audit controls, governance structure, and robust reporting processes that would be in place to support governance of the proposed

delegated authority.

As the Ministry is interested in streamlining the approval process related to approvals for international travel, it is recommended that the Ministry explores its current delegated financial authority framework and consult with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing) and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Performance risks: OPG's financial performance could be subjected to nuclear reliability issues such as unplanned outages and financial market risk on the performance of the nuclear funds, for which the Province consolidates on a realized [gains or losses] basis.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 3, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) Direct OPG to review its current delegated financial authority framework in consultation with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

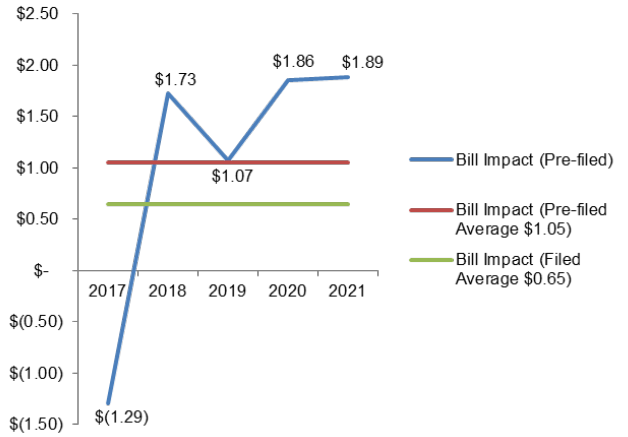
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

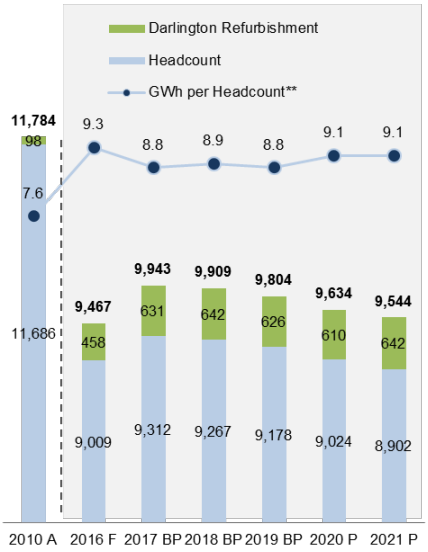
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



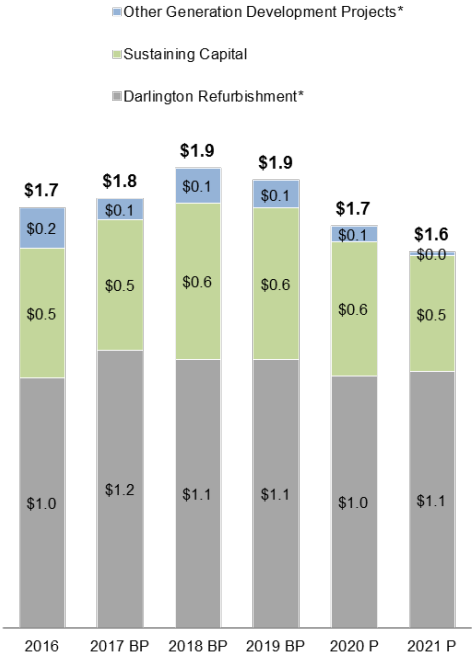
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF OPG BUSINESS PLAN PROCEEDING

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only). Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income Tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget[1]				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income				
OPG 2017-19 Business Plan	349	702	678	726
Adjustments:				
OPG Update[2]	30			
IFRS Risk adjustment[3]	(75)	(400)		(200)
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		(222)		
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)		17	54	99
Nuclear Funds fair value adjustment[5]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax				
OPG 2017-19 Business Plan	96	166	135	170
Adjustments				
OPG Update[2]	(4)			
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		(74)		
Income tax 2017 Budget	92	92	135	170
2016 Budget vs. 2017 Budget (including IFRS and sales &rental adjustments)				
Net Income	(159)	(489)	59	
Income taxes	(132)	(67)	(47)	
2016 Budget vs. 2017 Budget (Before IFRS and sales &rental adjustments)				
Net Income	(84)	133	59	200
Income taxes	(132)	7	(47)	0

1. 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 2016 multi-year business plan was approved and submitted following the timeframe for locking the numbers for the early 2016 Budget.
2. OPG February 2017 Monthly Update

3. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
4. For public Budget reporting, projected net impacts of Province asset optimization strategy including, OPG Head Office sale, are reported under Sales and Rentals for commercial confidentiality. OPG proceeds estimate updated per 2017 Budget.
5. Provincial consolidation adjustments for unrealized earnings on decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241
Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

From:	Skubel, Chris (TBS)
To:	Sophie Liu (TCU); Nadine Petsche (MOF); Helen Graham (MOF); Hosick, Sarah (TBS); John Kim; Nick Smook (MOF); Paul Kaufman (MOHLTC)
Cc:	Afshin Malekzadeh (MOHLTC); Andrea Dutton (MOF); James Strang (MOF)
Subject:	Draft TB Sub - Electrictiy Regs
Date:	Monday, June 12, 2017 12:26:38 PM
Attachments:	TB Sub_ OFHP Report Back_June 9.docx

Hi Everyone – Please find attached a draft TB sub for the electricity regs (that we received this morning) tracking to TB/MBC tomorrow.

We'll share a draft RAN later today.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

June 13, 2017

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MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back with updates to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

2.0 PURPOSE OF REQUEST

On May 31, 2017, Bill 132, the *Fair Hydro Act, 2017* (*FHA*), which enables Ontario's Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017*, (*OFHPA*) and the implementation of electricity social program-related amendments to the *Ontario Energy Board Act, 1998*, was passed by the legislature.

- The OFHPA will lower bills by 25 per cent for a typical residential consumer, starting July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to half a million small businesses and farms would also benefit.

- OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

  Note: These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on electricity bills for consumers.

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (*OEBA*); and

- Schedule 2 – includes the electricity social program-related amendments to the *OEBA.*

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On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

On May 9, 2017, as part of its *FHA* review, TB/MBC requested that the Ministry report back on key updates and the details of the proposed regulations that would support OFHP.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review a first package of proposed regulation and amendments and on June 27, 2017, a second package of regulations. These are necessary to ensure that the 25 per cent reduction on electricity bills is in place by July 1, 2017.

The new *OFHPA* and the proposed regulations and amendments described throughout, along with the independent accounting analysis, legal support and technical analysis and future financial agreements (i.e., expected to be reached and signed in fall 2017) should together mitigate the financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission and the May 9, 2017 TB submission.

1. Implementation of GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

On March 2, 2017, as part of OFHP, it was announced that a portion of the Global Adjustment (GA) would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Under the *OFHPA* which enables GA Refinancing, electricity bills of typical residential consumers would be reduced by 25 per cent starting in July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

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Proposal

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II of the *Ontario Fair Hydro Plan Act, 2017* which is under Schedule 1 of the *Fair Hydro Act, 2017;* and
- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the Electricity Act, 1998.

On June 27, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation:

- Creating a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Act, 2017*.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- On June 1, 2017, the *OFHPA*, which enables GA refinancing and responds to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission, received Royal assent. Note: The Ministry has also prepared regulations to support implementation (as noted above);

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched third party technical analysis to assist with implementation of GA refinancing.

2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

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These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.

- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.

- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

In addition to amending two existing regulations and introducing two new regulations to roll out the social programs, the Ministry is also making several consequential amendments to other regulations and introducing a new invoicing regulation under the *Fair Hydro Act, 2017*. These changes include:

- Creating a new Invoicing Regulation made under the Ontario Fair Hydro Plan Act, 2017.

- Amending the O. Reg 363/16 (General) under the *Ontario Rebate for Electricity Consumers Act, 2016.*

- Amending O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) made under the *Ontario Energy Board Act, 1998.*

Proposal

The Government introduced legislation and is now developing regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy

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program of the old Ontario Hydro and has existed in its current form since 2001.

The new legislation enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers. The regulation will also prescribe the monthly amount of rate protection available to Hydro One R2 customers through RRRP.

- R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province.

Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher distribution cost LDCs.

The new legislation enables tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. Eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The regulation will set out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers. In future years, this harmonized monthly charge, by design, cannot decrease as it adjusts to reflect the higher of either the lowest rate LDC in the program, or the maximum monthly charge of the previous year, as determined by the OEB.

On-Reserve First Nations Delivery Credit

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The legislative amendments to the *Ontario Energy Board Act, 1998*, are premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a

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delivery charge, for on-reserve residential First Nations customers as prescribed in regulation. Eligibility is restricted to those residential rate class First Nations customers who are members of a band as defined under the *Indian Act* (Canada).

The regulation does not stipulate any process for identifying on-reserve customers eligible for the credit but rather allows LDCs the flexibility to continue using their existing HST exemption processes.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of RRRP available to Hydro One R2 customers for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB currently sets the amount of the charge that recovers the cost of RRRP from all Ontario electricity customers. Once the regulatory mechanism is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. The regulation will also contain transition provisions to bridge the transition from rate payer funding to provincial funding, as well as mechanisms for sharing of information and funding flows. Change to the funding structure of the program does not require any additional implementation risks or efforts.

Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers will be prescribed in regulation. The regulation will prescribe the process by which the Ontario Energy Board would determine a maximum monthly distribution charge for prescribed customers of prescribed high-cost LDCs.

Affected LDCs would be impacted through the efforts required to adjust their billing systems in order to carry out the program. There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three

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month transitional period to begin delivering the rate assistance by no later than October 1, 2017. The regulation will also contain mechanisms for sharing of information and funding flows.

On-Reserve First Nation Delivery Credit

The new regulation will set out the program particulars including eligibility for the program. The regulation limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs.

There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.
11 affected LDCs will need to alter their billing systems to reflect the regulatory requirement to include a First Nations Delivery Credit line item on the bill directly below the delivery charge, or blended rate if applicable.

3.0 KEY CONTEXT

On June 1, 2017, the *Fair Hydro Act, 2017*, the legislation to enable the Ontario Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) received Royal assent. The OFHPA will reduce the electricity bills of typical residential consumers by 25 per cent starting in summer 2017. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

The Ministry's report back and update to TB/MBC focuses on the following OFHP initiatives:

1) Implementation of GA Refinancing:

Under the *OFHPA*, a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Today's electricity consumers have been bearing disproportionate cost responsibility for the investments in developing the clean, modern and

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reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. The legislation recognizes the long-term benefit of clean energy investments to more appropriately allocate costs into the future to account for long-term benefits.

Refinancing a portion of GA would provide significant and immediate rate relief to electricity consumers that have been burdened with the costs of the necessary investments that have been made to decarbonize and modernize the province's electricity infrastructure, by spreading the cost of electricity investments so that they are shared proportionately by future consumers who cause a need for or benefit from the province's multi-billion dollar investments in electricity infrastructure.

To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed the *Fair Hydro Act, 2017* which enables the OFHP under the *Ontario Fair Hydro Plan Act (OFHPA), 2017*, to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: On June 1, 2017, the *OFHPA* received Royal assent.

- Developed supporting regulations which further contribute to the implementation of the OFHP under the legislation;

    - One new regulation and one amendment to existing regulation is due to go to the June 14, 2017 LRC/Cabinet; and

    - A further new proposed regulation is due to go to the June 27,2017 LRC/Cabinet – a draft of this proposed regulation will be available as part of that LRC package.

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched a third party technical analysis project to assist with implementation of GA refinancing.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

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- Creating a new Regulation made Under Part II under the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*:
  - The Ministry of Energy is seeking LRC approval to create a new Regulation under the *Ontario Fair Hydro Plan Act* (*OFHPA*) to support the required calculations to be made by the Ontario Energy Board (OEB) under Part II of that Act (sections 6-12).
  - The proposed regulation outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP)) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.
  - The proposed regulation sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments to the Part II regulation.
  - In addition, the proposed regulation also sets out that customers of unit sub-meter providers (USMPs) would receive a proportionate share of near-term OFHPA reductions.
  - If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.
  - For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary. Note: Consumers not paying RPP would also receive GA refinancing if they meet the other criteria defined in the OFHPA under "specified consumers" in the OFHPA. These include consumers that have opted-out of RPP to sign contracts with electricity retailers or become wholesale consumers and those who are eligible for *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA), but not RPP, such as long-term care homes.
  - In accordance with the *Ontario Fair Hydro Plan Act,* the OEB will determine the adjustment to be made to the GA charge on eligible non-RPP consumers' bills, effective July 1st. Electricity vendors will be expected to ensure the adjustment is reflected on their customers' bills as soon as possible, and to make retroactive payments where necessary.

- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*:

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- The Ministry of Energy is seeking LRC approval to amend O.Reg. 280/14 in response to the *OFHPA* and related regulations.

- The proposed amendments would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its *OFHPA* activities, including the funding, borrowing and financial arrangements contemplated under the *OFHPA*. The IESO would be responsible for selling specified portions of the regulatory asset to OPG's financing entities, and to fund the IESO monthly deferrals which are to commence July 1, 2017, as provided for under section 23 of the OFHPA.

- The additional authority set out in the proposed amendments to O.Reg. 280/14 would enable IESO to borrow amounts to fund the above-noted deferrals related to GA refinancing.

- IESO would be expected to amend its Statement of Borrowing in a manner consistent with the amended regulation, once approved.

- On June 27, 2017, to further support implementation of OFHP, LRC / Cabinet will review a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Plan Act*, 2017.

2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

The government will identify Hydro One R2 customers, by regulation, as having RRRP funded through appropriated funds.

Distribution Rate Protection

The new Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, was established through legislative amendments under the *Fair Hydro Act, 2017*. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

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Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhanced protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

The regulation prescribes eligibility to all First Nation residential rate class customers living on-reserve. First Nations customers are p-prescribed in regulation as account holders who are members of a band as defined by the *Indian Act* (Canada).

There are 11 LDCs identified by the OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 residential customers may be eligible.

The credit will automatically apply to the bills of those customers who have already registered with their LDC as HST exempt. Customers who have yet to register with their LDC will need to identify themselves to their LDC in order to receive the benefit.

Roles and Responsibilities

Rural or Remote Rate Protection

The roles and responsibilities of the Board remain the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The Board would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would once again need to appropriate money from the legislature to cover the costs of administering the program.

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On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers.

4.0 BACKGROUND

Legislation to Implement Ontario's Fair Hydro Plan

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEBA); and
- Schedule 2 – includes the electricity social program-related amendments to the *Ontario Energy Board Act, 1998.*

On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

Legislation to Implement GA Refinancing

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the *Ontario Fair Hydro Plan Act, 2017* outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;
- A detailed Preamble, Purpose and Definitions;
- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;
- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

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The legislation defines the mechanisms and framework that would achieve the refinancing of the GA.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the legislation.

To support the implementation of GA refinancing under the *Fair Hydro Act, 2017*, the Ministry has developed supporting regulations:

- Ontario Regulation made Under Part II of the *Fair Hydro Act, 2017* ("the Part II Reg.") – sets out in detail the methodology that the Ontario Energy Board will use to make determinations under the *OFHPA*.

- Amendment to O. Reg. 280/14 to be made under the *Electricity Act, 1998* ("IESO Eligible Investments and Borrowing Reg.") – provides IESO with the necessary authority related to its OFHPA activities including the funding, borrowing and financial arrangements contemplated under the *OFHPA*.

- Ontario Regulation to be made under the *Fair Hydro Act, 2017* ("the General Reg.") – will provide for the implementation of the roles and responsibilities of the Financial Services Manager and IESO in relation to the refinancing of GA. Note: The General Reg. will be brought forward to LRC/Cabinet on June 27, 2017.

<u>Social Programs</u>

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.

- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.6 million.

- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.

- These customers still have high distribution costs and are often faced with significantly higher than average bills.

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The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Legislative amendments under the Fair Hydro Act broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the majority of the existing RRRP program costs to the tax-base and funding all of the broadened distribution rate protection enhancements from the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

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The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

5.0 TIMING

Under the *OFHPA*, a portion of the GA will be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

On April 20, 2017, OEB announced that it adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing.

If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.

The OEB must make a determination of RPP rates no later than 15 days from June 2nd, 2017, when the legislation received Royal Assent. As stipulated in the Act, these RPP rates would come into effect as of July 1, 2017.

For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

The Part II regulation lays out the methodology for the OEB to calculate electricity rates for consumers eligible for GA refinancing. As such it has not financial impact.

2) Social Programs:

As reported in the TB/MBC submission of May 9, 2017 and as approved in the TB/MBC submission of March 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

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Program	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board. Cost forecasts are subject to some uncertainty surrounding consumer uptake, future consumption levels, and future rates as set by the OEB.

Subsequent to the development of the above financial impacts for RRRP/DRP, Hydro One Networks Inc. submitted a distribution rate application to the OEB for rates effective 2018-2022. ENERGY is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application. Note that final Hydro One rates are not expected until 2018.

Per the Regulations, the Ministry has the authority to request social program costs forecasts from the OEB.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16, April 19, and May 17, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation. The Ministry has also held separate engagements with LDCs in particular to the social programs.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, May 23, and June 1 to discuss implementation.

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8.0 RISK ASSESSMENT AND MITIGATION – UPDATES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• The Ministry, IESO, OPG and other ministries have worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **<u>Update:</u>** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **Update:** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			Update: • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
a Charter challenge on the First Nations On-Reserve Delivery Credit Program			reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the legislation is modelled on frameworks used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

10.0 PERFORMANCE MEASURES

The proposed new regulation under *OFHPA* outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.

The proposed amendments to O. Reg. 280/10 would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its OFHPA activities, including the funding, borrowing and financial arrangements contemplated under the OFHPA

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. This is the primary success metric for these programs. In future report backs, the Ministry will include the presentation of data collected through the IESO reporting portals to demonstrate the impact of these programs on customers. The Ministry

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will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing.

Ontario's Fair Hydro Plan also included a commitment to work with the OEB to drive distribution sector efficiencies within LDCs over the long-term. The Ministry is developing its policy approach to achieving these efficiencies, including potentially through LDC consolidation, through the Long-Term Energy Planning process.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

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From:	John Kim
To:	Bruno Amara
Subject:	Electricity Mitigation Options (2017 02 06 v5)_Markup.docx
Date:	Friday, May 19, 2017 9:19:45 AM
Attachments:	Electricity Mitigation Options (2017 02 06 v5)_Markup.docx

Hi Bruno,

Not sure if you remember this note…..wouldn't mind putting the DRC vs. FHP contents, some of it at least, in table format. I'm terrible at tables but I think we have staff that are very good.

John

DRAFT: COMMERCIALLY SENSITIVE AND CONFIDENTIAL ADVICE TO MINISTERS

Comments on Ministry of Energy's February 6 Draft "Rate Mitigation Plan Options"

The Ministry of Energy (Energy) is providing options for potential price mitigation initiatives.

OVERVIEW

- The largest impacts on rates and largest potential fiscal exposures are from the proposed deferred recovery of Global Adjustment costs (about $1.3 to $7.5 billion per fiscal year or more, depending on the option).
- Other Energy proposals involve placing or shifting costs or risks of rate mitigation measures from the rate base to the tax base. Based on CEFD analysis the fiscal exposure could range to about $0.7 to $0.9 billion per year, depending on the option selected.
- In addition, Energy raises a sub-option to a GA variant: increase the rebate from 8% to 15%.
- The above measures would be in addition to the existing fiscally-funded electricity price mitigation efforts that, over the past five years, have averaged about $1.5 billion and is already expected to increase to about $2 billion with the introduction of the Ontario Rebate for Electricity Consumers (OREC) in 2017-18.
- The government introduced OREC, which is providing a rebate equal to the 8% provincial portion of the Harmonized Sales Tax (HST), saving $11 per month starting January 1, 2017, for eligible small businesses, farms and residential consumers, and has expanded the Rural or Remote Electricity Rate Protection (RRRP) program, saving eligible RRRP customers about $45 per month, when combined with OREC.
- The existing program costs are summarized in the table below:

($M)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17[1]	2017-18[1]
OCEB	1,033	994	1,006	1,078	860	-	-
OREC	-	-	-	-	-	300	1,100*
Ending DRC[2]	-	-	-	-	85	330	330
NIERP	120	120	115	108	120	120	120
NOEC	23	24	25	24	26	25	25
OEPTC[3]	354	406	418	429	444	450	460
TOTAL	1,530	1,544	1,564	1,639	1,535	1,225	2,035

1. 2016-17, 2017-18 based on forecasted numbers
2. 2015-16 estimated for 3 months of reduced DRC revenue
3. OEPTC amounts in all years based on energy component of the rebate.

* Sourced from Energy PRRT submission

OCEB – Ontario Clean Energy Benefit
OREC – Ont. Rebate for Electricity Consumers
NIERP – Northern Industrial Electricity Rate program
NOEC – Northern Ontario Energy Credit
DRC – Debt Retirement Charge
OEPTC – Ont. Energy & Property Tax Credit

ENERGY'S BROAD POLICY THEMES / RATIONALES – BASED ON DECKS FROM Jan 24th, FEB 1ST, FEB 6TH (Subject to Updates)

- In recognition of the costs borne by ratepayers related to decarbonizing and modernizing the province's electricity sector, options for further rate mitigation include:
    1. Provide significant and immediate rate relief through cost deferral of the global adjustment (GA).
    2. Initiate delivery rate relief, which would allow a monthly cap on delivery charges for Hydro One low density ~~all~~ residential customers ~~across the province~~.

3. Provide a greater focus on vulnerable consumers by expanding electricity support programs, such as the Ontario Electricity Support Program (OESP), and greater support for lower income conservation benefit and First Nations Rate program and funding them through the tax-base.

SUMMARY OF ENERGY PRICE MITIGATION OPTIONS

Energy Theme / Rationale / Savings	Key Staff Comments	Estimated Fiscal Cost
(Based on Feb 45th Deck) **1) Consider options to defer the pass-through to ratepayers of some generation supply costs by partially financing the cost of the global adjustment (GA).** *(Based on Feb 45th Deck)* **"February 54 - Option 1a"** GA paid lowered by $5B in 2017 and 2018 below the true cost of GA. Part of combination of initiatives to reduce residential bill by 25%. In out-years, incremental monthly cost about $40. **"February 54 - Option 1b"** GA paid lowered by $7B in 2017 and 2018 below the true cost of GA. Part of combination of initiatives to reduce residential bill by 33%. In out-years, incremental monthly cost rises to almost $90. **"February 54 - Option 1c"** GA paid lowered by $4B in 2017 below the true cost of GA. Part of combination of initiatives to reduce residential bill by 25%, including increasing the OREC rebate from the current 8% to 15% [Check].	• Incurring debt to pay the generators their contracted or regulated payments while deferring supply cost pass-through. • Accumulated debt and financing costs would be very high, particularly if third party financing is sought. • Energy's deck analyzes the system cost and ratepayer impacts of the option. o Larger the initial savings is also reflected as larger incremental costs in out years when annual GA recovery is greater than GA costs. • Based on preliminary discussions with KPMG, Energy has identified key steps for there not to be a fiscal impact: ▪ Have a non-consolidated entity hold the liability. **OR** ▪ Need to be able to create an asset. o Energy has proposed options for the GA financing recovery mechanisms such as a new GA Deferral Account or a new arms-length entity. o Energy is working with IESO, MOF, TBS and external accountants on accounting issues and legislative and regulatory requirements. o Likely requires legislation to implement. Should assess legal risks. • Scenarios provided in the February 4th deck indicate, on a preliminary basis [Energy has not provided detailed modelling figures], significant annual fiscal exposures (depending on accounting) and debt accumulation up to $62Bn for Option 1a, $99Bn for Option 1b and $31Bn for Option 1c. • Revised scenarios are significantly higher in potential annual fiscal impacts and increases in debt, $19Bn - $23Bn for Options 1a and 1b [January 24 scenarios], about $65 Bn for Option 4 [in February 1 deck] .	If consolidated: Risk of fiscal impact ranges (as per Feb 46th deck: • About$5Bn in 17-18 and 18-19 for Scenario 1a, • About $7Bn for 17-18 and 18-19 for Senario 1b • About $3-4Bn in 17-18 and 18-19 for Scenario 1c Scenarios in Jan 24th & Feb 1 decks: • "Moderate" scenarios of more than $1.1 to $3.4 billion in 2017-18 • $4.4 – 5 Bn in the "high" scenario.
(Updated for Feb 1 Deck) **2) RRRP Enhancement: Delivery Charge Relief for Hydro One Customers.**	• Energy characterizes this enhanced relief as an acceleration toward the OEB initiative for LDCs to have fixed distribution delivery rates, based on average cost to serve.	Cost of Enhancement:

Energy Theme / Rationale / Savings	Key Staff Comments	Estimated Fiscal Cost
R1 (mid-density) **R2 (low-density)** • **Cap delivery rates for R1 customers to $55.70 per month and $64.64 per month for R2 customers.**	o Benefits higher volume users, who will pay less than currently. o Lower volume users will pay more than currently. • Energy indicates that the cap will not be needed after 2022 when most distributors will have fixed delivery charges. • Energy does not clarify if the cap would increase every year to reflect increasing costs as the cap values are based on 2017 estimates of what Hydro One distribution rates would be under a fixed rate regime. • RRRP is not income tested. • Moving to fixed distribution rates will result in below-average volume consumers experiencing cost increases.	2017-18: $64-90M decreasing to $26-36M in 2020-21.
(Updated for Feb 1 Deck) **3) Electricity Support Programs Funded Through the Tax Base** **Provide greater support for lower income Ontarians by enhancing the OESP, expanding eligibility, and simplifying access to achieve 100% take-up.** • **Estimated to reduce average monthly residential bill by $0.83 based on current OESP charge.**	• There may be a risk that changes to the design of the OESP may change the view of the federal government that it is not a taxable benefit. When OESP was created, TPD worked with Finance Canada and Energy to ensure that it was not considered a taxable benefit. • Feds may be unwilling or unable to administer OESP due to complexity and the significant restrictions that apply to using federal tax forms. • Would provide on-bill benefits. • Could contemplate phase-in to manage fiscal impact. • Could look at phasing out existing fiscally-funded programs also targeted to low income or identified groups (e.g., OEPTC, NOEC). o Not on the bill, so less direct and less visible electricity cost mitigation. o Phase-out to reflect time to increase application based OESP reaching an increasing portion of eligible households.	<u>OESP</u> • 2017: $162M • Increasing to $408M in 2022.
4) Low Income / Affordability **Low Income Conservation Benefit Program** **LDC Affordability Fund**	• Existing low-income programs delivered by LDCs and IESO help qualified residential customers and social and/or assisted housing providers improve their energy efficiency. Programs include a Home Assistance Program and a Retrofit Program. • Energy is currently working with IESO to explore options to enhance and/or expand the existing Home Assistance Program for residential customers. o Participants could receive incentives for improved weatherization measures, appliances and lighting controls (e.g., new or upgraded furnace and central AC; windows/doors; washer/dryers, heat pumps. • Energy is exploring the potential to establish an Affordability Fund.	<u>Low Income Conservation Benefit</u> $12.5M in 2017-18 to $30M in 2018-19 and 2019-20, and $22.5M in 2020-21. <u>(In addition to current $10M/Yr)</u>

Energy Theme / Rationale / Savings	Key Staff Comments	Estimated Fiscal Cost
	o To allow for funds to flow in 2017/18, Energy would sign a Transfer Payment Agreement with a qualified third party/ies to administer the Fund. o LDCs would apply for funding and redistribute support to those customers that meet the targeted eligibility criteria. Energy states that establishing an Affordability Fund could provide a means to help struggling customers who do not qualify for low income programs and cannot upgrade their homes without financial assistance.	LDC Affordability Fund TBD. Energy notes $200M as an illustrative amount.

SUMMARY: FISCAL EXPOSURE ELECTRICITY PRICE MITIGATION – FEBRUARY 61 DECK

($M)	2016-17[1]	2017-18[1]	2018-19[1]	2019-20[1]	2020-21[1]
ENERGY'S Recommended Initiatives*					
1) Debt-Finance Global Adjustment Fiscal Exposure	TBD (see below)	TBD (see below)	TBD (see below)	TBD (see below)	TBD (see below)
2) a. Delivery Rate Relief RRRP Enhancement ~~If Incl.~~ Existing RRRP ~~Cost to Tax Base~~	-	64-90 ~~306-332~~242	52-72 ~~300-320~~248	38-54 ~~293-309~~253	26-36 ~~287-297~~261
2) b. OESP Expansion ~~2)3)~~ Existing	-	54 16208	75 ~~225~~150	93 ~~279~~186	108 ~~323~~215
2) c. Low Income Conservation Program Expansion ~~2)~~ Existing	-	12.5 10	30 10	30 10	22.5 10
3) c. LDC Affordability Fund	200	TBD	TBD	TBD	TBD
3) OEB – OEB Red-Tape Reduction / LDC Efficiencies and Rates	-	-	-	-	-
4) OPG – Operational Efficiencies	-	240	240	240	240
5) IESO – Market Renewal Initiatives	-	-	-	-	-
Fiscal Exposure Total (Before GA Options):		**747**	**815**	**858**	**883**

GLOBAL ADJUSTMENT DEFERRAL OPTIONS:

($M)	2016-17	2017-18	2018-19	2019-20	2020-21
Proposed GA Fiscal Exposure, Scenarios 1a[2] January 24th Deck, 25, 30 yr financing	795 - 851	3,107 – 3,335	2,805 - 3,049	2,697 - 2,958	2,774 - 3,052
Proposed GA Fiscal Exposure, Scenarios 1b[3] January 24th Deck, 25, 30 yr financing	292 – 362	1,317 – 1,597	1,901 – 2,175	2,670 – 2,940	3,390 – 3,661
Proposed GA Fiscal Exposure, Scenario 1a February 46th Deck[4]	1,250	5,000	4,750	4,250	4,750
~~Proposed GA Fiscal Exposure, Scenario 1a February 4th Deck[4]~~	~~1,750~~	~~7,000~~	~~7,000~~	~~7,250~~	~~7,500~~
Proposed GA Fiscal Exposure, Scenario 1ca February 46th Deck[4]	1,000	3,750	3,000	3,250	3,500
Scenario 1c Incremental Rebate to 15%		876	871	1002	901
~~MOF - Alternate Proposals~~					
~~Expanded OREC (Additional 5%)[5]~~	~~689.44~~	~~689.44~~	~~7521.94~~	~~7521.94~~	~~689.44~~
~~OCEB-Like Program (at 12%)[6]~~	~~1,551~~	~~1,578~~	~~1,623~~	~~1,693~~	~~1,551~~
~~Shifting Industrial Conservation Initiative to Tax Base~~	~~~900~~	~~~900~~	~~~900~~	~~~900~~	~~~900~~

1. Based on estimated / forecasted numbers [May have some variations from the January 24 deck.]
2. Range based on fiscal exposure of Options 1a 25-year and 30-year financing periods, respectively from CEFD Analysis.
3. Range based on fiscal explosure of Options 1b 25-year and 30-year financing periods, respectively from CEFD ~~analysis~~Analysis.
4. Estimates are based scenarios provided in the February 4th deck and preliminary [CEFD staff have not reviewed the modelling figures]

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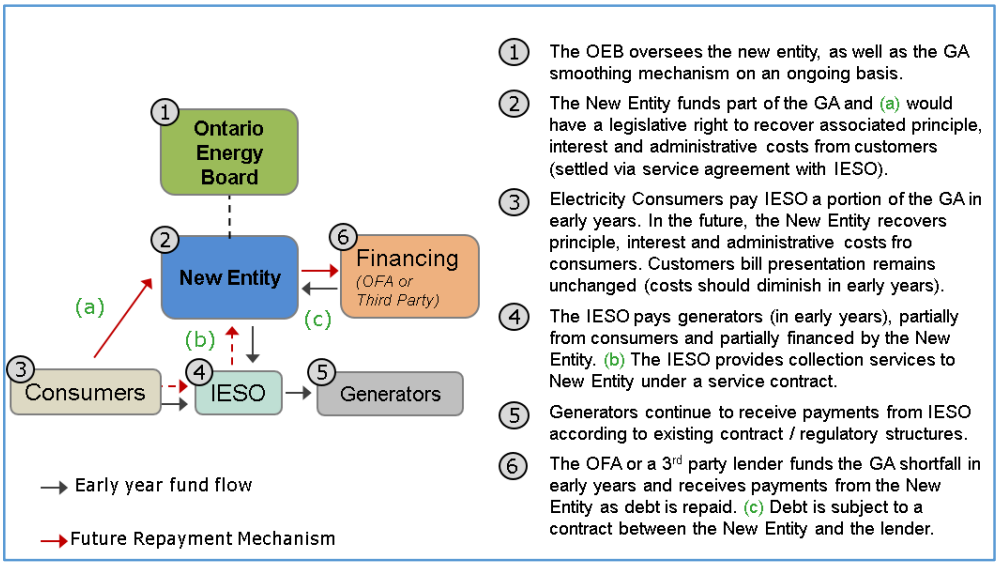
GA DEFERRAL IMPLEMENTATION OPTIONS

- The Ministry of Energy (Energy) indicates that it is continuing to consider options in terms of implementing the GA deferral mechanism.
- Objective includes accounting treatment that would not result in a fiscal impact.
- Two leading options currently under consideration are as follows:

    - Option A: Create a new special purpose entity, independent from the Province that would be dedicated to GA smoothing.
        a) Objective would be that it not be a consolidated entity in Public Accounts.
        b) Would need to be not controlled by the Province for accounting purposes.
        c) Energy has introduced the OEB into this model, where the OEB could be empowered to approve the GA smoothing mechanism and oversee the operations of the entity ~~on,~~ e.g., on compensation.

    - Option B: Make changes to IESO in order to enable it to assume responsibility for GA smoothing.
        a) Objective would be for it to be able to not have the annual deferral of the GA amounts affect its bottom line, and not affect the Province on consolidation.
        b) Energy discusses achieving Government Business Enetrprise (GBE) accounting treatment.
        c) Would require legislative changes for the IESO.
        d) Would need to enhance OEB's role in regulating the IESO and GA deferrals and recovery.



Control / Governance of a New GA Entity

- To achieve the desired accounting treatment, the entity would have to be structured as follows:
  - While the Province would choose the first board of directors or trustees, future directors or trustees would be selected in accordance with a mechanism created at the time the entity is created. The Province would have no ongoing role in appointments or in selection of key personnel, including the CEO.
  - The Province would not have a determining vote in the entity's business decisions.
  - The Province would have no recourse to the entity's assets and would not be responsible for the debt.
  - The Province could not dissolve the entity and having access to its assets and obligations.
  - The Province would not be able to change the mission or mandate of the entity, once it is created.
  - The Province would have no right to approve business plans or budgets or to require amendments to them.
  - The Province would not be able to alter the terms of the entity's debt arrangements.
  - The Province would not be able to affect the debt by controlling the entity's financial and operating policies.
  - The Province would not have input into the operational and financial policies of the entity, including accounting, personnel, compensation, collective bargaining or deployment of resources. For example, legislation like the *Broader Public Sector Executive Compensation Act, 2014* would not apply.
- As a result,
  - Staff would not be OPS employees.
  - Oversight would not be provided by Offices of the Legislature (AG, FAO etc.).
  - The *Freedom of Information and Protection of Privacy Act* would not apply.

GBE Status

- Energy notes that it would need to determine whether it is likely that IESO could be sufficiently transformed in order to meet the following accounting tests:
  - Government Business Enterprise (GBE) Treatment: consistent with OPG and Hydro One, this treatment would require consolidation of only net income and equity (as opposed to line-by-line consolidations currently applied to IESO). This test includes the following components:
    - Separate entity.
    - Delegated financial / operational authority to carry out a business.
    - Sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity.
    - Can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.
    - Power to contract in own name.
    - Sue and be sued.

Comments:

- Without a favourable outcome on the discussions and implementation of the accounting treatment of the GA-related debt financing, the accumulated debt would potentially represent a fiscal exposure to the Province.
  - In addition, the outcome may not be known until after the implementation of the proposal and at such a later stage as following the review of the Province's Public Accounts by the Auditor General.
- For Option A, the issue of control is ~~a~~ significant ~~issue~~ in determining whether the entity would need to be consolidated with the Province or not.

- ~~Although public sector entities may not control variable interest entities, they are the ultimate beneficiaries if they are exposed to the majority of potential losses, or will receive the majority of potential returns.~~
- ~~This relationship may constitutes an economic ownership where a public sector entity does not legally own or directly control a variable interest entity, but does derive economic benefit from the prospective risks and rewards of its financial activity.~~
- ~~If Should the OFA provides funding to the new entity, the Province, through related party transactions, is would essentially redirecting funds to itself:~~
- ~~The Province (OFA) → New Entity → The Province (IESO) [where the IESO is consolidated line-by-line to the Province]~~
- ~~The Province is would indirectly benefiting from this arrangement and is affected by the risks and arewards; thus, consolidation is likely.~~
- ~~If a third party were to lend to the New Entity, there is the question of what assets or activities would be placed into the New Entity to secure the loans.~~
- ~~The accounting standards applicable to the entity, as well as the ability for regulatory accounts to be recognized, are additional concerns for the creation of this entity.~~
- ~~Special purpose vehicles (SPVs) are generally intended to isolate risk for the entity with the variable interest in the SPV.~~
- ~~If a related party to the Province funds the SPV, the risks and rewards have would have not been transferred.~~

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- ~~If an arm's length third party not associated with the government should provides the funding, substantial assets in the SPV as collateral and/or significantly high return would likely be required for any organization to consider this proposition.~~Energy has been meeting with OPCD, KPMG and the IESO on accounting issues.

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- ~~a)~~

- For Option B, it remains to be seen if the IESO could be transformed sufficiently to be treated as a Government Business Enterprise (GBE), as in the case with Ontario Power Generation and Hydro One.
  - GBEs are incorporated into the Province's financial statements through the modified equity method; inter-organizational transactions and balances are not eliminated under the modified equity method as per CICA Public Sector Accounting Standards.
  - While not mentioned in the slides, an objective may be to have the IESO be able to have rate-regulated accounting so that it can have a regulatory asset for deferred recovery of the GA costs, as approved by the OEB.
  - A key question for the IESO include it being able to demonstrate that it is self-sustaining.
  - ~~GBEs are incorporated into the Province's financial statements through the modified equity method; inter-organizational transactions and balances are not eliminated under the modified equity method as per CICA Public Sector Accounting Standards.~~
  - ~~The IESO is already in a negative net asset position, with liabilities exceedings assets, which puts into question its ability to be considered a GBE in the first place.~~
  - ~~High risk that even if IESO is considered a GBE in the onset of the program, it could lose that status during the debt borrowing program due to uncertainty surrounding the ability to recognize regulatory assets, and IESO's history of accumulated deficits in its operations and balance sheet.~~
  - ~~When the nature of a government organization changes such that it no longer meets the definition of a GBE, the organization would become a governmental unit and would be consolidated in the Province's summary financial statements.~~
  - ~~o~~
- Both proposals will require significant legislative changes with no clear indication of success in achieving the desired accounting outcome.

- The GBE option involving the IESO could still ~~lead~~have to the ~~rating agencies~~ treatment of the GBE's debt as part of the Province's rating calculations by rating agencies~~, defeating the intent of the proposal~~.

PROBABILITY ASSESSMENT OF A FAVOURABLE ACCOUNTING TREATMENT

- Energy's proposal involving either the new entity, as mentioned above, or the IESO being transformed sufficiently into a GBE is intended to separate the deferred GA-related debt from the Province's accounts and ~~insulate~~avoid ~~from~~ consolidation.
- ~~CEFD staff are of the view that t~~The fiscal consolidation exposure of the deferred GA amount, as a risk, is significant ~~and that most of the deferred GA amount, if not all, would be a fiscal hit in the eyes of an independent reviewer~~.

~~From a policy advice perspective, a probability assessment would be beneficial in helping the decision makers make the right policy decision.~~

~~A policy decision with less than 50% probability of success, say 30%, and that leaves the ultimate outcome in the hands of an Auditor General, with a significant uncertainty, may not be a sound policy advice.~~

- ~~Furthermore, e~~Even if the preferred accounting treatment is initially accepted (i.e., treating the new entity as an SPV that is not consolidated and/or the IESO as a GBE), there is a high risk that this status can change over time due to uncertainty in OEB rulings, continuously changing accounting standards, and the financial operations of the entity options being considered.~~[Could we add the accounting implications about control, etc. here?]~~

~~A fair question to ask the accounting experts involved would be to provide a probability statement they would be prepared to defend.~~

- If fiscal consolidation of the GA option is likely, ~~A full~~ consideration of a more ~~well- defined and~~ targeted relief in the form of, e.g., an enhanced OREC or a revised and enhanced version of the former Ontario Clean Energy Benefit (OCEB), which provided a 10% ~~relieve~~benefit on the entire electricity bill, including the Harmonized Sales Tax (HST), may be a policy alternative worth considering.
  - As was the case with the former OCEB, the revised version of the OCEB may have a time-limited aspect with an effective end date and not have the negative aspects of the GA-related proposals which may have a long-lived legacy with intergenerational implications and related legal challenges.

APPENDIX

- As an alternative to the GA financing, in addition to the delivery rate relief and other electricity support programs funded through the tax-base, Energy had previously proposed that other mitigation measures could be pursued, including:

  Alt 1. Enhanced Tax-Based RPP Rebate (5%)

  Alt 2. Contract Renegotiations:
  - Contract Extensions – Wind and Solar;
  - Clean Energy Supply (CES) Contracts

  CEFD staff are of the view that contract renegotiations, such as contract extensions, could provide potentially beneficial outcome and warrant as much consideration as the Global Adjustment-related proposals. While contract renegotiations are thought to be difficult, implementation of GA-related proposals would expect to have its own significant challenges.

  Alt 3. Amortization of Conservation Expenses

Alternative Options if not proceeding with the GA proposal		
Energy Theme / Rationale / Savings	**Key Staff Comments**	**Estimated Fiscal Cost**
(Based on Jan 24th Deck) **Alt 1) Enhance Tax-base RPP Rebate by 5%, to 13% [or 15% in Scenario 1c in the Feb ~~46~~ 6th version]** • **Estimated to reduce average monthly residential bill by $7.04 in 2017 to $7.83 in 2022**	• This proposal would increase the funding requirement of the newly established Ontario Rebate for Electricity Consumers (OREC) by about $700 million per fiscal year, to reduce an average residential bill by about $7 each month or $84 annually. • The current OREC provides average savings of about $11 each month or $130 annually. • Note OREC and RPP have slight variations in eligibility. o Hotels, motels and various other buildings are eligible for OREC while being ineligible to RPP.	• About $700M per year [when enhancing the rebate by 5%]
(Based on Jan 24th Deck) **Alt 2) Alternative to GA Financing – Contract Renegotiations** **Alt 2a) Wind and Solar Contract Extensions** **Alt 2b) Clean Energy Supply Contracts**	• This proposal involves renegotiating current IESO contracts with wind, solar, and natural gas providers in order to reduce rates in the near term. • Potential to defer costs into the future for the Global Adjustment without provincial borrowing for wind and solar contracts. o Estimated savings could be higher than $0.09 per month for the average bill for the first five years when rates are kept to a minimum. • For the Clean Energy Supply (CES) contracts, the outright purchase of natural gas assets in order to temporarily idle them could reduce monthly residential bills by an estimated $2.37 to $4.00 from 2017-2019.	• TBD • Impact from wind and solar contract extension depends on success of IESO negotiations. Generally will be funded by the ratebase. • Potential fiscal impact from reduction in OPG Net Income and

Alternative Options if not proceeding with the GA proposal		
Energy Theme / Rationale / Savings	**Key Staff Comments**	**Estimated Fiscal Cost**
	o Provincial borrowing would be required to fund the asset purchase. o Suggested targets like Portland and Brighton Beach are currently valued at $324M on OPG's balance sheet for OPG's 50% ownership interest; would likely cost significantly more than $324M to acquire the remaining 50%. • For all contract negotiations, the potential rate mitigation depends on each individual contract/project as well as the success of the negotiation. • Risk that the strong bargaining position of counterparties to IESO contracts leads to additional value extracted from negotiations. • The additional costs to extend contracts and to lower near term costs may lead to larger rate increases in the future.	provincial borrowing required for gas asset purchases for the CES option
(Based on Jan 24th Deck)		
Alt 3) Conservation Amortization • **Pursuing this option would result in approximately $1/month in savings from 2017 to 2020.**	• Approximately $3 billion will be spent on conservation programs between 2015 and 2020, which is recovered through the GA. Alternatively, a certain portion of this amount could be amortized over 10-year or 15-year terms with the IESO borrowing from the OFA to fund these incentives. • This benefit would turn into a cost due to growing interest charges. • Interest charges (at 3%) would be approximately $712 million (10-year amortization or $1.3 million (15-year amortization) which would be recovered from ratepayers, subject to legislative changes or from the Consolidated Revenue Fund (i.e., taxpayer) • If this option is pursued, the Ministry of Energy would seek a formal opinion from the Ontario Provincial Controller whether certain costs can be amortized in accordance with rate-regulated accounting standards. Further legal analysis would also be required.	• Potential for interest costs to be recovered from Taxpayers • Alternatively, portion of the conservation program costs to be recovered from the tax base.

From: John Kim
To: Bruno Amara
Subject: Electricity Price Mitigation Discussion v3.docx
Date: Friday, May 05, 2017 3:43:09 PM
Attachments: Electricity Price Mitigation Discussion v3.docx

A speaking points from during the conception phase.

\\ofina.on.ca\ofadfs\Users\CEF\Hydro 2017\Electricity Prices\Mitigation Proposals\MMMP

ELECTRICITY PRICE MITIGATION DISCUSSION – MMMP
FEBRUARY 9, 2017

POTENTIAL SPEAKING POINTS

General Comments

- I want to thank the Ministry of Energy for developing options to deliver on government initiatives to lower electricity costs for consumers.

- I would encourage the Ministry of Energy to work with Ministry of Finance staff and Treasury Board Secretariat staff, including the Provincial Controller, on the analysis of the options to ensure that the government is well-informed on the options so that decisions are based on sound analysis and advice.

- I understand the need for mitigating electricity price pressures and to help those electricity consumers most in need but we could be creating new added cost pressures for decades to come under many of the GA-related scenarios.

- The options on the table - involving hundreds of millions to billions of dollars per year - require a significant amount of due diligence and review, and a full discussion amongst us and the full Cabinet.

- I understand that the details of the structure still need further analysis, such as on the accounting treatment and whether it would then affect the Province's Public Accounts.
    - A key fiscal objective is to have the entity performing the Global Adjustment deferral financing not be consolidated into Public Accounts on a line-by-line basis and avoid a fiscal impact.
    - Structures that have been looked at include a new, separate, non-controlled entity; restructuring the IESO as a government business enterprise (GBE); or OPG.
    - Some key considerations, generally and for accounting, is to evaluate if the entity is self-sustaining; and, if with the IESO or OPG, that it is a

business that sells goods and services to entities outside of the government reporting entity.
    - The entity would have to be able to recognise as an asset the future recoverability of the deferred costs, including the billions of dollars of accumulated interest costs.

- It is important to take the take the time to do a full analysis of the options to make sure that
    - They are properly costed based on the best information available, and with cost sensitivities identified too, if electricity costs or consumption volumes change, or if the interest rate environment changes.
    - The accounting treatment considerations are well-understood, that would affect how these options might affect our path to budget balance and the Province's net debt to GDP ratio.
    - The required legislative changes are well-thought out and drafted so that there are no surprises.

- It would be very important to get this right first to ensure the best possible launch of a major new initiative.
    - This will need to be considered carefully and not be rushed to meet some hypothetical public communications rollout timelines, and here will be significant communications challenges.

- It's also important to weigh any decisions on the electricity price mitigation options against other key government objectives:
    - Balancing the 2017 Budget in the 2017-18 fiscal year, and on-going.
    - Depending on the accounting treatment the Global Adjustment deferral options would add significantly to the challenge to meet the balanced budget commitment.
    - The fiscal exposure could be in the range of $6 billion per year in the non-targeted options, or in the $1.5 Bn to $3 Bn range if targeted to residential and small business consumers on the Regulated Price Plan.

- The accumulated debt in the broader plan could reach $90 Bn in the broad-based options, or a still significant $18 to $32 Bn in the RPP-targeted options.
- The various electricity price mitigation options would also compete with resources that could be used to meet other government priorities.

Comments on Potential Options

- Global Adjustment (GA) Smoothing
  - Using the GA to provide electricity rate mitigation to consumers will be providing a benefit to a wide range of customers, even if limited to Regulated Price Plan (RPP) customers, some of whom may be more or less challenged by electricity costs than others.
  - In an environment of other objectives on balancing the budget and other priority initiatives, focussing on targeting relief for the most vulnerable to electricity costs should be seriously considered.
  - Smoothing the GA amounts by deferring payments would add a significant amount of debt to be serviced and repaid by future ratepayers in the Province.
  - This would include a significant amount of interest cost associated with the GA cost deferral -- with perhaps almost as much or more in interest costs to be paid over time than the actual amount of cost deferred – just like a mortgage on a house.
  - Even at an assumed about 5% interest rate, that's a lot of added costs to future ratepayers, and they'd be exposed to potentially higher interest costs too, depending on who does the borrowing (the OFA or another entity), and future interest rates.

- I understand that a number of options have been explored on what entity would be established to be responsible for financing the deferred costs and holding the debt that it would to pay off from future payments from ratepayers: Potentially a new entity, or an existing entity such as the IESO, or, more recently, the option of restructuring Ontario Power Generation into a

holding company with a new subsidiary established to finance the GA cost deferral.

- The objective would be to have a structure that could cost effectively defer the GA costs while not have an in-year consolidation impact on the Province's bottom line.

Other Options

- Tax-basing existing electricity price mitigation programs such as the existing Rural or Remote Rate Protection (RRRP) program and the Ontario Electricity Support Program (OESP) (combined about $400 million per year and climbing) would be a fiscal challenge.

    - As these are already supported on the rate base, with costs spread out widely, fiscal considerations should be raised.

- Aggressively pushing OPG to find efficiencies and building prospective cost reductions into OPG rates would be a significant fiscal exposure.

    - If OPG were not able to find these further efficiencies, that would result in a negative fiscal impact estimated at up to $240 M per year by Energy.

From:	Salman Qadir
To:	Bruno Amara; Adam Prokop; Shajee Kathirgamanathan
Cc:	John Kim
Subject:	FHP Act - 25% reduction mechanism
Date:	Wednesday, May 03, 2017 1:06:21 PM

Hi all,

To Bruno's question about how the 25% reduction will occur, I looked through the latest regulation and below is a quick summary of how the transaction will work. All language is from the Act:

1. With respect to the 25% rate reduction determination, the latest regulation goes on as follows:

(2) Subject to subsection (3), [to more fairly measure and allocate the clean energy costs and clean energy benefits among present and future generations of specified consumers,] the rate for electricity payable by a specified consumer for the period beginning on May 1, 2017 and ending on April 30, 2018 is the average rate that would be payable by a representative consumer in order for the representative consumer to receive a monthly invoice amount that is 25 per cent less than the average baseline invoice amount.

First:
"average baseline invoice amount" means the average monthly invoice amount that would be payable by a representative consumer under the average baseline rate

Second:

For the purposes of the definition of "representative consumer" in subsection (1), the consumer,

(a) purchases electricity directly from Toronto Hydro;
(b) has an account with Toronto Hydro that falls within a residential-rate classification as specified in a rate order made by the Board under section 78 of the Ontario Energy Board Act, 1998;
(c) is invoiced by Toronto Hydro on a monthly basis;
(d) is not invoiced by Toronto Hydro for electricity on an equal monthly payment plan or an equal billing plan; and
(e) uses, on average, 750 kilowatt hours of electricity each month.

Third:

"average baseline rate" means the average rate *that would be* payable effective May 1, 2017 by the class of consumers prescribed by the regulations under the *Ontario Energy Board Act, 1998* for the purposes of subsection 79.16 (1) of that Act, as determined by the Board *by applying the method prescribed by the regulations under clause 79.16 (1) (b) of that Act*

2. With respect to how the financing charges are flowed through:

- **Essentially IESO will have funding shortfall, as defined below, which will be the regulatory asset. Funding shortfall will include finance amounts that would have otherwise flowed to consumers.**

First:

Upon receipt of an invoice that includes a clean energy adjustment, a specified consumer shall pay the clean energy adjustment to the electricity vendor, as agent of the investment asset owners, in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Second:

Determination of clean energy adjustment

10xx. (1) The clean energy adjustment payable by all specified consumers in respect of a reference period shall be determined as follows:

1. Calculate the estimated finance amount for the reference period in accordance with Schedule 1 and such additional rules as may be prescribed.
2. Add the true up amount for the reference period, as determined in accordance with the prescribed method, to the estimated finance amount calculated under paragraph 1.

Third:

11xx. (1) The IESO shall, in accordance with the regulations, issue a remittance notice to each electricity vendor for the electricity vendor's portion, as determined in accordance with the regulations, of the clean energy adjustment in respect of a reference period.

Forth:

"reference period" means,

(a) the period beginning on May 1, 2017 and ending on October 31, 2017,

(b) every six-month period following the period mentioned in clause (a) or such shorter period as may be set out in the Fair Allocation Plan

In effect to:

The IESO shall determine the IESO funding shortfall for each month in the following manner:

1. Calculate the sum of all invoice amounts issued to specified consumers for the

month if Part II of this Act did not apply.

2. Calculate the sum of all invoice amounts issued to specified consumers for the month.

3. Subtract the amount calculated under paragraph 2 from the amount calculated under paragraph 1, and make any other adjustments as may be prescribed.

Regulatory asset established

21xx. (1) The IESO has the right, exercisable in accordance with this Act and the regulations, to recover the IESO funding shortfall.

Other points to mention:

The IESO shall not be entitled to collect the IESO funding shortfall from specified consumers before May 1, 2022.

From:	John Kim
To:	Salman Qadir
Subject:	FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017
Date:	Tuesday, May 02, 2017 12:21:03 PM
Attachments:	FPC Agenda -May 3, 2017.docx ATT00001.htm 23121467-v9-Ontario Fair Hydro Plan Act - Briefing Presentation.pptx ATT00002.htm

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From: Ronald Kwan
Sent: Tuesday, May 02, 2017 10:19 AM
To: John Kim <John.Kim@ofina.on.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: Fwd: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

Hi,

Please review.

Comments?

Ron

Begin forwarded message:

> **From:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>
> **Date:** May 2, 2017 at 10:10:24 AM EDT
> **To:** Ronald Kwan <Ronald.Kwan@ofina.on.ca>, Mike Manning <Mike.Manning@ofina.on.ca>, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Cc:** Anna Strathy <Anna.Strathy@ofina.on.ca>, Deena Padamadan <Deena.Padamadan@ofina.on.ca>
> **Subject: FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017**
>
> Any thoughts?
>
> ---
>
> **From:** Anna Strathy
> **Sent:** Tuesday, May 02, 2017 9:16 AM
> **To:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>
> **Cc:** Hresa Gavaris <Hresa.Gavaris@ofina.on.ca>
> **Subject:** FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017
>
> FYI, materials for FPC tomorrow attached.
>
> ---
>
> **From:** Young, Gwendolynne (MOF) [mailto:Gwendolynne.Young@ontario.ca]

Sent: Tuesday, May 02, 2017 9:12 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Colleen Waddell (ENERGY) <Colleen.Waddell@ontario.ca>
Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
Subject: FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

Hi Anna and Colleen,

Tomorrow at Fiscal Prep (1015-1145), ENERGY is presenting on their submission for the Fair Hydro Plan Act. Attached is the agenda and deck.

Could you please line up Gadi and Scott to attend with the Deputy? Please let me know if there are any issues.

Thanks!
Gwen.

Gwen Young
p: 416.325.0741 | bb: 647.982.2419

From: McLean, David (MOF)
Sent: May 2, 2017 8:37 AM
To: Kim, Minzi (MOF); Clarke-Darshanand, Jamille (MOF); Young, Gwendolynne (MOF); Tekle, Jonathan (MOF)
Subject: FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

FYI

From: Bosco, Pina (CAB)
Sent: May 2, 2017 8:36 AM
To: Angus, Helen (TBS); Betzner, Lynn (CAB); Bevan, Andrew (OPO); Bossin, Bryan (OPO); Bromm, William (CAB); Davidson, Steven (CAB); Ghiassi, Ali (MOF); Greenberg, Martha (CAB); Hughes, Karen (TBS); Jackson, Kelly (MOF); Jancik, Mike (TBS); MacKenzie, Rebecca (OPO); Madhany, Shamira (CAB); McEachern, Gillian (OPO); McIntyre, Moira (OPO); Mendes, Elizabeth (MOF); Mksyartinian, Jacob (OPO); Orsini, Steve (CAB); Pichelli, Jason (TBS); Rowe, Mary (OPO); Schuurman, Tim (MOF); Thompson, Scott (MOF); Tomney, Genevieve (OPO); Zegarac, George (MOI)
Cc: An, Derrick (OPO); Baird, Natasha (MOF); Borges, Judy (OPO); Bosco, Pina (CAB); Corluka, Marijana (CAB); Farrow, Alicia (CAB); Foster, Robert (CAB); Hartog, Erika (TBS); Kwamena, Boafoa (CAB); Laughton, Patrick (TBS); MacIntyre, Kyle (TBS); Marangoni, Emily (OPO); Matela, Angelo (CAB); McLean, David (MOF); Noursi-Scott, Diana (OPO); Roach, Jackie (CAB); Tinkler, Tanya (CAB)
Subject: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

Good morning everyone,

Attached is the agenda and resending the material for tomorrow's Fiscal Prep Committee meeting.

Have a good day,

Pina

Pina Bosco
Executive Advisor (Acting)
Office of the Secretary of the Cabinet
416-325-7641

From: Bosco, Pina (CAB)
Sent: May-01-17 9:06 PM
To: Angus, Helen (TBS); Betzner, Lynn (CAB); Bevan, Andrew (OPO); Bossin, Bryan (OPO); Bromm, William (CAB); Davidson, Steven (CAB); Ghiassi, Ali (MOF); Greenberg, Martha (CAB); Hughes, Karen (TBS); Jackson, Kelly (MOF); Jancik, Mike (TBS); MacKenzie, Rebecca (OPO); Madhany, Shamira (CAB); McEachern, Gillian (OPO); McIntyre, Moira (OPO); Mendes, Elizabeth (MOF); Mksyartinian, Jacob (OPO); Orsini, Steve (CAB); Pichelli, Jason (TBS); Rowe, Mary (OPO); Schuurman, Tim (MOF); Thompson, Scott (MOF); Tomney, Genevieve (OPO); Zegarac, George (MOI)
Cc: An, Derrick (OPO); Baird, Natasha (MOF); Borges, Judy (OPO); Bosco, Pina (CAB); Corluka, Marijana (CAB); Farrow, Alicia (CAB); Foster, Robert (CAB); Hartog, Erika (TBS); Kwamena, Boafoa (CAB); Laughton, Patrick (TBS); MacIntyre, Kyle (TBS); Marangoni, Emily (OPO); Matela, Angelo (CAB); McLean, David (MOF); Noursi-Scott, Diana (OPO); Roach, Jackie (CAB); Tinkler, Tanya (CAB)
Subject: MATERIAL: Fiscal Prep Committee, May 3, 2017

Hello everyone,

Attached is material for this week's Fiscal Prep Committee mtg which is scheduled to take place on Wednesday, May 3rd from 10:15 – 11:45 in Boardroom 6501.

Thank you,

Pina

Pina Bosco
Executive Advisor (Acting)
Office of the Secretary of the Cabinet
(416) 325-7641

2017 Fiscal Preparation Committee
AGENDA

May 3, 2017 10:15 – 11:45

Room 6501, Whitney Block

ITEM AND MINISTRY	ESTIMATED TIME
Energy- Fair Hydro Plan Legislation	10:15 – 11:45

The Proposed Fair Hydro Act

May 3, 2017

Purpose

- Purpose is to walkthrough the main elements of the legislation.

- The Act consists of two components:
  - Part 1: Legislation to provide for the fair allocation of costs of electricity over time \
  - Part 2: Legislative amendments for social programs

- The proposed *Fair Hydro Act, 2017* would be an omnibus bill with 2 schedules: the *Ontario Fair Hydro Plan Act, 2017* and amendments to the *Ontario Energy Board Act, 1998*

Part 1 – Overview of Legislation to Provide for the Fair Allocation of Costs of Electricity Over Time

1. Ontario Fair Hydro Plan Act – Fundamental Principles
2. Brief Overview of the Legislation
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4. Building Blocks of the Legislation
   - What costs are part of the program?
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   - What consumers does the program apply to?
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4. How the Legislation Works
   - Clean Energy Initiative
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   - Clean Energy Adjustments
   - Fair Adjustment
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   - Issuance and Payment of Debt
   - Financing Plan
5. Who Does What
   - Minister of Energy
   - Role of OPG
   - Role of IESO
   - Role of LDCs
   - Role of OEB

Ontario Fair Hydro Plan Act – Fundamental Principles

- The actions taken by the Government of Ontario to achieve a clean, modern, and reliable electricity system have resulted in significant costs. The burden of financing the electricity system improvements and funding key programs has unfairly fallen on the shoulders of today's consumers.

- The proposed Ontario Fair Hydro Plan Act (OFPA) is founded on the principle that costs related to the development of a clean, modern and reliable electricity system (with a diverse supply mix) ought to be charged to those consumers, today and in the future, who will be the beneficiaries of those costs.

- The Government of Ontario is committed to ensuring that the costs of financing these investments are allocated fairly among present and future generations of consumers.

- The challenge inherent in the development of the legislation was the need to balance several key factors: the fundamental principles of the program, the program's desired accounting treatment, ratepayer interests, expectations of the financial markets, financeability, and legal considerations.

Stakeholder Consultation and the Process to Prepare the Legislation

- The development of the Ontario Fair Hydro Plan Act was preceded by extensive consultation, on an ongoing basis, with representatives from the Ontario Energy Board (OEB), IESO, Ontario Power Generation (OPG), the Ontario Provincial Controller's Office Division (OPCD), the Ministry of Energy, the Ministry of Finance, dealers, investment advisors and Canadian (and in some cases U.S.) counsel for each of the involved parties.

- As appropriate, other Ministries were circulated with drafts of the legislation and consulted on particular issues.

- Several drafts of the legislation were circulated among stakeholders and several mark-ups of draft legislation were received in response.

- Lengthy face to face meetings also took place with stakeholders and their counsel both as a group and individually.

- Legislative counsel were involved on a daily basis and produced multiple versions of the legislation.

- A steering committee chaired by the Deputy Minister met and were briefed weekly on the status of the legislation (i.e., the "Rate Mitigation Implementation Group" consisting of senior executives of the Ministry of Energy, Cabinet Office, Ministry of Finance, Treasury Board Secretariat, OFA, OPCD, OPG, OEB and IESO.

Brief Overview of the Legislation – Fair Allocation

- Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

- The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations.

- With respect to the “fair allocation”, the legislation identifies:
  - What costs ought to be more fairly allocated (“clean energy costs”);
  - Mechanisms to allocate costs fairly among generations of consumers (“fair adjustment” and “fair allocation”);
  - The consumers to whom the program applies (“specified consumers”);
  - How the program is funded (borrowing on the strength of the revenue stream from consumers); and
  - The roles of various provincial entities in the program (i.e., Minister of Energy, Ontario Energy Board, IESO and OPG).

Brief Overview of the Legislation – Financeability

- In order to ensure the financeability of the program, considerable portions of the legislation are devoted to dealing with the “nuts and bolts” of what is required for successful financing including,
  - The quantification of the value of the regulatory asset;
  - The transfer of the regulatory asset to the (OPG) financing entity (which creates the “investment asset”);
  - The establishment of the “invoicing” process that ensures the investor’s “line of sight” to the investment asset;
  - The establishment of an OPG financing plan to ensure, among other things, an appropriate program of financing the shortfalls that are created by the deferred collection of revenues; and
  - Provisions setting out the way in which the financings are backed by amounts payable by specified consumers.

Building Blocks of the Legislation – What Costs are Part of the Program?

- In order to achieve its purpose, the legislation establishes the following “building blocks”:
  - Clean Energy Initiative – This is the term used to describe the Government of Ontario’s policies to foster growth and investment in and remove barriers and promote opportunities for clean and renewable energy sources and technologies and promoting conservation and demand management. The “clean energy costs” under the legislation arise from the “clean energy initiative”.
  - Clean Energy Costs – These are costs (attributable to the “clean energy initiative”) that are to be more fairly distributed among generations of consumers.
  - Clean Energy Benefits – These are the value of the benefits derived by the “specified consumers” (including the clean energy costs).
  - Clean Energy Adjustments – This is adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing.

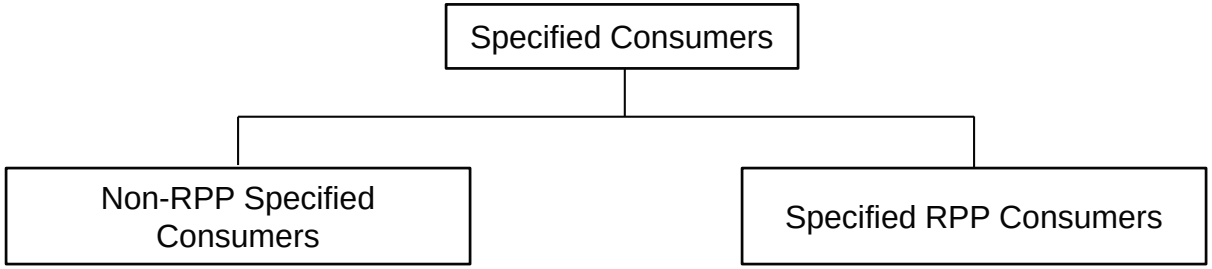
Building Blocks of the Legislation – How are the Costs to be Allocated?

- Fair Adjustment – This is the adjustment that gives the “relief” to certain specified consumers during the period from July 1, 2017 to June 30, 2021 (including this program’s portion of the 25 per cent reduction).

- Fair Allocation Amount – This is the concept/mechanism by which the fair distribution of “clean energy costs” (including, for example, financing costs, the cost of the power contracts, and the costs of the fair adjustment) is calculated and implemented.

Building Blocks of the Legislation – What Groups of Consumers Does the Program Apply To?

- Specified Consumers – This is the defined group of consumers to whom the legislative program applies. These consumers are persons who have an account with an electricity vendor for the supply of electricity in Ontario and,
  - Have a demand for electricity of 50 kilowatts or less (or as otherwise prescribed);
  - Annually use not more than 250,000 kilowatt hours of electricity (or as otherwise prescribed);
  - Carry on a farming business (basically pursuant to the *Farm Registration and Farm Organizations Funding Act*);
  - Have an account with an electricity vendor that is for a “dwelling”, condominium property, residential complex or co-operative housing; or
  - Are otherwise prescribed.



Building Blocks of the Legislation – How is the Program Financed?

- The ability to engage in the fair distribution of clean energy costs among the specified consumers requires financing during periods where the collection of the clean energy costs is, as part of the fair allocation, deferred to later years (thereby creating a revenue shortfall). A series of complex provisions are required to:
  - (i) Enable the financing, and
  - (ii) Meet requirements known to be important to rating agencies and investors.

- Regulatory Asset – This is fundamentally IESO's right to recover the revenues that it has deferred collecting because the clean electricity costs are being allocated across generations of ratepayers.

- Investment Asset – This is the asset that results when the regulatory asset is transferred to the (OPG) financing entities.

- The (OPG) financing entities will fund the acquisition (transfer) of the investment asset in the capital markets.

How the Legislation Works – Clean Energy Initiative

- The “clean energy initiative” concept is set out by definition. Its purpose is to establish the fundamental basis for the legislation.

- The definition is self-explanatory and is as follows:

“clean energy initiative” means the policies of the Government of Ontario related to,

a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,,

b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

c) promoting conservation, demand management and energy efficiency; and

d) investing in energy infrastructure to ensure a clean, modern and reliable system;

How the Legislation Works – Clean Energy Costs and Benefits

- "Clean energy costs" are those costs that arise from the "clean energy initiative" and are allocated to the specified consumers for past, present and expected costs.

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (basically, the Global Adjustment provisions) which relate to contracts for,
  - Renewable energy generation or capacity;
  - Conservation and demand management, including shortage;
  - Energy efficiency; and
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*

- Other such costs to be included in "clean energy costs" may be prescribed

- These are the costs to be distributed fairly among the specified consumers through the "fair allocation amount".

How the Legislation Works – Fair Allocation Adjustment

- The fair adjustment provisions are set out in Part II of the legislation.

- Part II establishes that the rate that will be payable by "specified RPP consumers" from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the "comparison rate". The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.

- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).

- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.

How the Legislation Works – Fair Allocation Amount

- The Minister sets the fair allocation amount.

- The establishment of the “fair allocation amount” is required to,
  - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the “specified consumers” for applicable “reference periods”; and
  - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).

- The “fair allocation amount” is to have regard to:
  - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the “specified consumers” (in the applicable “reference periods”);
  - Reasonable assumptions regarding the time value of money, the number of consumers in the “reference period”; and
  - Expected electricity consumption for the reference period.

How the Legislation Works – Regulatory Asset and Investment Asset

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets.

- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a "regulatory asset". In simple terms, the regulatory asset is IESO's right to recover the revenues that it has deferred collecting.

- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities.

- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".

- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

How the Legislation Works – Issuance and Payment of Debt

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.

- The financings will be backed primarily by the “clean energy adjustments” payable by specified consumers. The “clean energy adjustments” will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the “fair allocation amounts” ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).

- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity’s related funding obligations.

- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario’s undertakings not to adversely affect the program through subsequent legislation.

How the Legislation Works – Financing Plan

- The Financing Plan is prepared by the Financial Services Manager (OPG).

- The Financing Plan is the plan which is intended to set out when a “funding obligation” (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the “investment interest” from IESO.

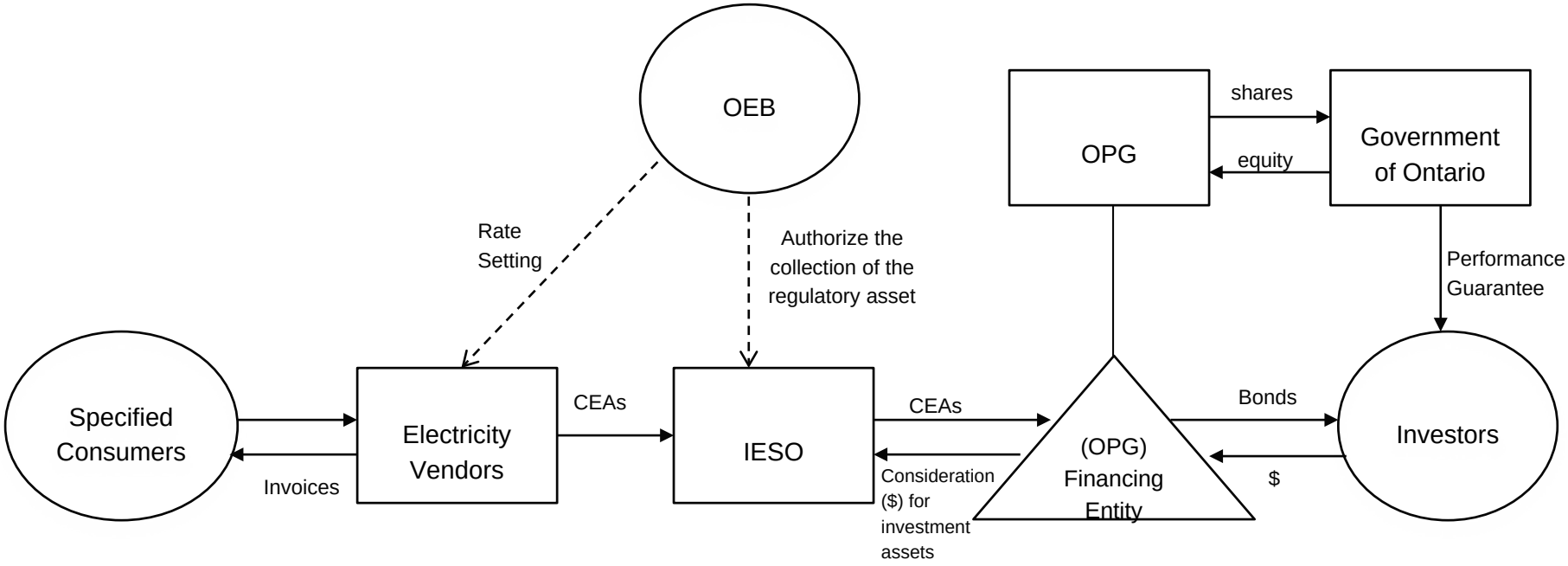
- There are rules that apply to the Financing Plan:
  - It must align with the “estimated finance amount” that will become due and payable during a “reference period”;
  - It must take into account the “fair allocation” and any “fair adjustment”;
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancings, redemption opportunities and liquidity, and similar assumptions).

How the Legislation Works – Financing Plan (Continued)

- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.

- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

How the Financing Structure Works



Note: CEAs are “clean energy adjustments”

Who Does What – Role of the Minister of Energy

- Determine the “fair allocation amount” applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.

Who Does What – Role of the OPG

- As financial services manager, OPG will be responsible for the following under the Act:
  - Prepare and implement Financing Plan.
  - Establish and administer the financing entities.
  - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.
  - Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

Who Does What – Role of IESO

- Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.

- Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.

- Coordinates the collection of "clean energy adjustments" from Electricity Distributors.

- Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.

- Fund initial interest costs and expenses during the first 4 years.

Who Does What – Role of LDCs

- Obligation to invoice specified consumers.
- Collect, as agent of the investment interest owners, “clean energy adjustments” from specified consumers.
- Hold money received for clean energy adjustments in trust until remittance to the IESO.

Who Does What – Role of the OEB

- Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).

- Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).

- Review the administrative costs of OPG in connection with the administration of the program.

Part 2 – Overview of Legislative Amendments for Social Programs

- As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:
  - Enhancing and providing tax-based funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates;
  - Enhancing and providing tax-based funding for the Ontario Electricity Support Program (OESP); and
  - Creating a new First Nation On-Reserve Delivery Credit and providing for tax-based funding.

Overview of RRRP and Broadened Distribution Rate Protection

- Section 79 of the *Ontario Energy Board Act* would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.

- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.

- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.
  - Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
  - This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit

- Energy is proposing legislative amendments that would establish a first Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.

- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.

- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

From:	John Kim
To:	Bruno Amara; Shajee Kathirgamanathan; "Salman Qadir"
Subject:	FW: Benchmarking and Performance for the Trust manager
Date:	Wednesday, May 10, 2017 7:59:25 AM
Attachments:	2017 05 09 GA Financing - Equity Injection Discussion v04.docx

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Could you have a look to see if any concern? I am thinking to have this as an EIGS product.

-----Original Message-----
From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Tuesday, May 09, 2017 6:10 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: Benchmarking and Performance for the Trust manager

Hey john - wanted to check in with you on this. Has there been any update since our call? I think carlos was going to try and figure out some additional details?

Separate but related note - I know Clara is anxious to get some details and figure out how this is going to work moving forward - I had this note from a while back so I have updated to reflect the approval ENE received. Do you think its worth updating this note to bring forward any decision points that we need direction on so that we can get something over to OPG?

Happy to chat
Kaitlin
416.326.6343

-----Original Message-----
From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: April 24, 2017 3:17 PM
To: Yep, Carlos (OFA); Montgomery, Kaitlin (MOF)
Cc: Manning, Mike (OFA); Kandeepan, Ken (OFA); John Psinas; Bruno Amara; Adam Prokop
Subject: RE: Benchmarking and Performance for the Trust manager

Hi Carlos,

I'm sure I'm not mis-representing Kaitlin's position if I say we would like you to walk me and Kaitlin through the proposals.

I have a reasonable sense of what they are brain-storming but need to understand some of the details better and at what level of OPG these proposals are coming from.

Thanks,

John

-----Original Message-----
From: Carlos Yep
Sent: Monday, April 24, 2017 2:02 PM
To: John Kim <John.Kim@ofina.on.ca>; 'Kaitlin.Montgomery@ontario.ca' <Kaitlin.Montgomery@ontario.ca>
Cc: Mike Manning <Mike.Manning@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Adam Prokop <Adam.Prokop@ofina.on.ca>
Subject: FW: Benchmarking and Performance for the Trust manager

Hi John and Kaitlin
I am just starting to work with Sheen at OPG on the benchmarking rate. Attached is OPG's initial proposal and my comments highlighted back to OPG.

OPG management is recommending the following:
1.Gain and loss are capped at +/-1.5% of notional amount of incremental sub-debt issuance for each year 2.If there is a gain, OPG shall realize 80% of it; if there is a loss, OPG shall realize 20% of it 3.Loss could be carried forward to offset future gain

Can you provide comments regarding the unequal sharing arrangement proposed by OPG And also about capping any gains and losses to +/- 1.50% in any one year

Thanks
Carlos

-----Original Message-----
From: Carlos Yep
Sent: Monday, April 24, 2017 1:49 PM
To: 'LIU Sheen -TREASURY' <sheen.liu@opg.com>
Subject: Benchmarking and Performance for the Trust manager

Sheen
I have attached some of my comments on your initial variable return benchmark note.
Regards
Carlos

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

GA Financing – Equity Injection

Briefing Note

PURPOSE:

- Provide an overview on the timing / mechanics for equity injections by the Province to OPG to support GA financing

CONTEXT:

- IESO will effectively sell the "right to collect" deferred future revenue from ratepayers (GA Asset) to the OPG Trust in return for cash proceeds
- In order for the OPG Trust to finance the GA asset on a long-term will obtain financing from two sources on an ongoing basis
    - 51% from capital markets
    - 49% as subordinated debt from OPG, which OPG will finance through:
        - **44% from equity injections from the Province**
        - 5% from capital markets
- OPG will require equity injections on an ongoing basis in order to keep its capital structure in line, and will require flexibility in order to issues shares as needed

LONG TERM APPROVALS:

Equity Injection Plan

- OPG would include forecasts of its equity requirements in its business plan each year (Fall), though this portion of the business plan would not be subject to concurrence by the shareholder
- The Ministry of Energy would seek appropriation on an annual basis through PRRT for the amounts requested by OPG
    - The Ministry of Energy has received appropriation for up to $1.1B in equity injections for the fiscal year 2017/18

SHORT TERM EQUITY INJECTION PROCESS:

- IESO settles contracts with and payments from LDCs / ratepayers
- IESO identifies shortfall and notifies OPG Trust and determines amount to purchase
- OPG Trust notifies OFA of corresponding equity injection requirement and number of shares issued
- OFA and OPG Trust settle equity injection amounts
- Timing for settlement of payments
    - [Five] business day window from notice to OFA to payment and settlement with OPG

    - XX business day window for final payment and settlement with IESO
- Equity injections by OFA to OPG expected to occur monthly; no Provincial involvement on approvals

OTHER CONSIDERATIONS:

- Share issuances currently environed to be redeemable by the Province and OPG may also have rights to buy back the shares
    - Would provide the Province with a flexible mechanism to redeem its equity investment and for OPG to return to a more suitable capital structure as GA financing program progresses
    - Shares may or may not be valued at par (i.e., $20 per share – as at December 31, 2016, OPG had 256,300,010 common shares outstanding at $5,126 million)
- Potential for ongoing valuation of shares either from financial statements or market-based valuation
    - Book value basis could be viewed as a subsidy and [risk GBE status]
    - Market valuation would account for premiums that are built over time
- May require a natural mechanism for OPG to return equity as borrowing ramps up and principal is repaid
    - Consider potential for OPG to also pay interest/dividends
    - Would also account for Province's cost of funding
- Private financing by OPG Trust (51%) and OPG (5%) will initially be through short term debt (e.g., Canadian money-markets) to be subsequently rolled over to long-term debt as soon as possible

From: Gavin He
To: John Kim; Bruno Amara
Subject: FW: CBN Fact Check
Date: Thursday, June 08, 2017 12:26:30 PM

Hi John/Bruno,

FYI – comments from OFA.

Regards,
Gavin He

From: Anna Strathy
Sent: Thursday, June 08, 2017 12:23 PM
To: David McLean (MOF) <David.McLean@ontario.ca>
Cc: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: CBN Fact Check

Hi David,

A few comments from us:

- Suggest a mention of accounting risks in the Fiscal subsection, particularly given the AG's stated position at Committee on this. May want to seek input from OPCD/TBS.
- Suggest including on page 6, as part of the objectives of the proposed regulations:
  - Details on how the interest on the Trust debt will be managed; and
  - The Clean Energy Adjustment as it relates to repayment from 2027 onwards.

Comments from CEFD will be relayed separately by Gavin.

Thanks, Anna

From: Ken Kandeepan
Sent: Thursday, June 08, 2017 11:34 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: RE: CBN Fact Check

Anna/Gadi

Agree with Gadi's point re accounting risks. No need for regulations for both the guarantee and the new credit facility to IESO(confirmed with Malle). I would also suggest that the objectives of the

proposed regulations spelled out on page 6 include:

- Details on how the interest on the Trust debt will be managed and
- The Clean Energy Adjustment as it relates to repayment from 2027 onwards.

Thanks

Ken k

From: Gadi Mayman
Sent: Thursday, June 08, 2017 11:04 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Re: CBN Fact Check

I find it interesting that in the Risks section there is a lengthy description of the constitutional risk in the Legal subsection, but there is no mention of the accounting risks in the Fiscal subsection, in spite of the AG's stated position at Committee on this. I think that it's a gap that needs to be at least mentioned in the CBN, doesn't it?

I'm assuming, because it isn't mentioned anywhere in the CBN, that there are no regs required for the guarantees that Mike has been working on with Blakes and OPG? Also, our direction on the $2 billion line of credit for the IESO can be done independently of these regs?

Thanks,
Gadi

On Jun 8, 2017, at 10:46 AM, Anna Strathy <Anna.Strathy@ofina.on.ca> wrote:

> Latest CBN for review and fact check. Dave is looking for our comments by 1:30pm. Ron is also reviewing.
>
> ---
>
> **From:** McLean, David (MOF) [mailto:David.McLean@ontario.ca]
> **Sent:** Thursday, June 08, 2017 10:38 AM
> **To:** Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
> **Cc:** Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
> **Subject:** CBN Fact Check
>
> Hi Anna and Gavin,
>
> Attached is the latest CBN for Energy's OESP reg. It is tracking to June 27th as part of the first of two bundles of regulations required for the implementation of the Ontario Fair Hydro Plan.
>
> CO has a hard deadline of 2:00 today, so I'm wondering if you guys can please have

your teams review and provide comments (if any) to me by 1:30?

Thanks,
Dave

<REG-11477_ID49242_LRC_CBN- DRAFT- OFHP regulations v5.docx>

From:	Gavin He
To:	John Kim; Bruno Amara
Subject:	FW: CBN Fact Check
Date:	Thursday, June 08, 2017 12:37:03 PM
Attachments:	Regulations 6 June 2017.docx

Hi John/Bruno,

FYI – see Ron's response to Gadi's question below.

Regards,
Gavin He

From: Ronald Kwan
Sent: Thursday, June 08, 2017 12:34 PM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: David McLean (MOF) <David.McLean@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: RE: CBN Fact Check

Hi Gadi,

As a comment, yes, no reg is needed for the OFA-IESO credit facility, but you've seen the OIC package to expand the OFA's borrowing room from the Province under CIPA to allow for the expanded credit facility. That's still tracking for the 27th.

And I had understood from the Energy weekly that the Energy regs would not all be ready at once (note the list from the materials Energy sent yesterday, as attached, where only some are listed as ready – though I did not see the IESO borrowing one mentioned in the CBN, though listed as "ready"), so this would just be the first set (not that I have yet to see any of the actual proposed regs, just this CBN).

Ron

From: Anna Strathy
Sent: June-08-17 12:23
To: David McLean (MOF) <David.McLean@ontario.ca>
Cc: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: CBN Fact Check

Hi David,

A few comments from us:

- Suggest a mention of accounting risks in the Fiscal subsection, particularly given the AG's stated position at Committee on this. May want to seek input from OPCD/TBS.
- Suggest including on page 6, as part of the objectives of the proposed regulations:
    - Details on how the interest on the Trust debt will be managed; and
    - The Clean Energy Adjustment as it relates to repayment from 2027 onwards.

Comments from CEFD will be relayed separately by Gavin.

Thanks, Anna

From: Ken Kandeepan
Sent: Thursday, June 08, 2017 11:34 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: RE: CBN Fact Check

Anna/Gadi

Agree with Gadi's point re accounting risks. No need for regulations for both the guarantee and the new credit facility to IESO(confirmed with Malle). I would also suggest that the objectives of the proposed regulations spelled out on page 6 include:

- Details on how the interest on the Trust debt will be managed and
- The Clean Energy Adjustment as it relates to repayment from 2027 onwards.

Thanks

Ken k

From: Gadi Mayman
Sent: Thursday, June 08, 2017 11:04 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Re: CBN Fact Check

I find it interesting that in the Risks section there is a lengthy description of the constitutional risk in the Legal subsection, but there is no mention of the accounting risks in the Fiscal subsection, in spite of the AG's stated position at Committee on this. I think that it's a gap that needs to be at least mentioned in the CBN, doesn't it?

I'm assuming, because it isn't mentioned anywhere in the CBN, that there are no regs required for the guarantees that Mike has been working on with Blakes and OPG? Also, our direction on the $2 billion line of credit for the IESO can be done independently of these regs?

Thanks,
Gadi

On Jun 8, 2017, at 10:46 AM, Anna Strathy <Anna.Strathy@ofina.on.ca> wrote:

> Latest CBN for review and fact check. Dave is looking for our comments by 1:30pm. Ron is also reviewing.
>
> ---
>
> **From:** McLean, David (MOF) [mailto:David.McLean@ontario.ca]
> **Sent:** Thursday, June 08, 2017 10:38 AM
> **To:** Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
> **Cc:** Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
> **Subject:** CBN Fact Check
>
> Hi Anna and Gavin,
>
> Attached is the latest CBN for Energy's OESP reg. It is tracking to June 27th as part of the first of two bundles of regulations required for the implementation of the Ontario Fair Hydro Plan.
>
> CO has a hard deadline of 2:00 today, so I'm wondering if you guys can please have your teams review and provide comments (if any) to me by 1:30?
>
> Thanks,
> Dave
>
> <REG-11477_ID49242_LRC_CBN- DRAFT- OFHP regulations v5.docx>

Updated: June 6, 2017

Regulations – Master List	
Social Programs	
• OESP O. Reg. 314/15 – amendments	Now tracking to June 27
• RRRP expansion to R2	In progress
• Distribution Rate Protection	Ready
• First Nation Rate Distribution	Ready
• Bill Presentment – require bill insert quarterly; prescribed messages; First Nations Delivery credit	Ready
GA Refinancing	
• Part II Reg.	In progress
• General Regulation	June 27
• O. Reg. 429/04 (GAM) – amendments	No longer required
• O. Reg. 280/14 (IESO Eligible Borrowing) – amendments	Ready
Other – Bill Presentment	
• O. Reg. 364/16 – repeal in part to remove 8% on bill and on envelope messaging; exempt Hydro One	COMPLETED
• O. Reg. 442/01 – remove RRRP messaging for Hydro One	Ready
• O. Reg. 275/04 – remove DRC message; exempt Hydro One	Ready

From: John Kim
To: Shajee Kathirgamanathan; Salman Qadir
Cc: Bruno Amara
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date: Tuesday, May 02, 2017 3:11:38 PM

Fyi, on the IESO.

From: John Kim
Sent: Tuesday, May 02, 2017 3:11 PM
To: James Strang (MOF) <James.Strang@ontario.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

One more point James along this line. It's fairly important in my view….

In the Minute, could we have something like:

"Note that the IESO has requested a credit facility from the OFA to manage liquidity issues between the time IESO requires financing for monthly settlements to meet the requirements of the FHP, and the time when OPG's SPV purchases the IESO regulatory asset, or as a backstop in the case of the regulatory asset not being purchased for a period of time. Note that the Minister of Finance will provide a directive to the OFA to provide a new or expanded credit facility for this purpose."

We are open to better wording from the experts on the Minute item and also as tied to the legislation terminology.

John

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Sent: May 2, 2017 1:58 PM
To: Strang, James (TBS)
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Thanks James.

At a few points in the OFA comments they say "The IESO has requested a backstop credit facility from the OFA." Do you know if the plan is to grant this request?

Thanks!

Tim Hindmarch-Watson
416-325-4618

From: Strang, James (TBS)
Sent: May-02-17 12:43 PM
To: Hindmarch-Watson, Tim (CAB)
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Have a great weekend,

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Justice, Resource and Environmental Policy
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From: John Kim
To: Ronald Kwan
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date: Tuesday, May 02, 2017 2:41:10 PM

Fyi, pls. note the CO inquiry.

From: John Kim
Sent: Tuesday, May 02, 2017 2:38 PM
To: James Strang (MOF) <James.Strang@ontario.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
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From:	John Kim
To:	Ronald Kwan
Cc:	Bruno Amara; Salman Qadir; Deena Padamadan
Subject:	FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date:	Wednesday, May 03, 2017 10:35:50 AM
Attachments:	OFA_AnnualLendingDirective-PublicBodies_2016-17-signed-directive.pdf OPA - Credit Facility.pdf OIC 1051-2012.pdf

Fyi, info so far. As mentioned in another email, we're looking into it.

From: Salman Qadir
Sent: Tuesday, May 02, 2017 4:28 PM
To: John Kim <John.Kim@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Hi John,

Just digging around on the question about what sort of approvals the OFA would need. The Capital Investment Plan Act states the following:

> Policies
> 16. (1) The Lieutenant Governor in Council may formulate policies for a corporation. 1993, c. 23, s. 16 (1).
>
> Directives
> (2) Subject to any policies under subsection (1), the minister may issue directives in writing to a corporation on matters relating to the corporation's exercise of its powers and duties under this or any other Act. 1993, c. 23, s. 16 (2).

TBC but it looks like we would need LGIC to formulate the policy? It looks like the OFA needs to borrow money from the Province (Minister of Finance) and that requires LGIC direction to authorize the Minister to lend to the OFA – who then on-lends. I checked the past OFA Loans directives and they all reference OIC (see attached for example). It may be a question for OFA/MOF legal…

I also looked for the original directives for the OFA credit facility and found one from 2005 for the OPA – but it is not the original. It does not make reference to any OICs…. The original one seemed to have been dated December 22, 2004.

Salman

From: John Kim
Sent: Tuesday, May 02, 2017 3:12 PM
To: Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir

<Salman.Qadir@ofina.on.ca>
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DIRECTIVE AND DETERMINATION
MINISTER OF FINANCE
OFA LOANS TO CONSOLIDATED PUBLIC BODIES

To: Ontario Financing Authority ("OFA")

Pursuant to subsection 16(2) of the *Capital Investment Plan Act, 1993*, the OFA is directed to make loans to (i) the public bodies and (ii) individual public bodies within the class of public bodies (i.e. colleges and school boards) as set out in the OFA's Annual Borrowing and On-Lending Plan Fiscal Year 2016-17 which are listed in Schedule "A" hereto in a total aggregate amount of up to CAD $305,800,000 (the "Loans").

The following terms and conditions shall apply in respect of the Loans:

1. The maximum amount of each Loan to a public body and the aggregate maximum amount of Loans to a class of public bodies will be the amount specified in Schedule A hereto for each such public body or class of public bodies.

2. Each Loan shall be made for the purpose specified for that Loan in Schedule A.

3. A Loan to a public body will only be made at the request and on the recommendation of the responsible ministry for the public body.

4. Except in the case of Loans to school boards, each Loan is conditional upon prior written approval pursuant to Section 28 of the *Financial Administration Act* (FAA) to be requested by the ministry responsible for the public body. The CEO of the OFA will not act as the delegate of the Minister of Finance to provide approval under Section 28 of the FAA for any of the Loans.

5. The OFA will charge interest on the each of the Loans determined in accordance with the OFA's Lending Policy as approved by the OFA Board of Directors (the "Loan Rate"); provided that the Loan Rate shall be comprised of

    a. The Province's total cost of funds, including commissions,to fund the Loan (the "Province's Cost of Funds"),

b. a two and one-half (2.5) basis point spread over the Province's Cost of Funds to recover the OFA's lending costs (the "Cost Recovery Fee"), and
c. in addition to the Cost Recovery Fee, on Loans for projects of a commercial nature, a spread over the Province's Cost of Funds of up to sixty-five (65) basis points to reflect commercial rates, determined in accordance with the OFA's Lending Policy (the "Commercial Spread").

6. Each of the Loans shall be evidenced by a loan agreement containing terms and conditions consistent with this Directive and the OFA's Lending Policy and approved by the CEO of the OFA or the Assistant Deputy Minister, Corporate and Electricity Finance Division, OFA, or a person designated by either of them.

Pursuant to Orders in Council 675/97, 767/99, 1883/2006, 2144/2007, 300/2010, 163/2012, 1051/2012 and 354/2014, all as amended, made under subsection 22(1) of the *Capital Investment Plan Act, 1993,* the Minister of Finance is authorized to make loans to the OFA and to determine the amount of the spread to be retained by the OFA where those funds are subsequently loaned to public bodies. It is hereby determined that for each Loan made under the authority of this Directive, the amount of the spread retained by the OFA is equal to the sum of the Cost Recovery Fee and the Commercial Spread, if any, for the Loan as set out above.

Dated July 26 2016

CHARLES SOUSA
MINISTER OF FINANCE

SCHEDULE "A"

DIRECTIVE
MINISTER OF FINANCE
OFA LOANS TO CONSOLIDATED PUBLIC BODIES
FOR 2016 -17 FISCAL YEAR

CONSOLIDATED PUBLIC BODIES	AMOUNT	PURPOSE
Colleges	Up to $105.8 million	To finance new capital projects or refinancing of existing loans currently held with financial institutions
School Boards	Up to $200 million	To refinance school board debt and to finance long-term capital expansion projects that have been approved by the Ministry of Education under one or more of the following programs: • Good Places to Learn • Prohibitive-to-Repair • Primary Class Size • Capital Transitional Adjustment Programs for French-Language Boards • Growth Schools • Capital Priorities Amounts • Best Start • New Pupil Places

Ontario Financing Authority
1 Dundas Street West
Suite 1400
Toronto ON M7A 1Y7
Tel (416) 325-8002
Fax (416) 325-8005

Office ontarien de financement
1 rue Dundas ouest
Bureau 1400
Toronto ON M7A 1Y7

Ontario

September 26, 2005

MEMORANDUM TO: Colin Andersen
Deputy Minister

FROM: Gadi Mayman
CEO & Vice Chair

SUBJECT: **Ontario Power Authority: Credit Facility**

The Ontario Power Authority (OPA) has requested an increase to its existing credit facility with the Ontario Financing Authority (OFA) to meet an expected increase in cash needs that could exceed the current $500 million credit facility limit. The purpose of this memo and the attached material is to request a direction from the Minister of Finance which would increase the amount of loans that the OFA is able to provide to the OPA by $475 million.

Please let me know if you require a further briefing or have any questions.

Gadi Mayman

Attachment

c. Karen Sadlier-Brown
Serge Imbrogno

Ministry of Finance
Office of the
Deputy Minister

Frost Building South
7 Queen's Park Cr
Toronto ON M7A 1Y7
Tel (416) 325-1590
Fax (416) 325-1595

Ministère des Finances
Bureau du
sous-ministre

Édifice Frost sud
7 Queen's Park Cr
Toronto ON M7A 1Y7
Tél (416) 325-1590
Téléc (416) 325-1595

Ontario

September 26, 2005

MEMORANDUM TO: The Honourable Greg Sorbara
Minister of Finance

FROM: Colin Andersen
Deputy Minister

SUBJECT: **Directive to the Ontario Financing Authority**

I wanted to make you aware of an emerging issue with the Ontario Power Authority (OPA) and to seek your approval to increase the credit facility provided by the Ontario Financing Authority (OFA). The OPA has requested an increase of $475 million to its existing credit facility with the OFA to meet an expected increase in cash needs that could exceed the current $500 million credit facility limit. As you know, the OPA is a newly created institution and an integral part of the Government's restructured electricity market.

An existing Directive, executed on December 22, 2004, directed the OFA to provide loans to the OPA on a transitional basis until the OPA is able to access the capital markets. This Directive also established that the aggregate amount of the loans shall not exceed $500 million at any time and that all loans outstanding must be repaid in full by December 31, 2006. It was originally estimated that $500 million would be sufficient to meet the OPA's financing requirements for the current fiscal year. However, as a result of higher than forecast electricity prices and consumption, the OPA's financing requirements have increased substantially over the past few months.

The bulk of the OPA's financing requirements stem from its responsibility for managing and funding the Regulated Price Plan (RPP) variance account. This account tracks the difference between the price paid by low-volume and designated consumers under the Ontario Energy Board's (OEB) RPP and the actual cost of electricity. Since the province was faced with record-levels of electricity consumption and subsequently high prices throughout the summer months, the size of this account has grown significantly since June 2005.

The value of OPA's loan currently outstanding is about $386 million (for transactions up to August 2005). Since electricity prices for September continue to be significantly higher than forecast, it is expected that the OPA could require additional financing above its existing $500 million credit facility as early as the middle of October. In addition, if prices continue to be significantly higher than originally forecasted over the next six months, then the OPA's financing requirements could be as much as $920 million by March 2006. To ensure that the OPA has the ability to meet its financing requirements in the event that electricity prices continue to be high, staff recommend that the maximum amount of loans available to the OPA be increased by $475 to $975 million.

The OPA's ability to repay its loans come from its legislative authority to recover any deficit in the RPP variance account from consumers. More specifically, the existing legislation provides that when establishing the new RPP, the OEB must take into account any outstanding balance within the RPP variance account with a view to eliminate this balance over time. Therefore, when the new RPP is established on May 1, 2006, prices will reflect any RPP variance account deficit which accumulated during the 2005-06 period. In addition, a portion of the RPP variance account deficit will be recovered through a rebate from Ontario Power Generation (OPG). OPG's revenues on most of the output from its unregulated assets have an upper limit of 4.7 cents/kWh. OPG is required to pay a rebate on revenues over this amount. The payment of this rebate is currently expected to take place sometime after April 2006 and the portion of the rebate that will be paid to OPA is currently estimated to be about $316 million.

I've attached for your review and consideration a Minister's Directive to the OFA, which would increase the amount of loans that the OFA is able to provide to the OPA by $475 million. This Directive is necessary to ensure that the OPA will have the ability to meet its future financing requirements. If you agree with this direction, please sign the attached.

Please let me know if you require a further briefing or have any questions.

Colin Andersen

Attachment

c. Peter Wilkinson
Lori Spadorci
Gadi Mayman
Karen Sadlier-Brown

Ontario Power Authority: Financing Requirements

September 23, 2005

Ontario Financing Authority

Confidential Advice to Minister

Decision Sought

- The Ontario Power Authority (OPA) has requested an increase to their existing credit facility with the Ontario Financing Authority (OFA). As a result of higher than forecast electricity prices and consumption since April 2005, the OPA's financing requirements could exceed the current $500 million credit facility limit as early as the middle of October.

Seeking approval for:

- An increase in the OPA's existing credit facility, from $500 million to $975 million.

OPA's Financing Requirements

- The OPA undertakes a number of activities that have financing implications. Specifically, the OPA is responsible for managing and funding two accounts:
  - **Regulated Price Plan Variance Account (RPP Variance Account)** – This account tracks the difference between the price paid by low-volume and designated consumers under the OEB's RPP and the actual cost of electricity.
  - **Regulated Price Plan Retailer Variance Account (Retailer Variance Account)** – This account tracks the difference between the hourly Ontario electricity prices (HOEP) and retail contract prices
- In order to ensure that the OPA has the ability to effectively manage its financing requirements, the OFA is providing financial services and loans to the OPA on a transitional basis.
  - These financial services and loans are being provided by the OFA under a direction from the Minister of Finance, which was executed in December 2004.
  - The loans are provided under a Credit Agreement in the form of a credit facility of $500 million, which provides the OPA with the flexibility to manage efficiently its cash needs by borrowing when it requires cash and repaying any loans under the credit facility when it has excess cash.
  - The interest rate charged on the loans is equal to the Province's cost of borrowing for a similar term, plus 25 basis points (i.e. 0.25%).
  - The Credit Agreement has a term of two years and all loans outstanding must be repaid in full by December 31, 2006.

OPA's Financing Shortfall

- The amount of OPA's loan with the OFA is currently about $386 million, which represents the sum of the RPP Variance Account and the Retailer Variance Account (up to August 2005) plus the interest that has accrued on loans from previous months.

- Since electricity prices for September continue to be significantly higher than forecast, it is expected that the OPA could require additional financing above its existing $500 million credit facility as early as the middle of October (for September activity).

  - Specifically, it is estimated that if average spot market prices exceed 8.80 cents/kWh for the month of September then the OPA's financing requirements will exceed $500 million.
  - As of September 19, 2005, the weighted average price for September is 10.15 cents/kWh

- It was originally estimated that a $500 million credit facility would be sufficient to meet the OPA's financing requirements for the current fiscal year. As a result of higher than forecast electricity prices and consumption, the OPA's financing requirements have increased substantially since April 2005.

  - Electricity prices have been about 23% higher than previously forecast during this period – an average of 7.53 cents/kWh versus a forecast of 6.10 cents/kWh.

OPA's Financing Requirements Could Exceed $900 Million

- The value of OPA's loan currently outstanding is about $386 million (for transactions up to August 2005). Based on the original price forecast that was used by the OEB in establishing the RPP for 2005-06, it is estimated the OPA's financing requirements would grow to $591 million by March 2006. However, if prices continue to be significantly higher than originally forecasted, then the OPA's financing requirements could be as much as $920 million by March 2006.

	Original Forecast		Revised Forecast[1]	
	Monthly Requirement	Cumulative Balance	Monthly Requirement	Cumulative Balance
Current Loan Outstanding (millions) $386				
Future Financing Requirements (millions)				
September	$12	$398	$64	$450
October	$30	$428	$76	$526
November	$15	$443	$54	$580
December	$23	$466	$67	$646
January	$55	$521	$111	$757
February	$44	$565	$91	$848
March	$26	$591	$72	$920

[1] Assumes prices continue to be 23% higher than originally forecasted.

Proposed Direction

- Recommend to the Minister of Finance that the amount of the OPA's existing credit facility with the OFA be increased from $500 million to $975 million.
  - Provides OPA with the ability to meet its future financing requirements if electricity prices continue to be significantly higher than forecast.

Next Steps

- Brief Minister of Finance on OPA credit facility.
- Draft proposed Directive for Minister's consideration.
- Amend the Credit Agreement between the OFA and OPA.

Note

- OPA Board meeting on September 27 – OPA staff have indicated desire to provide a status report/and or resolution to issue at Board meeting.

Appendix

OPA's Financing Activities To Date

- The following table summarizes the monthly activity within the variance accounts managed by the OPA:

	RPP Variance Account[1]	Retailer Variance Account[2]
January		$3,308,609.02
February		$3,326,152.93
March		$941,659.52
April	$37,746,763.14	($294,514.80)
May	$834,094.44	($1,332,169.81)
June	$73,740,977.97	($1,569,966.45)
July	$115,756.091.04	($6,819,673.06)
August	$175,497,486.25	($16,279,198.87)
Total	**$403,575,412.84**	**($18,719,101.52)**

[1] For the first three months of 2005, the RPP Variance Account was funded by OEFC from the surplus accumulated in the Electricity Consumer Price Protection Fund (ECPPF). Beginning in April 2005, all balances have been funded by the OPA through an OFA loan

[2] The Retailer Balancing Account has been funded through an OFA loan since January 2005

OPA's Ability To Repay Its Loans

Recovery Through New RPP

- OEB will be establishing a new RPP for May 1, 2006. Existing legislation provides that when establishing the new RPP the OEB must take into account any outstanding balance within the RPP Variance Account, with a view to eliminate these balances over time.

OPG Rebate

- OPG's revenues on most of the output from its unregulated assets (non-baseload hydroelectric, coal and gas-fired stations), have an upper limit of 4.7 cents/kWh. OPG is required to pay a rebate on revenues over this amount. The payment of this rebate is currently expected to take place sometime after April 2006 (i.e. after the initial RPP period).

- To the end of March 2006, it is estimated that OPG could accumulate excess revenues of approximately $658 million on the output from its regulated assets. Of this amount, about $316 million would be owed to the OPA.

DIRECTIVE
MINISTER OF FINANCE

To: Ontario Financing Authority

Pursuant to a directive dated December 22nd 2004 (the "December 22, 2004 Directive") the Minister of Finance approved and directed the Ontario Financing Authority (the "OFA") to make loans (the "Loans") to the Ontario Power Authority (the "OPA") from time to time, as considered necessary by the OPA to meets its purposes, as set out below:

- The Loans shall be provided to the OPA at a rate equal to the Province of Ontario's cost of borrowing, as determined by the OFA, plus a spread of twenty-five basis points and on such other terms as the OFA deems appropriate.

- The terms of the Loans shall be set out in a Loan Agreement to be entered into by the OFA and the OPA.

- The aggregate amount of the Loans shall not exceed $500 million at any time, and

- All amounts outstanding under the Loan Agreement shall be repaid in full by December 31, 2006.

The Minister of Finance hereby approves and directs the OFA to increase the maximum aggregate amount of the Loans from $500 million to $975 million. All of the other terms and conditions to which the Loans are subject pursuant to the provisions of the December 22, 2004 Directive shall remain the same.

Dated: October 3, 2005

The Honourable Greg Sorbara
Minister of Finance

Ontario
Executive Council
Conseil exécutif

Order in Council
Décret

On the recommendation of the undersigned, the Lieutenant Governor, by and with the advice and concurrence of the Executive Council, orders that:

Sur la recommandation de la personne soussignée, le lieutenant-gouverneur, sur l'avis et avec le consentement du Conseil exécutif, décrète ce qui suit :

WHEREAS pursuant to Order in Council 675/97 made under subsection 22(1) of the *Capital Investment Plan Act, 1993*, the Minister of Finance is authorized to lend Two Billion One Hundred and Sixty Million Dollars in lawful money of Canada to the Ontario Financing Authority (the "OFA");

AND WHEREAS pursuant to Order in Council 767/99 made under subsection 22(1) of the *Capital Investment Plan Act, 1993*, the Minister of Finance is authorized to lend Six Hundred and Fifty-six Million Dollars in lawful money of Canada to the OFA;

AND WHEREAS pursuant to Order in Council 1883/2006 made under subsection 22(1) of the *Capital Investment Plan Act, 1993*, the Minister of Finance is authorized to lend Eight Hundred Million Dollars in lawful money of Canada to the OFA;

AND WHEREAS pursuant to Order in Council 2144/2007 made under subsection 22(1) of the *Capital Investment Plan Act, 1993*, the Minister of Finance is authorized to lend Two Billion Dollars in lawful money of Canada to the OFA;

AND WHEREAS pursuant to Order in Council 300/2010 made under subsection 22(1) of the *Capital Investment Plan Act, 1993,* the Minister of Finance is authorized to lend One Billion Eight Hundred Million Dollars in lawful money of Canada to the OFA;

AND WHEREAS pursuant to Order in Council 163/2012 made under subsection 22(1) of the *Capital Investment Plan Act, 1993,* the Minister of Finance is authorized to lend One Billion Seven Hundred Million Dollars in lawful money of Canada to the OFA;

AND WHEREAS the Province considers it expedient to amend Order in Council 675/97, Order in Council 767/99, Order in Council 1883/2006, Order in Council 2144/2007, Order in Council 300/2010 and Order in Council 163/2012 to allow the Minister of Finance to determine the spread to be retained by the OFA on advances made by the Minister of Finance to the OFA where the OFA subsequently loans those moneys to public bodies;

THEREFORE:

1. Order in Council 675/97, as amended by Order in Council 1709/98, Order in Council 844/2008, Order in Council 1723/2009 and Order in Council 1268/2010, is hereby amended by:

(i) deleting subparagraph (d)(ii) and replacing said subparagraph with the following subparagraph:

"(d)(ii) in the event that moneys included in an Advance are used by the OFA for the purpose of funding loans to third parties (a "Third Party Loan"), the rate of interest payable by the OFA to the Province on the portion of the Advance so used shall be adjusted effective as of the date that the portion of the Advance is used to fund the Third Party Loan so that the per annum rate of interest payable by the OFA on such moneys is equivalent to the per annum rate of interest payable to the OFA under the Third Party Loan less an amount as may be determined by the Minister of Finance in respect of such Third Party Loan or a class of such Third Party Loans, until but excluding the date on which the Third Party Loan is repaid, at which time the interest rate set out in subparagraph (i) shall again be applicable to that portion of the Advance; and"

2. Order in Council 767/99, as amended by Order in Council 844/2008, Order in Council 1723/2009 and Order in Council 1268/2010, is hereby amended by:

(i) deleting subparagraph (d)(ii) and replacing said subparagraph with the following subparagraph:

"(d)(ii) in the event that moneys included in an Advance are used by the OFA for the purpose of funding loans to third parties (a "Third Party Loan"), the rate of interest payable by the OFA to the Province on the portion of the Advance so used shall be adjusted effective as of the date that the portion of the Advance is used to fund the Third Party Loan so that the per annum rate of interest payable by the OFA on such moneys is equivalent to the per annum rate of interest payable to the OFA under the Third Party Loan less an amount as may be determined by the Minister of Finance in respect of such Third Party Loan or a class of such Third Party Loans, until but excluding the date on which the Third Party Loan is repaid, at which time the interest rate set out in

subparagraph (i) shall again be applicable to that portion of the Advance; and"

3. Order in Council 1883/2006, as amended by Order in Council 844/2008, Order in Council 1723/2009 and Order in Council 1268/2010, is hereby amended by:

(i) deleting subparagraph (c)(ii) and replacing said subparagraph with the following subparagraph:

"(c)(ii) in the event that moneys included in an Advance are used by the OFA for the purpose of funding loans to third parties (a "Third Party Loan"), the rate of interest payable by the OFA to the Province on the portion of the Advance so used shall be adjusted effective as of the date that the portion of the Advance is used to fund the Third Party Loan so that the per annum rate of interest payable by the OFA on such moneys is equivalent to the per annum rate of interest payable to the OFA under the Third Party Loan less an amount as may be determined by the Minister of Finance in respect of such Third Party Loan or a class of such Third Party Loans, until but excluding the date on which the Third Party Loan is repaid, at which time the interest rate set out in subparagraph (i) shall again be applicable to that portion of the Advance; and"

4. Order in Council 2144/2007, as amended by Order in Council 844/2008, Order in Council 1723/2009 and Order in Council 1268/2010, is hereby amended by:

(i) deleting subparagraph (c)(ii) and replacing said subparagraph with the following subparagraph:

"(c)(ii) in the event that moneys included in an Advance are used by the OFA for the purpose of funding loans to third parties (a "Third Party Loan"), the rate of interest payable by the OFA to the Province on the portion of the Advance so used shall be adjusted effective as of the date that the portion of the Advance is used to fund the Third Party Loan so that the per annum rate of interest payable by the OFA on such moneys is equivalent to the per annum rate of interest payable to the OFA under the Third Party Loan less an amount as may be determined by the Minister of Finance in respect of such Third Party Loan or a class of such Third Party Loans, until but excluding the date on which the Third Party Loan is repaid, at which time the interest rate set out in subparagraph (i) shall again be applicable to that portion of the Advance; and"

5. Order in Council 300/2010, as amended by Order in Council 1268/2010, is hereby amended by:

(i) deleting subparagraph (c)(ii) and replacing said subparagraph with the following subparagraph:

"(c)(ii) in the event that moneys included in an Advance are used by the OFA for the purpose of funding loans to third parties (a "Third Party Loan"), the rate of interest payable by the OFA to the Province on the portion of the Advance so used shall be adjusted effective as of the date that the portion of the Advance is used to fund the Third Party Loan so that the per annum rate of interest payable by the OFA on such moneys is equivalent to the per annum rate of interest payable to the OFA under the Third Party Loan less an amount as may be determined by the Minister of Finance in respect of such Third Party Loan or a class of such Third Party Loans, until but excluding the date on which the Third Party Loan is repaid, at which time the interest rate set out in subparagraph (i) shall again be applicable to that portion of the Advance: and"

6. Order in Council 163/2012 is hereby amended by:

(i) deleting subparagraph (c)(ii) and replacing said subparagraph with the following subparagraph:

"(c)(ii) in the event that moneys included in an Advance are used by the OFA for the purpose of funding loans to third parties (a "Third Party Loan"), the rate of interest payable by the OFA to the Province on the portion of the Advance so used shall be adjusted effective as of the date that the portion of the Advance is used to fund the Third Party Loan so that the per annum rate of interest payable by the OFA on such moneys is equivalent to the per annum rate of interest payable to the OFA under the Third Party Loan less an amount as may be determined by the Minister of Finance in respect of such Third Party Loan or a class of such Third Party Loans, until but excluding the date on which the Third Party Loan is repaid, at which time the interest rate set out in subparagraph (i) shall again be applicable to that portion of the Advance: and"

7. The forms of promissory note which evidence the loans pursuant to Order in Council 675/97, Order in Council 767/99, Order in Council 1883/2006, Order in Council 2144/2007, Order in Council 300/2010 and Order in Council 163/2012, are

hereby amended, as applicable, to reflect the above changes to the Orders in Council in respect of all amounts advanced to the OFA on or after the date of this Order.

Recommended _____
Minister of Finance

Concurred _____
Chair of Cabinet

Approved and Ordered

JUL 18 2012
Date

_____
Lieutenant Governor

From: John Kim
To: Salman Qadir
Cc: Bruno Amara; Shajee Kathirgamanathan
Subject: FW: DRAFT RAN Ontario Fair Hydro Plan
Date: Monday, May 08, 2017 4:38:49 PM

I take this to mean that he's fine with the inclusion of it in the RAN note…let's next check with legal the wording.

Thanks,

John

From: Ronald Kwan
Sent: Monday, May 08, 2017 4:37 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: Re: DRAFT RAN Ontario Fair Hydro Plan

Hi,

Okay.

Thanks.

Ron

On May 8, 2017, at 4:36 PM, John Kim <John.Kim@ofina.on.ca> wrote:

> Hi Ron,
>
> The 30-year wording is for the term of the OIC, not for the term of lending.
>
> Thanks,
>
> John
>
> ---
>
> **From:** Ronald Kwan
> **Sent:** Monday, May 08, 2017 4:29 PM
> **To:** John Kim <John.Kim@ofina.on.ca>
> **Cc:** Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
> **Subject:** Re: DRAFT RAN Ontario Fair Hydro Plan
>
> Hi John,

I'm a little confused. At this time, I thought we were only going to respond to the IESO with a short term facility, and seek a longer one only if needed. So, while it might be a risk that it might have to be converted in future to long-term, do we need so much 30-year wording here?

Ron

From: John Kim
Sent: May 8, 2017 3:56:25 PM
To: Ronald Kwan
Cc: Bruno Amara; Shajee Kathirgamanathan; Salman Qadir
Subject: FW: DRAFT RAN Ontario Fair Hydro Plan

Hi Ron,

On this, we are reviewing the materials but it looks like they dropped our staff level note contents OIC right into their RAN. (Appendix F) Could you have a look and let us know if you have concerns as we would like to let them know of any issues.

Thanks,

John

From: Fung, Felix (TBS) [mailto:Felix.Fung@ontario.ca]
Sent: Monday, May 08, 2017 11:09 AM
To: Judy George-Harris (MGS) <Judy.George-Harris@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Violetta Goralski (MAG) <Violetta.Goralski@ontario.ca>; Helder Marcos (MCSS) <Helder.Marcos@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: DRAFT RAN Ontario Fair Hydro Plan

Hi everyone,

In advance of our 11:45 am meeting with Karen - please find attached our latest draft TB/MBC assessment note for the OFHP along with the TB submission and LRC submission received from Energy.

Thanks,
Felix

From:	John Kim
To:	Ronald Kwan
Cc:	Bruno Amara; Shajee Kathirgamanathan; Salman Qadir
Subject:	FW: DRAFT RAN Ontario Fair Hydro Plan
Date:	Monday, May 08, 2017 3:56:26 PM
Attachments:	3 RAN Ontario Fair Hydro Plan Proposed Leg v3.doc

Hi Ron,

On this, we are reviewing the materials but it looks like they dropped our staff level note contents OIC right into their RAN. (Appendix F) Could you have a look and let us know if you have concerns as we would like to let them know of any issues.

Thanks,

John

From: Fung, Felix (TBS) [mailto:Felix.Fung@ontario.ca]
Sent: Monday, May 08, 2017 11:09 AM
To: Judy George-Harris (MGS) <Judy.George-Harris@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Violetta Goralski (MAG) <Violetta.Goralski@ontario.ca>; Helder Marcos (MCSS) <Helder.Marcos@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: DRAFT RAN Ontario Fair Hydro Plan

Hi everyone,

In advance of our 11:45 am meeting with Karen - please find attached our latest draft TB/MBC assessment note for the OFHP along with the TB submission and LRC submission received from Energy.

Thanks,
Felix

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – March 1, 2017	**Tracking to: Fast Track** LRC at Cabinet – March 10, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan Legislation

I. DECISION BEFORE THE BOARD

Receive a report back on Ontario Fair Hydro Plan implementation, supporting implementation decisions and recommending the proposed Ontario Fair Hydro Plan Act to proceed to LRC and Cabinet for approval.

II. RECOMMENDATIONS:

• Receive a report Ontario Fair Hydro Plan implementation: o Proposed legislation ▪ Note key aspects of proposed legislation ▪ Recommend proposed legislation o Approve up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program to fully recover costs for the public education campaign.	*Board Judgement*
• Direct the Ministry to return to TB/MBC with regulations support implementation prior to going to LRC. • Note outstanding report back requirements, • Direct in-year reporting through quarterly reporting and PRRT planning process on spending to date versus funding allocation for Electricity social programs and Global Adjustment Refinancing	

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Affordability Fund	0.0	0.0	0.0
	Global Adjustment Refinancing*^	0.0	0.0	0.0
	Electricity social programs*	499.0	753.0	829.0
	Ontario Rebate for Electricity Consumers	939.0	882.0	882.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

* Subject to enacting proposed Ontario Fair Hydro Plan legislation.
^ As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget, linked to proposed legislation

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017 the Ministry received TB/MBC approval for additional rate mitigation actions that support up to a 25% electricity bill reduction (including the 8% reduction announced in 2016 for an average household in 2017. The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017. This submission deals with three key elements of the OFHP:

- Refinancing Portion of Global Adjustment (GA) to partially defer RPP eligible ratepayer GA costs (Implementing a non-fiscal impact approach over government funding).
- Expanding, enhancing ratepayer funded electricity social programs and shifting them to being government funded (OESP, RRRP), along with a new government funded On-Reserve First Nations Delivery Credit.
- Expansion of Industrial Conservation Initiative (ICI).

The Ministry was directed to report back to the Board with proposed legislation supporting OFHP implementation, including the following specific direction regarding a non-fiscal mechanism (approach) to refinancing a portion of Global Adjustment costs (Appendix C provides the March 1, 2017 minute):

- Formal accounting opinions from OPG and IESO auditors.
- Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
- Report on the multi-year profile of GA smoothing, identifying specific assumptions.
- Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
- Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

Direction was also given to report back with final details for electricity support programs, as well as programs' effectiveness, efficiency, and sustainability.

The current submission does not address all report back requirements. The proposed legislation would establish the legislative framework, to be followed by further program related details being set by regulations at a later date (Ministry is targeting June 2017).

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two Schedules (Appendix D provides details of each part):

- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment partial refinancing)
- Schedule 2: Legislative amendments for electricity social programs

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment (GA) Refinancing)

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

The Ministry indicates under OFHP, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017 (This includes the 8% Ontario Rebate for Electricity Consumers). In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Reflecting March 2017 approvals (See Appendix C for March 2017 TB/MBC minute), proposed legislation for GA Refinancing is designed to establish a non-fiscal impact mechanism. Minuting indicated proceeding with GA Refinancing requires completed legal, accounting and financing risk assessments.

The proposed approach to GA Refinancing is complex. Appendix D provides proposed legislative details.

- At a high level, the proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future.

    - July 1, 2017, to April 30, 2018, reduces, on average, after-tax electricity costs for "specified consumers" by 25% (inclusive of the 8% rebate and shifting of support program to be government funded).
    - May 1, 2018, to June 30, 2021, electricity rates will be prescribed by regulation with the intention to keep increases in line with the Consumer Price Index (CPI).
    - July 1, 2021, to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs.
    - Through the bill and amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998, expands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to provide for appropriate oversight, put in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the refinanced GA costs.

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG, through a special purpose vehicle (OPG Trust) is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Schedule 2: Legislative amendments for electricity social programs

Electricity social programs becoming government funded under OFHP target residential electricity customers disproportionately affected by increased electricity costs.

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The bill amends the *Ontario Energy Board Act, 1998* for various electricity social programs:

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001. The bill enables the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial appropriations, rather than from electricity.

Appropriated funds would be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the government funding provided.

Distribution Rate Protection (Broadened RRRP)

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

The proposed legislation would enable a broader government funded Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge for consumption on or after July 1, 2017.

If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The legislation contains retroactive application of the provisions to offset any potential lapses in implementation and ensure that consumers receive the benefit following the July 1st effective date through to the final effective date of October 1st, 2017.

On-Reserve First Nations Delivery Credit

The proposed bill would enable the provision of a government funded on-reserve First Nations Delivery Credit (FNDC), which would eliminate the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The program is premised around the findings in an OEB Report submitted to the Ministry on December 29, 2016 providing advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers.

Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program to being government funded, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid

by all Ontario consumers on May 1, 2017. On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will come into effect on May 1, 2017.

The proposed bill would move the recently expanded Ontario Electricity Support Program (OESP) to government funding, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program (ODSP) and Ontario Works (OW) to potentially allow for automatic enrolment procedures to be established.

The Ministry indicates the proposed legislative amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

Expansion of Industrial Conservation Initiative (ICI)

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and “1114”) in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

The Ministry is also undertaking targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants.

- The extent of the impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

Financials

Electricity Social Programs:

March 1, 2017 TB/MBC approvals supporting OFHP included full year projected costs. The 2017 Ontario Budget included refined projected costs shifting expanded/enhanced electricity social programs from ratepayers to being government funded starting in 2017-18, lowering the total amount from $665M to $499M to reflect rollout timing not full year costs. The table below shows expense amounts currently in the PRRT multi-year fiscal plan related to these support programs for the most vulnerable consumers.

Government Funded Social Programs ($million)	2017-18	2018-19	2019-20	2020-22
Rural or Remote Rate Protection (RRRP)	344	472	484	497
Ontario Electricity Support Program	140	261	325	375
On-Reserve First Nations Delivery Credit	15	20	20	20
Total	**499**	**753**	**829**	**892**

GA Refinancing:

The 2017 Budget also includes an investment operating asset of $1.1B related to the Province's equity injection to OPG, enabling the OPG Trust to regularly purchase IESO's regulatory asset through 2017-18. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. The Province's net debt will remain unchanged as the equity investment in OPG would offset the additional Provincial borrowing.

Projected annual amounts of GA deferrals (i.e., the regulatory asset) are shown below and are not part of the province's multi-year fiscal plan (2017 Budget(Assumed to be funded from electricity ratepayers udner the proposed legisation). Appendix E provides analysis of financial models.

($million)	2017-18	2018-19	2019-20	2020-22
GA Refinancing - Residential Bills lowered by 25%	2,534	2,668	2,942	3,420
Interest Portion (5% annually, compounded monthly)	32	162	298	449

Under GA refinancing, ratepayers will incur interest costs and will be added to the GA payments ratepayers make.

- OPG intends to use a Special Purpose Vehicle (OPG Trust) to purchase the "right to collect" assets from the IESO in return for cash. OPG Trust will be structured to finance 51% of its funding requirements through the capital market with the remaining 49% being provided by OPG as subordinated debt. The 49% subordinated debt from OPG will be financed though debt from the capital markets (about 5%) and through equity injections from the Province (44%).

- The proposed legislation does not compel the OPG Trust to purchase 100% of the regulatory asset created by IESO at any given time. IESO have noted that it may need to cover clean energy costs if for some reason the OPG Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. On behalf of IESO, the Ministry is requesting a credit facility for IESO, up to about $3B, and notes the use of this credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO. Appendix F provides more information.

Financial, Accounting, Legal Risk Assessments:

In the March 1, 2017 TB/MBC Minute, refinancing the Global Adjustment to partially defer RPP eligible ratepayer GA costs, was subject to completed legal, accounting and financing risk assessments. Appendix G provides more details from the Ministry.

Financial

The Ministry indicates it has prepared legislation and is working on developing regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure

that the full value of any investment is recoverable.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year.

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

The Ministry indicates the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost.

The Ministry also acknowledges given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term, and the rate of inflation.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The Ministry indicates the following:

- Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations, satisfying accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

KPMG:

- The proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements.
- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.
- The regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG/E&Y:

- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.
- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-

making, funding and ongoing operation.

- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.
- Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.
- Judges can be expected to take a careful look at the government's evidence in support of the re-allocation of Global Adjustment.
- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.
- The provincial assurance provision - Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes. The proposed legislation focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers.
- The provincial guarantee provisions are intended to backstop the provincial assurance provision Legal risk to the province will be assessed as the agreements are negotiated and drafted.
    - The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.
- Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry indicates it retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements.

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. The Ministry indicates Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social,

health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

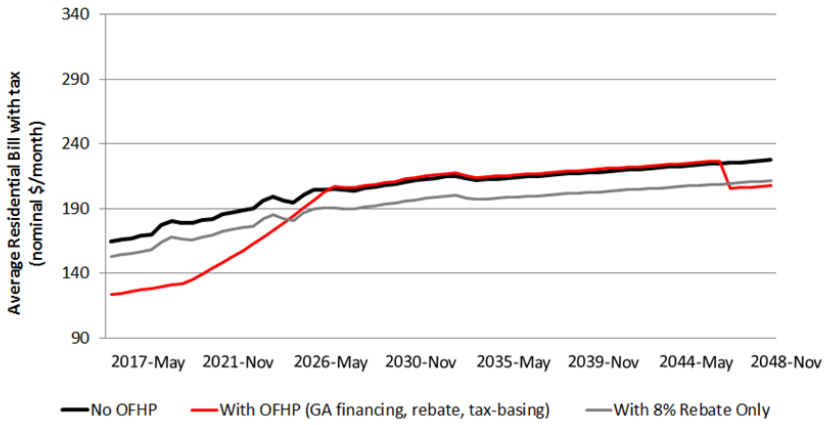
The Ministry's signed submission included external opinions and assessments for Ontario Power Generation (Accounting), KPMG Letter to the Independent Electricity System Operator (Accounting Opinion), Ernst &Young (as auditors) letter to OPG concurring with OPG's description of OPG accounting considerations of OFHP.

TBS staff note external opinions and assessments are supportive of the Ministry's intended plan for implementing Ontario's Fair Hydro Plan, noting the opinions and assessments must be revisited once key implementation details are finalised (e.g. draft legislation, regulations, special purpose vehicle documents, terms of conditions within various other agreements etc). Future reassessments and other factors such as Ontario electricity demand, interest rates in the medium to long-term, and the rate of inflation may contribute to fiscal plan implications emerging over time.

TBS staff also note, while submission details and related discussions have not indicated a non-fiscal mechanism cannot be established, the complexity of the transaction and the time frame involved suggest it is not reasonable, at present, to support a claim of no impact on the province's fiscal plan as the Ontario Fair Hydro Plan is implemented (Appendix H includes a strategic level risk assessment prepared by TBS staff). .

Ultimately, GA Refinancing being a sustainable strategy assumes electricity consumers' willingness to accept later to bear the extra costs of deferring electricity price hikes.

- The following graphic from the Ministry indicates the multi-year profile of GA Refinancing:



The chart above shows the expected multi-year profile under GA Refinancing for each Regulated Price Plan (RPP) period. In the first year, residential bills are projected to be 25 per cent lower as result of the OFHP. In the early years, bills increases are held to the rate of inflation – assumed to be 2% per year in the chart above. From July 1, 2021 onwards, prices increase at a higher rate compared to the first four years on the OFHP.

In the medium to longer term, residential bills exceed what they would have been but for the OFHP. However, in any given year, a typical residential bill under the OFHP cannot exceed what it would have been without OFHP by more than 10 per cent.

Media Procurement Request

The Ministry is requesting approval up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program to fully recover costs for the public education campaign.

The Ministry indicates spending about $1M on media planning and buying for radio and digital media. The Ministry is forecasting $2.5M in 2017-18 (Q clarifying the remaining $1M).

Name of analyst:	James Strang With input from CO, COE, OPCD and OFA	**Phone number:**	416-327-2071
Date:	May 8, 2017	**Log number:**	
Branch / Division:	GGPR, PEMD, COE, OPCD/Treasury Board Secretariat Ontario Financing Authority/ Ministry of Finance		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

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

Receive the report back on proposed legislation supporting implementation of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

i) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

a) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
b) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
c) Shift from electricity consumer funding to funding out of voted appropriations for Ontario Electricity Support Program, and for majority of costs for existing RRRP.
d) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

a) Establishing the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
b) Requirement for future consumers to pay the clean energy adjustment that backs financings
c) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
d) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
e) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights
f) Sets out that security interests can be granted in investment interests in the investment asset

ii) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

iii) Note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments.

iv) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC.

In this regard,

a) Direct the Ministry to include a report on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates
b) Direct the Ministry to report back with final program details for 2017-18 for GA Refinancing and Social Programs, including fiscal plan implications.

Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the broadened program now government funded
- Report on and assessment of impacts of consolidation of LDCs
- Assessment of distribution rates and implications for the program

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

- Identify eligibility criteria, and refinements being made.
- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

…Placeholder for media procurement minute…

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX D: PROPOSED FAIR HYDRO ACT OVERVIEW

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two schedules:

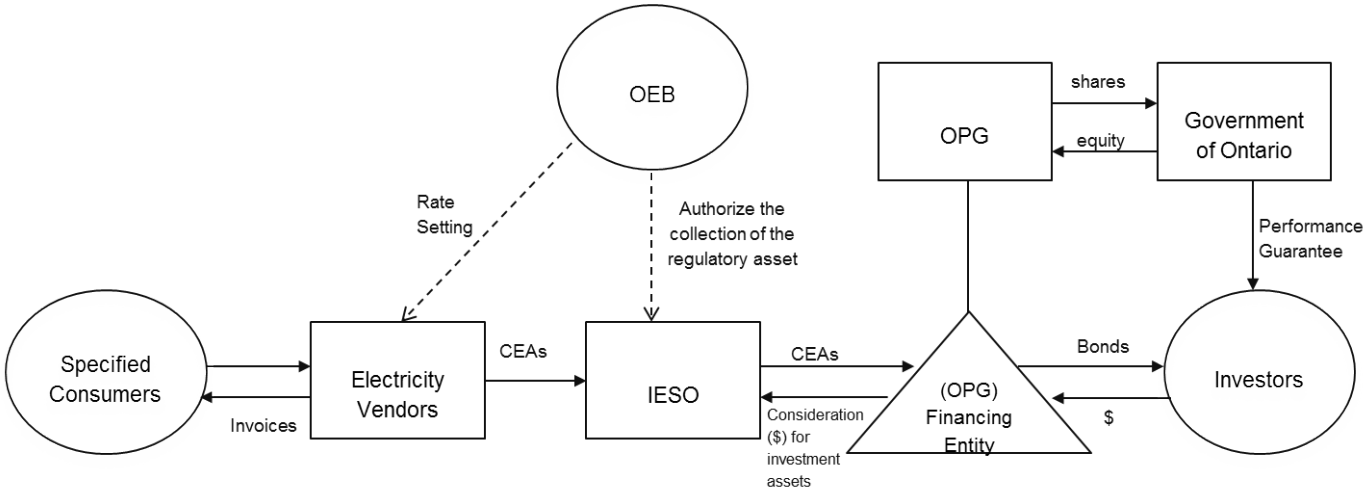
- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Dealing with Global Adjustment (GA) refinancing).
- Schedule 2: Legislative amendments for electricity social programs (See Appendix D1)

The Ministry has provided the following overview of the proposed legislation:

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (GA refinancing).

Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system (Clean Energy Initiative) creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations. The diagram below outlines how the refinancing of GA would be implemented.



Note: CEAs are "clean energy adjustments"

Clean Energy Costs and Benefits:

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (the Global Adjustment provisions) which relate to contracts for:
  - Renewable energy generation or capacity
  - Conservation and demand management, including shortage
  - Energy efficiency
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*
  - Other such costs to be included in "clean energy costs" may be prescribed

- These are the costs to be distributed fairly among the specified consumers through the "fair allocation amount".

Fair Allocation Adjustment:

- Part II establishes that the rate that will be payable by "specified RPP consumers" from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the "comparison rate". The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.
- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).
- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.
- The Minister sets the fair allocation amount.

    - The establishment of the "fair allocation amount" is required to,
        - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods"; and
        - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).
    - The "fair allocation amount" is to have regard to:
        - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the "specified consumers" (in the applicable "reference periods");
        - Reasonable assumptions regarding the time value of money, the number of consumers in the "reference period"; and
        - Expected electricity consumption for the reference period.

Regulatory Asset and Investment Asset:

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets.
- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a "regulatory asset". In simple terms, the regulatory asset is IESO's right to recover the revenues that it has deferred collecting.
- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities. OPG financing entities are not required to purchase the regulatory asset.
- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".
- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

Issuance and Payment of Debt:

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.
- The financings will be backed primarily by the "clean energy adjustments" payable by specified consumers. The "clean energy adjustments" will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the "fair allocation amounts" ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).
- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity's related funding obligations.
- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario's undertakings not to adversely affect the program through subsequent legislation.

Financing Plan:

- The Financing Plan is prepared by the Financial Services Manager (OPG).
- The Financing Plan is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.
- There are rules that apply to the Financing Plan:
  - It must align with the "estimated finance amount" that will become due and payable during a "reference period";
  - It must take into account the "fair allocation" and any "fair adjustment";
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancing, redemption opportunities and liquidity, and similar assumptions).
- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.
- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

Who Does What?

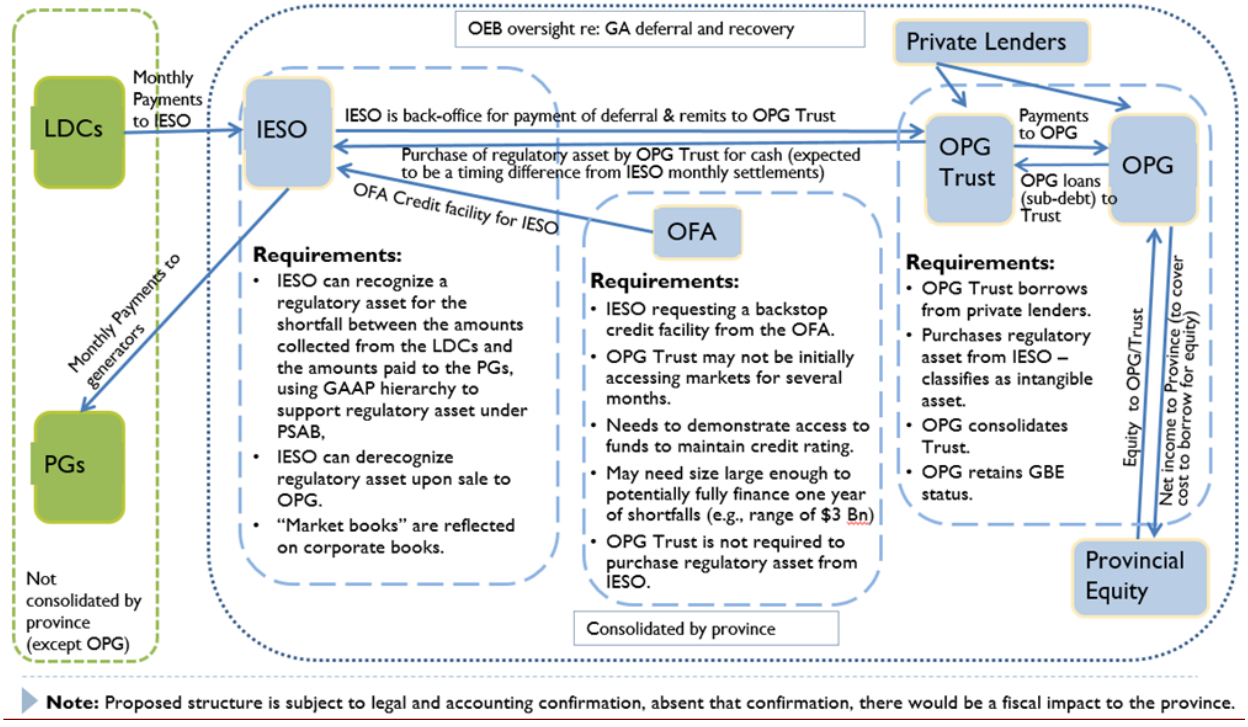
- Minister of Energy – Determine the "fair allocation amount" applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.
- Ontario Power Generation (OPG) – As financial services manager, OPG will be responsible for the following under the Act:
  - Prepare and implement Financing Plan.
  - Establish and administer the financing entities.
  - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.

- Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

- Independent Electricity System Operator (IESO):
  - Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.
  - Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.
  - Coordinates the collection of "clean energy adjustments" from Electricity Distributors.
  - Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.
  - Fund initial interest costs and expenses during the first 4 years.

- Local Distribution Companies (LDCs):
  - Obligation to invoice specified consumers.
  - Collect, as agent of the investment interest owners, "clean energy adjustments" from specified consumers.
  - Hold money received for clean energy adjustments in trust until remittance to the IESO.

- Ontario Energy Board:
  - Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).
  - Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).
  - Review the administrative costs of OPG in connection with the administration of the program.



Schedule 2: Legislative amendments for electricity social programs moving to being government funded

As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:

- Enhancing and providing government funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates
- Enhancing and providing government funding for the Ontario Electricity Support Program (OESP)
- Creating a new First Nation On-Reserve Delivery Credit and providing for government funding

Overview of RRRP and Broadened Distribution Rate Protection:

- Section 79 of the Ontario Energy Board Act would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution cost.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program:

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.
- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.
- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.

- Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
- This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit:

- Energy is proposing legislative amendments that would establish a First Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.
- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

APPENDIX E: ANALYSIS OF FINANCIAL MODELS AND RISKS (UNDER DEVELOPMENT)

Treasury Board Secretariat received two models related to global adjustment refinancing.

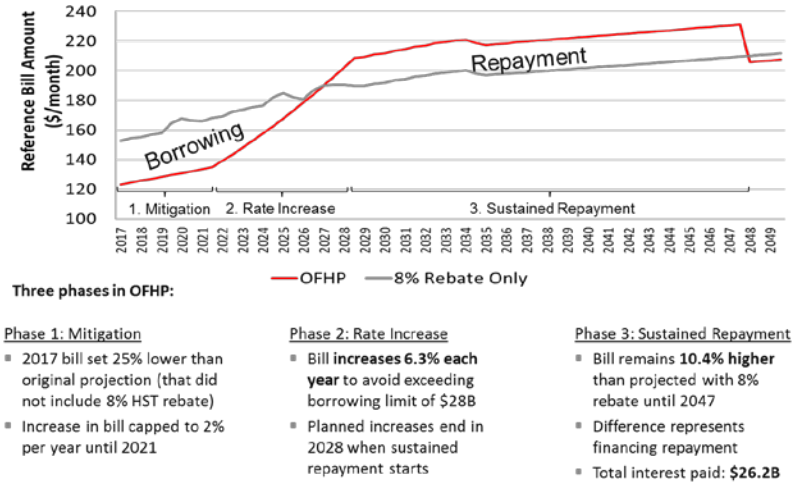
- The model the Ministry of Energy developed and used to support the March 2017 submission
- The financial model that was developed by the Ontario Power Generation (OPG) that provides details regarding the financing of the proposed structure

TBS staff noted the models received are based on high level aggregates and do not allow for running different scenarios that would allow TBS to determine the financial impact of potential changes in variables. In discussions with the Ministry of Energy and OPG, it has been agreed that these scenarios must be developed – both to help creation of a risk-based outlook for the province, as well as to respond to questions that will inevitably arise from the credit rating agencies.

- For example, the current model is based on a static interest rate of 5%. While this assumption is accurate within the current historically low interest rate environment, should interest rates increase above 5% after 2020, residential bills would also significantly increase during the repayment phase of the plan. For instance, if the interest rates increase from 5% to 7% (historical 30 year average) between 2020 and 2024, financing costs would increase by $11.2B (for a total of $37B), requiring much higher price increases in the out-years. Under this scenario, the increases required from 2022 to 2029 would be 7.3% annually (compared to 6.3% per year increases required under the base case) and the bill would remain 12.5% higher (compared to 10.4% in the base case).

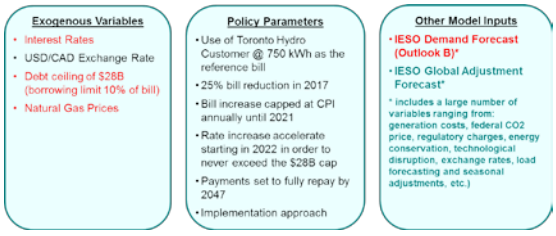
The OFHP can be thought of as having three phases:

The model is a high level and aggregate model, which is build on other independent forecasts (e.g. IESO demand forecast). There are a large number of assumptions built into the model explicitly and implicitly (as a large number of assumptions are embedded into the other forecasts that are used as inputs into this model).



Analysis is currently underway to better understand intergenerational costs and benefits and the impact of GA smoothing on recovery charges that would be allowed under the current Eurig compliance rules.

Depending on the legal determination, if the annual increases in bills or the commodity prices will be subject to caps, additional borrowing/provincial funding may be required.



With the shift of electricity social programs costs moving to being funded by government appropriations (Including the 8% rebate, total costs are forecast to be $1.4B in 2017-18), cost forecasting models/assumptions should also under go sensitivity analysis to inform future funding requests.

APPENDIX F: PROVIDING A CREDIT FACILITY TO IESO

After IESO's review of the proposed legislation, it has indicated to the Ministry and the Ontario Financing Authority (OFA)/MOF that IESO may need to cover clean energy costs if for some reason the Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. IESO noted that the proposed legislation does not compel the Trust to purchase 100% of the regulatory asset at anytime. Also, the establishment of the regulatory asset and purchase by the Trust is expected to take three to six months to implement following the introduction of enabling legislation.

The OFA currently provides a $975 million credit facility to the IESO for other purposes, it is proposed that the OFA provide a new credit facility to the IESO, in an amount of up to about $3 billion.

The use of this new credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO.

Approvals Required for OFA Financing

OFA indicates the recommended TB/MBC minute should note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An order-in-council will be sought to allow the OFA to be able to provide the new credit facility to the IESO, for an amount to be determined as per the requirements of the Fair Hydro Plan.

The following approvals are required by the OFA to accommodate the request to provide financing to the IESO:

1) An Order-in-Council is required for the Minister of Finance to lend to the OFA.
2) A Directive from Minister of Finance is required for the OFA to on-lend to the IESO.
3) An executed credit agreement between the OFA and the IESO.

1. Order-in-Council (OIC)

An OIC is required to authorize the Minister of Finance to lend to the OFA. Ministry of Finance Legal Services Branch would need to be engaged to facilitate the request.

- The existing $975 million credit facility was covered under OIC 675/97 which authorized the Minister of Finance to lend a revolving $2.16 billion to the OFA. This OIC was originally obtained in 1997.

It is understood that upon drafting the OIC (by MOF Legal), the OIC would need final approval from Lieutenant Governor in Council LGIC as required under section 22(1) of the *Capital Investment Plan Act*, 1993.

- The OIC would go through Deputy Minister of Finance, Minister of Finance, Chair of Cabinet for briefing/sign-offs and finally to the LGIC for approval.

To draft the OIC, the following details will be required:

i. Dollar Value of Loan from the Minister of Finance to the OFA
ii. Maturity Date of the Loan
iii. Interest Rate of the Loan

The following are recommended to accommodate IESO's need for financing:

i. Dollar Value of Loan:
   $3 billion, as per request. The OIC would provide the maximum limit of any loan to IESO and it may be advisable to add a cushion and provide an OIC for $3.5 billion.

ii. Maturity Date of the Loan:
OIC maturing March 31, 2048 would provide approximately 30-year term to match the Fair Hydro Plan. It may be advisable to add a cushion and set a maturity date to March 31, 2053 (cushion of 5-years).

iii. Interest Rate of the Loan
Interest rates on the loans from the Minister of Finance to the OFA have typically been a 1) Ontario 90-day t-bill rates, 2) flow-through of the rates charged to the third-party by the OFA and/or 3) the rate charged to the third-party by the OFA less 25bps.

OFA recommends to keep this unchanged to provide consistency with past OICs but also to provide flexibility in the rates that could potentially be charged to IESO, to be determined by the Minister of Finance, by way of the Minister's Directive.

2. Minister's Directive

Once the Minister of Finance has the authority under an OIC, a Minister's Directive can authorize the OFA to lend to IESO. The Directive can outline specific terms and conditions as needed.

3. Executed Credit Agreement

With a Minister's Directive approved, the OFA and IESO can work to execute a credit agreement, subject to any terms and conditions of the Directive and any policy considerations.

APPENDIX G: FINANCIAL, LEGAL, ACCOUNTING RISK ASSESSMENTS

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.
- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.
- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and
- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.
- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG’s capital structure:

- OPG would require monthly “equity injections” from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;
- Funds from the Province would flow from the Ontario Financing Authority (OFA); and
- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.
- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset ”OPG Share Purchase” and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG’s business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy’s concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual ratepayers. Note: The reverse is also true in regards to decreasing demand.
- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted. **A statutory cause of action** may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation.The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

APPENDIX H: OVERVIEW OF RISKS

Prepared by TBS staff, the following chart provides an overview of strategic (versus operational) risks to inform the approval/decision making process regarding the proposed legislation. Each part, GA Partial Refinancing & Electricity social programs, is a separate table.

Global Adjustment Partial Refinancing:

Objective: Provide immediate ratepayer relief by capping rate increases at Consumer Price Index (CPI) for four years and refinancing GA costs over a longer period of time. Develop and implement a financing structure that increases provincial borrowing, but has no impact on annual provincial surplus/deficit.

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA smoothing being allocated to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there would be a negative impact on the province's fiscal plan of $2.5B in 2017-18 and rising. • Rating agencies and investors in Province's debt may view all of the borrowing as an obligation of the Province, which could put pressure on the Province's credit rating and overall borrowing capacity. • Proposed structure may result in negative response from Ontario Auditor General (OAG) due to previous concerns regarding recognition of rate regulated assets and liabilities. The OAG may take this into account when the provincial books are audited. • Initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to justify structure of financial model and be utilized in discussions with the OAG.

Risk	Level of Risk	Risk Response
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.
A legal determination that the Province is spreading the costs of GA financing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Medium **Risk Impact:** High **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and close monitoring of costs and changes in variables built into model. • Analyze the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Moderate **Time Scale:** 12 to 24 months **Rationale** • The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the government to offset a part of the scheduled increases. • Risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.	Risk can be avoided by: • Province providing a potential guarantee for the cost of borrowing – however, would redirect risk back to the Province and negate benefits of proposed financing structure. Risk can be mitigated by: • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • Proposed legislation to enable GA refinancing has been draft with input from third-party financers. Provides a 'narrow' provincial guarantee and ensuring that debt holders have the right of action against a future government to recover the amount outstanding including interest, fees, expenses and any damages.

Electricity social programs (Enhancing Electricity Support & Conservation Programs):

Objective: Shift funding of existing and new electricity support programs (RRRP, OESP, Affordability Fund, First Nations Credit) from rate to tax base.

Risk	Level of Risk	Risk Response
Uncertainty in forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated fiscal impacts for the Province.	**Risk Likelihood:** Possible **Risk Impact:** Major **Timescale:** 12 to 24 months **Rationale:** • The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate. • Fiscal projection is highly dependent on factors which can fluctuate from year to year, including: o electricity usage; o distributions costs; and o consumer consumption patterns that may change due to extreme weather or other factors. • Fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. o Enhanced RRRP may create disincentives from the eligible LDCs towards productivity and performance improvements and/or cause ineligible LDC's to drive up distribution costs to gain access to program.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models.

From: John Kim
To: Salman Qadir
Subject: FW: DRAFT RAN Ontario Fair Hydro Plan
Date: Monday, May 08, 2017 3:46:33 PM
Attachments: OFHP - TB Submission.msg
Fw OFHP - LRC Submission.msg
3 RAN Ontario Fair Hydro Plan Proposed Leg v3.doc

Fyi.

From: Fung, Felix (TBS) [mailto:Felix.Fung@ontario.ca]
Sent: Monday, May 08, 2017 11:09 AM
To: Judy George-Harris (MGS) <Judy.George-Harris@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Violetta Goralski (MAG) <Violetta.Goralski@ontario.ca>; Helder Marcos (MCSS) <Helder.Marcos@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: DRAFT RAN Ontario Fair Hydro Plan

Hi everyone,

In advance of our 11:45 am meeting with Karen - please find attached our latest draft TB/MBC assessment note for the OFHP along with the TB submission and LRC submission received from Energy.

Thanks,
Felix

From: Schlaepfer, Martin (ENERGY) [Martin.Schlaepfer@ontario.ca]
To: Felix Fung (MOF) [Felix.Fung@ontario.ca]; James Strang (MOF) [James.Strang@ontario.ca]
CC: Pratima Gounden (ENERGY) [Pratima.Gounden@ontario.ca]
Subject: OFHP - TB Submission
Date: Sunday, May 07, 2017 13:58:47
Attachment 1: OFHP TB sub - 20170418_May7__clean.docx
Attachment 2: IESO Final Draft.pdf
Attachment 3: OPG - EY Letter on Fair Hydro Act May 5_FINAL.PDF
Attachment 4: GA Consolidated Memo_May 2_FINAL.PDF

Hi Felix and James,

Please find attached the final TB submission for the Ontario Fair Hydro Plan item. Also attached are the materials for the appendix.

This is Minister signed and hard copies will be delivered first thing on Monday morning.

Thanks,

Martin

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

May 9, 2017

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MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on following:

    i. Implementation of Global Adjustment (GA) Refinancing;

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program and First Nations On-Reserve Delivery Credit); and

    iii. Expansion of Industrial Conservation Initiative (ICI).

2) APPROVE the Ministry funding a media buy procurement with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record.

3) NOTE the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

4) NOTE the Ministry of Energy will return to TB/MBC to request a transfer of funds to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to fully recover the costs for the public education campaign.

5) APPROVE the creation of a new transfer payment line entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-01, Electricity Price Mitigation, with a $1,000 placeholder, to support future rate mitigation initiatives.

Note: The Independent Electricity System Operator (IESO) is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current lines of credit with the OFA and OEFC.

2.0 PURPOSE OF REQUEST

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower bills by 25 per cent for a typical residential consumer, starting in the summer of 2017. Up to half a million small businesses and farms are also expected to benefit. Any rate increases for residential consumers over four years would be held to the rate of inflation. Note: These measures include the 8 per cent rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

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As part of the OFHP approval process, TB/MBC requested that the Ministry "report back" before legislation to enable OFHP was introduced on the following items:

1) GA Refinancing;

2) Social Programs; and

3) ICI Expansion.

In addition to the report back, the Ministry is also requesting the creation of a new transfer payment line, "Price Mitigation Support Initiatives" in Vote 2905-01. The purpose for this is to provide the Ministry an appropriate transfer payment line to support future activities and initiatives around electricity price mitigation for Ontarians.

There is no fiscal impact associated with this request. All new funding placed into the transfer payment lines will be offset by services dollars previously approved within the Ministry's multi-year allocation.

In February 2017, the Ministry reported back to TB/MBC on the details related to the establishment of the new Affordability Fund announced in the OFHP. In April 2017, the Affordability Fund Trust was established. It is expected that electricity distributors will be able to begin applying to the Affordability Fund Trust in Summer 2017.

The Ministry has developed proposed legislation to implement key components of OFHP by summer 2017, and address financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations to enable implementation of OFHP.

1. GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

<u>Proposal</u>

On March 2, 2017, as part of OFHP, it was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and

future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. For example, by recognizing that generation assets are expected to continue to provide residual benefit to future ratepayers, beyond the term of current contracts, future ratepayers are expected to be able to utilize these assets and reduce the need to finance the development of new generation assets.

Under this proposal, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017. In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed proposed legislation to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations;

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY);

- Launched a third party research project to assist with implementation of GA refinancing; and

- Developed comprehensive risk-based costing, including forecast models and sensitivity tests on key assumptions.

Proposed legislation to enable GA refinancing is planned for a May 2017 introduction.

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2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The proposed legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

Proposal

The Government is proposing to introduce legislation and regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.

The legislative proposal enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers.

- R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province.

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Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

Proposed legislation will enable tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

Proposed legislation enables the establishment of a maximum monthly base distribution charge for those prescribed customers. If the proposed legislation is passed, the mechanism to set this charge will be established in regulation.

On-Reserve First Nations Delivery Credit

On July 12, 2016, the Province and First Nations in Ontario announced an agreement-in-principle for the Province to sell to First Nations for their collective benefit, shares of Hydro One Limited.

The Province would sell up to approximately 15 million shares (2.5 per cent of total current outstanding Hydro One common shares), depending on the level of First Nation participation, to a new collective investment fund owned by First Nations.

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The proposal is premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program proposal involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The resulting First Nations Delivery Credit is a reflection of First Nation leadership on this issue and an example of the Political Accord coming to life.

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Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program from the rate base to the tax base, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid by all Ontario consumers on May 1, 2017 ($0.0011 per kilowatt-hour of power consumed). On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will also come into effect on May 1, 2017.

The amendments to the *Ontario Energy Board Act, 1998* pertaining to OESP will move the program funding from the rate-base and transfer it to the tax-base, and enable alignment of the OESP with social assistance programs delivered by the Ministry of Community and Social Services.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB sets amount that LDCs charge for RRRP to all customers. Once the regulatory mechanism is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. Change to the funding structure of the program does not require any additional implementation risks or efforts.

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Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers would be prescribed in regulation, if the legislation is passed. Additionally, the Ontario Energy Board would be empowered by regulation to determine the rate at which affected LDCs would be harmonized.

The efforts required to implement the program will fall upon the impacted LDCs who will need to adjust their billing systems in order to carry out the program.

On-Reserve First Nation Delivery Credit

A new regulation will need to be passed to set out the program particulars including eligibility for the program.

The LDCs will need to enter into communication plans in order to work with local First Nations Band Councils and to increase awareness of the delivery credit to all eligible consumers.

There are transitional provisions for both the enhanced rate protection and First Nations Delivery Credit that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.

Ontario Electricity Support Program

A legislative amendment to the *Ontario Energy Board Act, 1998* will allow funding to shift from the rate base to the tax base. The amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

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3. ICI Expansion:

Ontario is committed to providing competitive electricity rates for energy intensive consumers in the manufacturing sector while also promoting electricity conservation.

In January 2011, the Industrial Conservation Initiative (ICI) was announced to help large industrial electricity power users better manage their electricity costs while reducing electricity consumption during peak periods.

ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. Reducing peak demand increases the reliability of the electricity system, reduces greenhouse gas (GHG) emissions and helps defer the need to procure new resources. There are currently about 300 participating consumers who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Proposal

On March 2, 2017, as part of OFHP), the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

- As of January 1, 2017, the regulatory amendments came into effect to make ICI available to electricity consumers with an average monthly peak demand greater than 1 MW. The lowering of the ICI threshold to 1MW and removal of sector restrictions was announced in the 2016 Speech from the Throne.

Implementation

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

- Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

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In addition, the Ministry has retained the Ontario Chambers of Commerce (OCC) and the Canadian Manufacturing and Exporting (CME) to undertake targeted stakeholder outreach on ICI and other cost saving energy programs/measures available to the commercial and industrial sectors in Ontario.

3.0 KEY CONTEXT

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would reduce the electricity bills of residential consumers by 25 per cent on average starting in summer 2017. In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and bend the future cost curve of electricity (see Background for details).

On April 20, 2017, the OEB announced new Regulated Price Plan (RPP) rates effective May 1, 2017 that include a portion of the bill reduction proposed under OFHP and the shifting of the funding of the OESP to provincial revenues. The full reduction from OFHP is expected to be addressed through a July 1st RPP rate adjustment.

The Ministry's report back to TB/MBC focuses on the following OFHP initiatives:

1) GA Refinancing:

As part of OFHP, it was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

- Today's electricity consumers have been responsible for the costs of investments in developing the clean, modern and reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. There is an opportunity to recognize the long-term benefit of these generation assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

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To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed proposed legislation to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations;

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY);

- Launched a third party research project to assist with implementation of GA refinancing; and

- Developed comprehensive risk-based costing, including forecast models and sensitivity tests on key assumptions.

Financing, Accounting and Legal Risk Considerations / Mitigations

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager

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(OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.

- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.

- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

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- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and

- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

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These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG's capital structure:

- OPG would require monthly "equity injections" from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;

- Funds from the Province would flow from the Ontario Financing Authority (OFA); and

- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.

- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG's business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy's concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual

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ratepayers. Note: The reverse is also true in regards to decreasing demand.

- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

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IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".

- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust,

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additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.

- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.

- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-

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year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).

- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.

- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be

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imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and

- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted.

A statutory cause of action may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

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2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The proposed legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

If passed, the government proposes to identify Hydro One R2 customers, as having their RRRP funded through appropriated funds.

Distribution Rate Protection

New Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, would be established through proposed legislative amendments under the *Fair Hydro Act, 2017,* and the creation of consequential regulations. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhance protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

Eligible on-reserve customers will receive a 100% delivery credit or the elimination of their monthly service charge on their electricity bills. The eligibility requirements will be prescribed under regulation.

There are 11 LDCs identified by OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One,

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Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 customers may be eligible.

Ontario Electricity Support Program (OESP)

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by a rebate directly on bills. The OESP is currently funded by the rate base.

OESP credits vary by income level and family size, and there are two credit scales that include:

- The basic program credit ranges from $30/month to $50/month.
- An enhanced credit that ranges from $45/month to $75/month for consumers that are either Indigenous, use electric heat or use certain electrically intensive medical devices.

Ontario's Fair Hydro Plan (OFHP) committed to move the program from the rate base to the tax base, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

The proposed legislative changes will address the move to the tax base, and regulatory changes approved by Cabinet on April 10, 2017 will enable the expansion of the OESP effective May 1, 2017. Discussions are ongoing with the OEB and MCSS on aligning OESP delivery with other social assistance programs.

<u>Roles and Responsibilities</u>

Rural or Remote Rate Protection

The roles and responsibilities of the Board remain the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The Board would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would once again need to appropriate money from the legislature to cover the costs of administering the program.

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On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers. In addition, ENERGY would need to work with LDCs, Chiefs of Ontario and Band Councils to ensure the program is delivered to all eligible consumers.

Ontario Electricity Support Program

The OEB will continue to the deliver the OESP under the current legislative framework until the variance account is depleted. When legislative changes to shift the program from the rate base to the tax base are proclaimed, the OEB will continue to administer the program, but certain decision making responsibilities and oversights will shift to the Minister of Energy.

MCSS will begin supporting OESP uptake by helping social assistance clients to apply to the OESP. Legislative and regulatory changes will enable this work.

The IESO will continue to manage payments to utilities, unit sub-meter providers, and the OEB in relation to OESP credit delivery and program administration costs. When legislative changes are proclaimed, IESO will begin reporting costs to the Ministry to support forecasting and audit.

3) ICI Expansion:

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and “1114”) in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

In addition, the Ministry has retained the OCC and the CME to undertake targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants. **Note:** The extent of the impact will depend on the uptake in the newly

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expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

4.0 BACKGROUND

Decarbonizing and Modernize Ontario's Energy System

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

The Ministry of Energy has taken a number of actions to lower electricity costs for all consumers by:

- Deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices; and

- Increasing cost effectiveness and improving efficiency by adopting new electricity market approaches (e.g., no new NUG contracting and demand response).

Following the 2016 Speech from the Throne, several actions were announced to further reduce electricity costs:

- As of January 1, 2017, Ontario is rebating an amount equal to the provincial portion of the HST to reduce eligible residential, small business and farm electricity bills by 8 per cent.

- Expanded support to eligible rural consumers by updating Rural or Remote Rate Protection (RRRP) with the additional relief, decreasing total electricity bills by an average of $45 each month when combined with the 8 per cent rebate.

- Expanding the Industrial Conservation Initiative (ICI) – up to one-third savings for participants.

- Suspending the LRP II and the Energy from Waste Standard Offer Program (EFWSOP) – up to $3.8 billion in savings.

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- Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – average annual savings of $15 million.

Ontario's Fair Hydro Plan

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP). The OFHP includes the following:

- Refinancing the GA over a longer period for Regulated Price Plan (RPP) eligible consumers, including residential consumers and most small businesses and farms.

- Shifting cost recovery for Rural or Remote Rate Protection (RRRP) and Ontario Electricity Support Program (OESP) from electricity bills to the tax base, lowering the regulatory charges paid by ratepayers. Consumers of all sizes would benefit from this change.

- Helping vulnerable electricity consumers by enhancing electricity support programs, including:

  - Broadening RRRP to provide delivery charge relief for the customers of the local distribution companies (LDCs) with the highest delivery charges. We currently support approximately 350,000 Ontarians living in rural or remote areas through RRRP. The enhancement would extend relief to approximately 800,000 households in total.

  - Expanding the OESP, which provides relief directly on the bills of low-income consumers who have applied and meet the eligibility criteria. The expansion would increase OESP credits by 50 per cent and allow more Ontarians to benefit from the program.

  - Establishing a new Affordability Fund, which would provide financial support to lower-income Ontarians who are not eligible for the Home Assistance Program to make home energy efficiency improvements, helping to manage their energy costs.

  - Establishing a Delivery Credit to eliminate delivery charges for all First Nations people living on reserve.

- Expanding the Industrial Conservation Initiative (ICI), which allows large consumers to reduce their electricity bills by up to one-third by reducing their consumption during peak hours. The expansion will allow manufacturers and greenhouses between 500 kW and 1 MW to

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participate, in addition to the consumers over 1 MW that are already eligible.

- OFHP also committed to reducing system costs by improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

Legislation to Enable the Refinancing of Global Adjustment

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the Ministry has developed proposed legislation (and is working on supporting regulations) that outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;
- A detailed Preamble, Purpose and Definitions;
- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;
- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the Global Adjustment.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the proposed legislation.

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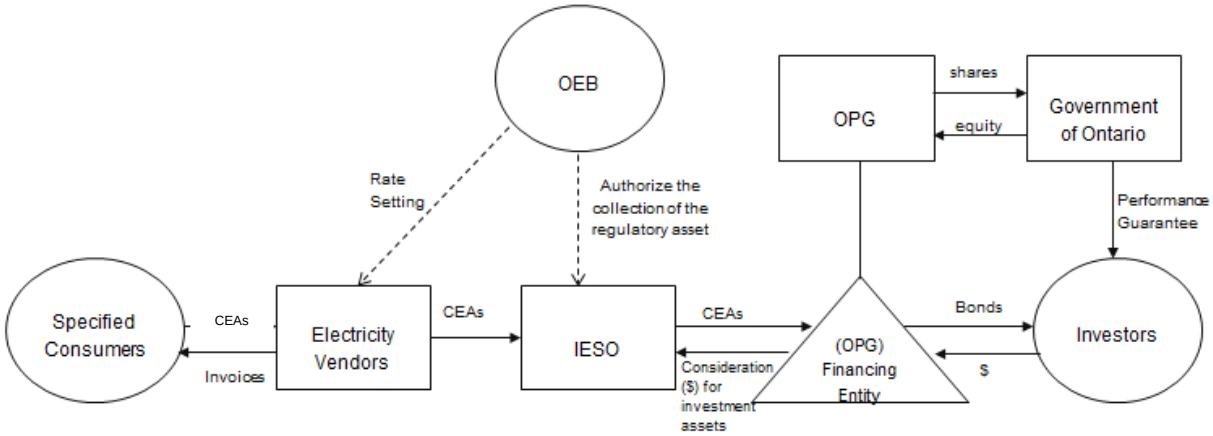
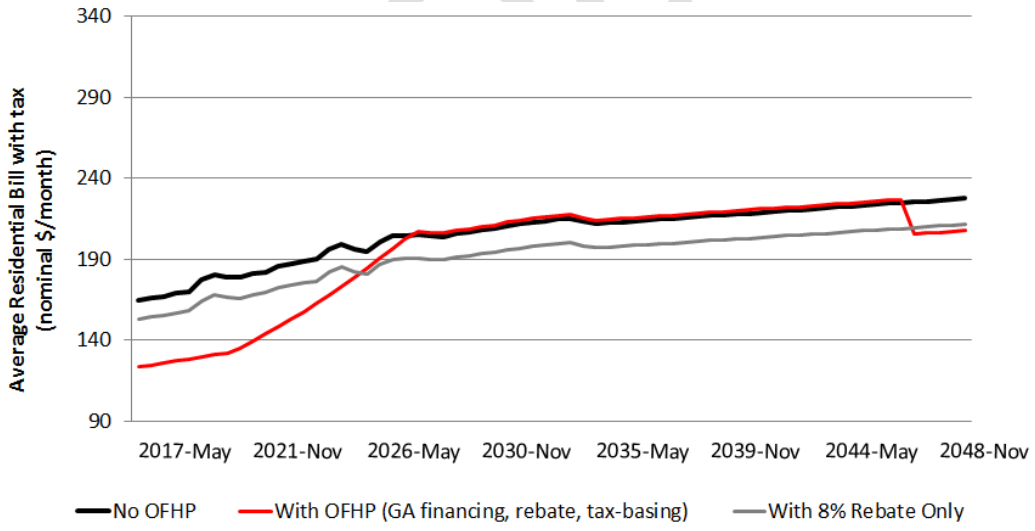
GA Refinancing Implementation Model – Overview

The diagram below outlines how the refinancing of GA would be implemented:



Note: CEAs are “clean energy adjustments”.

Multi-Year Profile of GA Refinancing / Assumptions



The chart above shows the expected multi-year profile under GA Refinancing for each Regulated Price Plan (RPP) period. In the first year, residential bills are projected to be 25 per cent lower as result of the OFHP. In the early years, bills increases are held to the rate of inflation – assumed to be 2% per year in the chart above. From July 1, 2021 onwards, prices increase at a higher rate compared to the first four years on the OFHP.

In the medium to longer term, residential bills exceed what they would have been but for the OFHP. However, in any given year, a typical residential bill under the OFHP cannot exceed what it would have been without OFHP by more than 10 per cent.

OPG's Financing Structure / Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected during four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a "Regulatory Asset".

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an "Investment Asset".

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG's capital structure:

- OPG would require monthly "equity injections" from the Province;

- Funds from the Province would flow from the Ontario Financing Authority (OFA); and

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- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.

Global Adjustment – Overview

The Global Adjustment (GA) accounts for the fixed costs, including capital costs, of running Ontario's generation fleet, as well as the cost of conservation programs. GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.

It is via GA that much of the costs of investments in developing a clean, modern and reliable electricity system with a diverse supply mix are recovered.

The vast majority of GA costs now stem from greenhouse gas (GHG) emissions-free renewable and nuclear generation facilities, as well as natural gas plants that were constructed to improve system reliability and replace coal-fired capacity. Generators in Ontario received contracted or regulated rates, which are typically designed to recover capital, financing and fixed operations costs. The GA recovers these fixed costs of running the province's generation fleet, as well as the cost of conservation programs.

The majority of the province's electricity generators are under 20-year contracts and account for under 50% of the GA. Some of these generators will continue to provide value to the electricity system beyond their contract lives (i.e., beyond 20 years). Similarly, conservation costs are recovered annually on an 'as incurred basis' through GA while conservation initiatives can reasonably be expected to provide benefits to the electricity system over many years.

The Ministry is proposing in legislation to recognize the long-term benefit of specific assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs. The proposed legislation outlines how costs would be fairly allocated among eligible consumers over time.

OEB's Regulated Price Plan (RPP) – Overview

On April 20, 2017, the OEB announced new Regulated Price Plan (RPP) rates effective May 1, 2017 that include a portion of the bill reduction proposed under OFHP and the shifting of the funding of the Ontario Electricity Support Program (OESP) to provincial revenues. The full reduction from OFHP is expected to be addressed through a July 1st RPP rate adjustment.

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Social Program

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 335,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.
- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.9 million.
- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.
- These customers still have high distribution costs and are often faced with significantly higher than average bills.

The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Energy is proposing legislative amendments that will broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

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- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the existing RRRP program costs and the proposed enhancements from the electricity rate base to the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

Ontario Electricity Support Program (OESP)

The OESP launched on January 1, 2016. By the end of March 2017:

- Almost 192,000 have been enrolled in the program, which is approximately 1/3 of all potentially eligible low-income customers in Ontario.

- Over $60 million in credits have been provided to vulnerable consumers.

- 172 intake agencies have been mobilized to assist low income consumers to apply for the OESP.

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Industrial Conservation Initiative (ICI)

Ontario is committed to providing competitive electricity rates for energy intensive consumers in the manufacturing sector while also promoting electricity conservation.

In January 2011, ICI was announced to help large industrial power users better manage their electricity costs while reducing electricity consumption during peak periods. ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. Reducing peak demand increases the reliability of the electricity system, reduces greenhouse gas (GHG) emissions and helps defer the need to procure new resources. There are now about 300 participating consumers who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Currently, ICI is available to electricity consumers who have an average monthly peak demand greater than 1 MW (i.e., Class A). Smaller electricity consumers – known as “Class B” consumers – are charged GA based on their total consumption regardless of when it occurs.

ICI provides a strong incentive for participating consumers to reduce their consumption during peak hours to reduce their cost. Note: ICI is administered by the Independently Electricity System Operator (IESO) and Local Distribution Companies (LDCs).

As of January 1, 2017, the regulatory amendments came into effect to make ICI available to electricity consumers with an average monthly peak demand greater than 1 MW. The lowering of the ICI threshold to 1MW and removal of sector restrictions was announced in the 2016 Speech From the Throne.

On March 2, 2017, as part of Ontario’s Fair Hydro Plan (OFHP), the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

- Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and CDM programs and/or OCCSDC programs and pilots.

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5.0 TIMING

As part of OFHP, the government announced that eligible electricity consumers would see the reduction to their electricity bills in the summer of 2017 (i.e., July).

On April 20, 2017, OEB announced that it has adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing. The Ministry anticipates that the OEB will set an interim rate adjustment following the passage of the legislation to enable GA Refinancing that would account for the full impact (i.e., 25 per cent).

The Ministry is planning to introduce legislation in early May 2017 and develop supporting regulations in early summer 2017 to enable GA Refinancing. Note: The OPG will require legislation and regulations to be in place to support its discussions with rating agencies and third-party financing.

The timeline for all of the social programs, with the exception of the OESP, is identical as the program implementation for the regulations that follow to be passed in unison for July 1, 2017.

Some of Ontario's Fair Hydro Plan commitments for the OESP came into effect on May 1, 2017 (e.g., removal of the OESP charge from customer bills; expanding credit amounts and program eligibility). Remaining changes associated with moving the program from the rate-base to the tax-base will be proclaimed at a later date when the OESP variance account is depleted. Additional regulatory amendments needed to implement this legislative change will come into effect on the same date.

As part of the OFHP, the government also announced the expansion of ICI to enable greater participation from the manufacturing sectors in Ontario.

The April 2017 ICI amendments enabled new electricity consumer's time to opt in to the expanded program ahead of the next ICI billing period (i.e., July 1, 2017). Note: Under ICI, as set out in Ontario Regulation 429/04, eligible electricity consumers must opt in to the ICI program on or before June 15 of each calendar each year.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

As it relates to the "equity injection", these changes are expected to have no impact on the Provincial net debt position as the Province's increased investment in OPG will be offset by the incremental borrowing to fund the

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equity injections. The Province has assumed incremental income from OPG arising from interest income on the subordinated debt which OPG will lend to the OPG Special Purpose Vehicle (SPV)/Trust. This offsets forecast increases in Provincial interest on debt expenses associated with equity injections.

Proposed legislation to enable GA refinancing has been drafted to mitigate financing, accounting and legal risks. In addition, IESO and OPG have sought independent advice and confirmation with respect to financing, accounting and legal matters.

Note: There would be a significant impact on provincial net debt and the fiscal plan if the legal, financing and accounting conditions change.

2) Social Programs:

As approved in the TB/MBC submission of Mach 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection	344,000,000
Ontario Electricity Support Program	140,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The IESO manages a variance account for the OESP, which holds the difference between the amount of OESP charge collected from the rate base, and the amount of OESP paid out in the form of credits. The amount in the variance account is about $109 million as of March 1, 2017. These funds will be used to fund the OESP program until the variance account is depleted, at which point the transfer payment line will be used to finance the program costs. Due to the potential range in costs of the OESP, which will depend on program uptake and any costs associated with supporting increased participation, the set allocation is required despite the variance account.

ENERGY will report back as part of PRRT with an update on out-year projections following analysis on rate applications before the Ontario Energy Board.

3) ICI Expansion:

Since ICI is funded through the electricity rate-based and not the provincial tax-base, ICI expansion will have no direct financial impact for the Province.

With respect to rate-base impacts, expanding ICI to consumers in the manufacturing and greenhouse sectors (i.e., between 500 kW and 1 MW) is

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expected to result in a modest increase on electricity bills for non-ICI participants starting in July 2017. For example, preliminary analysis estimates that the increase on a typical residential bill would by up to 0.66% or just over $1/month based on a 2016 bill of about $158.

Note: The extent of the non-ICI participant impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting in July 2017.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16 and April 19, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, 2017 to discuss implementation.
Future Industrial Conservation Initiative (ICI) Participants	• On March 9, 2017, the Ministry posted an ICI expansion proposal for comment on the Regulatory Registry for stakeholder comment. The Ministry has received 7 comments. • The Ministry is also working with the IESO, OCC and the CME regarding targeted outreach in relation to the ICI expansion.

8.0 RISK ASSESSMENT AND MITIGATION

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line.
Managing Interest Cost Risks	M	H	• Proposed legislation has been drafted with input from third-party financers (i.e., dealers). • OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%).
Provincial Guarantee is Triggered	L	H	• The proposed legislation sets out that the province would provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also establishes assurances that the Province would: - Through the Minister of Finance as provided by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and - Not hinder the charging and remittance of the under-collection of GA refinancing (i.e., through a provincial undertaking and guarantee).
IESO Failure to Establish a Regulatory Asset	L	H	• Under the proposed legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to do create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• Proposed legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • The degree of constitutional risk is in direct proportion to the extent the government is not able to show a

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date.
Social Program Cost Estimating	M	M	• OESP costs will depend on uptake of the program, which will be impacted by the 50% increase in credits, enhanced eligibility, and work with MCSS on aligning OESP delivery with their social assistance programs. • Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operatory (IESO) to ensure access to data for regular forecasting • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.
3) Industrial Conservation Initiative (ICI) Expansion			
Perceived Fairness Between Electricity Consumer Classes	M	L	• The expansion of the ICI program include electricity consumers in the manufacturing and greenhouse sectors with average monthly peak demand greater than 500 kW and less than 1 MW will impact those consumers that remain outside the program (i.e., Class B and RPP electricity consumers). • Increases to electricity bills will occur for non-ICI participants to ensure full cost recovery in the electricity system. Note: the extent of the impact on other non-ICI participants would depend on the uptake in the newly expanded ICI, but is expected to be modest. • Restricting eligibility to the manufacturing and greenhouse sector helps to ensure that the expanded ICI is focused on those consumers which are most impacted by GA costs and associated economic competitiveness pressures from neighbouring jurisdictions.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the proposed legislation is model on a those used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

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The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

The ICI program is unique to Ontario and the proposed expansion would not directly impact on other jurisdictions.

10.0 PERFORMANCE MEASURES

The proposed legislation sets parameters within which refinancing of GA can proceed. These parameters include the initial percentage reduction in eligible electricity rates, the number of years that rates will increase at a rate equivalent to CPI and the length of time within which the recovery of funds must take place (i.e., by 2047). In addition, OPG's existing financial reporting process provides an additional framework for monitoring and reporting of OPG's role in OFHP.

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. The Ministry will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing.

With respect to ICI, the Ministry regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting in July 2017.

11.0 COMMUNICATIONS

ENERGY has developed a comprehensive, two-phase media campaign to increase awareness of Ontario's existing rate mitigation measures and new proposed electricity initiatives under Ontario's Fair Hydro Plan OFHP):

- Phase I – Launched on March 13, 2017 and included radio and digital media in English and French. This was followed by multi-cultural extensions on radio in 19 languages. Phase I of the media campaign is complete.

- Phase II – Is expected to launch early Summer 2017 and will include television, radio, print, digital and social media advertising support.

ENERGY received TB/MBC approval on February 6, 2017 for an exemption from the competitive acquisition requirement under the *Procurement Directive on*

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Advertising, Public and Media Relations, and Creative Communications Services for the development of the electricity cost reduction public education campaign. Through this, ENERGY acquired the services of Rain43, an Agency of Record under Advertising Review Board's corporate vendor of record arrangement for advertising, public and media relations, and communication services, to develop this public education campaign with an estimates maximum value of $1,500,000.

As of July 20, 2015, PHD Canada is the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In 2016-17, through Phase I, ENERGY has spent approximately $1,000,000 on media planning and buying for radio and digital media. The cost of media space for television is substantially higher than radio; as such, ENERGY is forecasting to spend an additional $2,500,000 in 2017-18.

This campaign is integral for demonstrating Ontario's commitment to lower energy costs for ratepayers through the new proposed electricity initiatives. This campaign could also open the Ministry to increased scrutiny as critics may conclude savings are too little or too late to help those suffering from what the media has deemed energy poverty. Public perception may be unchanged as emotional triggers to rising electricity prices and the constant stream of negative news by the media could overpower the campaign.

The Ministry has assessed the risks, and deems the benefits for running this campaign outweigh any risks of not doing so. ENERGY anticipates reaction from electricity consumers is to be generally positive with an awareness that changes to the electricity system have led to a reliable, cleaner system that is now more affordable.

In addition, the communications for GA refinancing, delivery electricity social programs and ICI expansion will be referenced in ongoing announcements related to Ontario's Fair Hydro Plan (OFHP) broadly, and as necessary targeted communications for specific stakeholder group can be developed.

For example, the Ministry has retained the OCC and the CME to undertake targeted stakeholder outreach on ICI and other cost saving energy programs/measures available to the commercial and industrial sectors in Ontario.

The Ministry will ensure that the social programs are communicated effectively to stakeholders and specific target audiences. The Ministry will leverage its agencies and its relationship with LDCs to ensure eligible consumers are aware of the programs.

Chiefs of Ontario (COO) will be a vital partner in communicating the benefits of the First Nations Delivery Credit.

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The Ministry also believes there is opportunity for consultation on the design of the electricity bill, with a goal to refresh the regulatory framework to improve the value of the bill to the consumer across all LDCs. The Ministry proposes to convene with LDCs in July, once they've had sufficient time to implement the OFHP initiatives and prescribed messaging.

Changes of this nature will require more in-depth consultation with LDCs, as well as broader regulatory amendments to simplify the requirements, necessitating a longer period to implement. This refresh would also include opportunities to communicate OFHP savings in a more personalized and comprehensive manner. For example, each customer could receive a "personalized" message indicating how much they saved as a result of the plan.

Based on this feedback, the Ministry would aim to introduce regulatory amendments to simplify bill presentment and introduce dynamic OFHP messaging in the Fall 2017.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on following:

    i. Implementation of Global Adjustment (GA) Refinancing;

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program and First Nations On-Reserve Delivery Credit); and

    iii. Expansion of Industrial Conservation Initiative (ICI).

2) APPROVE the Ministry funding a media buy procurement with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record.

3) NOTE the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

4) NOTE the Ministry of Energy will return to TB/MBC to request a transfer of funds to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to fully recover the costs for the public education campaign.

5) APPROVE the creation of a new transfer payment line entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-01, Electricity Price Mitigation, with a $1,000 placeholder, to support future rate mitigation initiatives.

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Appendix:

- KPMG Opinion
- E&Y Opinion (including OPG Management Memo)

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FINAL DRAFT

KPMG Letter to the Independent Electricity System Operator

An Accounting Opinion on the Application of PSAS to the Consolidation of a Trust and to the Recognition and Derecognition of a Variance Account in Relation to the Proposed *Ontario Fair Hydro Plan Act, 2017*

This letter has been prepared in draft form and will be updated upon receipt of the adopted legislation (including the amendments of the Electricity Act and the OEB Act) and finalized financial structure (including the bylaws and regulations of the OPG Trust) and other relevant agreements necessary for us to provide our final opinion, of which legislation and other relevant agreements are expected to be enacted/ finalized on or before September 30, 2017.

NOTICE OF NON RELIANCE

This Notice is regarding the accompanying Letter to provide an accounting opinion on the application of Public Sector Accounting Standards to the consolidation of a trust and to the recognition and derecognition of a variance account in relation to the proposed *Ontario Fair Hydro Plan Act, 2017* (the "**Letter**") prepared by KPMG LLP for the Independent Electricity System Operator ("Client").

The following terms apply to any review of the Letter and should you not agree to these terms, please do not review the Letter and delete copy of the same.

The Letter was prepared in connection with certain services we provided to the Client and should not be used for any other purpose or regarded as suitable for use by any person or persons other than the Client

No one other than the Client is authorized by KPMG to rely upon any information or views expressed in the Letter. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as the Letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

KPMG in no way accepts any duty of care to you or any other person or accepts any agreement or other arrangement of a contractually binding nature between our firm and such parties.

KPMG neither warrants nor represents that the Letter is accurate, complete, sufficient or appropriate for any purpose contemplated by you or any other person or body. You shall have no right to disclose the Letter to any other party, unless disclosure is required by law or to fulfill a professional obligation required under applicable professional standards.

Yours very truly,

KPMG LLP

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
Suite 4600
333 Bay Street
Toronto ON
M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
www.kpmg.ca

May 4, 2017

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120 Adelaide Street West
Suite 1600
Toronto, ON
M5H 1T1

The Board of Directors

Dear Sirs,

We have been engaged to provide you with an accounting opinion on the application of Public Sector Accounting Standards to the consolidation of a trust and to the recognition and derecognition of a variance account in relation to the proposed *Ontario Fair Hydro Plan Act, 2017* ("the proposed Act") (Appendix A, Version 6, to this letter). This letter is being issued to the Independent Electricity System Operator ("IESO" or the "Company") in connection with its evaluation of the consolidation requirements and the accounting for the variance account under Canadian Public Sector Accounting Standards ("PSAS"). Our engagement has been conducted in accordance with generally accepted standards in Canada for such engagements.

The ultimate responsibility for the decision on the appropriate application of PSAS for the specific issues described below rests with management of the Company as preparers of the financial statements.

The adoption of the proposed Act (including the subsequent amendments of the Electricity Act, 1998 ("the Electricity Act") and the Ontario Energy Board ("OEB" or the "Board") Act ("the OEB Act")), and the finalization of the financing structure (including the bylaws and regulations of the OPG Trust) and other agreements will take several weeks. Accordingly, our judgment on the appropriate application of PSAS for the specific matters described below is based on the facts, circumstances and assumptions provided to us. The finalization of the legislation, regulations, financing structure and other agreements may impact the comments and conclusions set out herein. Our comments and conclusions are based on the proposed Act and related matters as they exist at the date of this letter.

The following three issues are addressed in this letter:

Issue #1: Can the IESO recognize a regulatory asset related to the variance account created by the proposed Act?

Issue #2: Is the trust to be established by Ontario Power Generation (the "OPG Trust") controlled by the IESO according to the guidance issued under PSAS 1300 *Government Reporting Entity* and therefore subject to consolidation by IESO?

Issue #3: What is the accounting treatment for derecognition of the regulatory asset by the IESO upon transfer of the variance account to the OPG Trust?

Background for issue #1

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party) are as follows:

1. The IESO's legal status is a not-for-profit, non-taxable, corporation established pursuant to Part II of the Electricity Act. Management of the IESO has determined that the Company is an Other Governmental Organization and accordingly prepares its financial statements in accordance with PSAS.

2. IESO is rate regulated by the OEB in accordance with the Electricity Act and the OEB Act.

3. *Extract from the 2016 IESO financial statements, note 3 New Accounting Policies,* audited by KPMG *"*As of January 1, 2016, the IESO changed its accounting policy regarding the recognition of assets and liabilities subject to rate regulation. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model. This change has been applied retroactively and has increased amounts previously unrecorded for regulatory assets and decreased amounts previously reported for accumulated deficit."

4. *Extract from the 2016 IESO financial statements, note 2(d) Summary of Significant Accounting Policies, Regulatory assets and liabilities.* "As a rate-regulated entity, the IESO, in appropriate circumstances establishes regulated assets or liabilities and thereby defers the impact on the statement of operations of certain expenses or revenues because they are probable to be collected or refunded to market participants through future billings. The IESO applies guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, *Regulated Operations ("ASC 980")*, in this policy."

5. *Extract from Section 78(3.3) of the OEB Act:* In approving or fixing rates under subsection (3.1),

   (a) the Board shall forecast the cost of electricity to be consumed by the consumers to whom the rates apply, taking into consideration the adjustments required under section 25.33 of the Electricity Act, 1998 and shall ensure that the rates reflect these costs; and

   (b) the Board shall take into account balances in the IESO's variance accounts established under section 25.33 of the Electricity Act, 1998 and shall make adjustments with a view to eliminating those balances within 12 months or such shorter time periods as the Minister may direct.

6. Currently, IESO recognizes two regulatory assets for unrecovered smart metering expenses and unrecovered PSAB transition items as permitted by rates approved by the OEB. In addition, in accordance with section 25.33 of the Electricity Act, IESO also recognizes variance accounts (eg. OESP, RPP and RRRP variance accounts) to record all amounts payable or receivable by it in connection with the amounts paid to generators, the Ontario Electricity Financial Corporation ("OEFC"), distributors and to entities with whom the IESO has a procurement contract.

7. The Electricity Act, OEB Act and other regulations will be amended to reflect the following *extracts of the proposed Act:*

   Section 1xx Definitions, Transfer of regulatory asset

   (3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 22xx (3):

1. A reduction in the balance in the variance account.
2. The adjustment of the regulatory asset.
3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Section 20.1xx Variance account to be established

(1) IESO shall establish and maintain a variance account for the purposes of this section.

(2) IESO shall record the following in the variance account:

1. The amount of the IESO funding shortfall for each month.
2. All payments received by IESO resulting from the exercise of the right of recovery under section 21xx and any transfer under section 22xx.
3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences after May 1, 2017 and before the day this section comes into force.

(3) Subject to the correction of any obvious error by IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

(4) No change made by IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 22x, affect the rights of the investment interest owner acquired under the transfer.

Section 21xx Regulatory asset established

(1) Effective May 1, 2017, the IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

(2) Subject to subsection (3), the Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.

(3) IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

(4) The Board's powers under subsection (3) shall be exercised in accordance with the regulations.

Section 30.1xx Board's Authority

(2) Despite anything to the contrary in the OEB Act, the Board may exercise any of its responsibilities under this Act without a hearing.

8. It is expected that the funding shortfall recorded by the IESO in the variance account (the regulatory asset) will be transferred to an investment asset owner (ie a trust to be established by OPG) on a monthly basis and cash collected within a short period of time. The total IESO funding shortfall for the period from May 1, 2017 to April 30, 2047 is estimated at $28 billion plus interest.

Appropriate Accounting Principle for issue #1

ASC 980 Regulated Operations

– For general-purpose financial reporting, an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract. [980-10-05-6]

- Unless an accounting order indicates the way a cost will be handled for rate-making purposes, it causes no economic effects that would justify deviation from the GAAP applicable to business entities in general. The mere issuance of an accounting order not tied to rate treatment does not change an entity's economic resources or obligations. In other words, the economic effect of regulatory decisions—not the mere existence of regulation—is the pervasive factor that determines the application of GAAP. [980-10-05-8]
- The guidance in the Regulated Operations Topic applies to general-purpose external financial statements of an entity that has regulated operations that meet all of the following criteria:
  (a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
  (b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products. This criterion is intended to be applied to the substance of the regulation, rather than its form.
  (c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. [980-10-15-2]
- A cost arising from cash paid out or obligation to pay for an acquired asset or service, a loss from any cause that has been sustained and has been or must be paid for. [980-10-20] Glossary
- Failure of an entity's operations to continue to meet the criteria in paragraph 980-10-15-2 can result from different causes. Examples include the following:
  (a) Deregulation.
  (b) A change in the regulator's approach to setting rates from cost-based rate-making to another form of regulation.
  (c) Increasing competition that limits the entity's ability to sell utility services or products at rates that will recover costs (as used in paragraph 980-10-15-2).
  (d) Regulatory actions resulting from resistance to rate increases that limit the entity's ability to sell utility services or products at rates that will recover costs if the entity is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts. [980-20-15-2]
- Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
  (a) It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
  (b) Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date. [980-340-25-1]

- Rate actions of a regulator can reduce or eliminate the value of an asset. If a regulator excludes all or part of a cost from allowable costs, the carrying amount of any asset recognized pursuant to paragraph 980-340-25-1 shall be reduced to the extent of the excluded cost. Whether other assets have been impaired shall be judged the same as for entities in general and the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 shall apply. [980-340-35-1]
- If at any time an entity's incurred cost no longer meets the criteria for the capitalization of an incurred cost (see paragraph 980-340-25-1), that cost shall be charged to earnings. [980-340-40-1]
- In some cases, a regulator may approve rates that are intended to recover an incurred cost over an extended period without a return on the unrecovered cost during the recovery period. [980-340-55-2]
- The regulator's action provides reasonable assurance of the existence of an asset (see paragraph 980-340-25-1). Accordingly, the regulated entity would capitalize the cost and amortize it over the period during which it will be allowed for rate-making purposes. That cost would not be recorded at discounted present value. An exception to this general rule is provided for costs of abandoned plants. [980-340-55-3]

Issue #1: Can the IESO recognize a regulatory asset related to the variance account created by the proposed Act?

As noted above, as of January 1, 2016, the IESO changed its accounting policy to recognize the economic impacts of rate regulation and now applies guidance from US GAAP Topic 980, *Regulated Operations,* as PSAS does not have any specific guidance for entities with rate-regulated activities.

IESO concluded that it met the requirements of PS2120.02, which allows them to reflect the impacts of rate regulation, as it is considered that the change of accounting policy in its 2016 financial statements resulted in a more appropriate presentation of transactions in its financial statements. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The regulatory framework in Ontario relating to the generation and sale of electricity will be significantly impacted by the proposed Act. Currently, a substantial amount of the energy purchased from the generators is collected by IESO from the local distribution companies through the customer billing, with the remaining being recovered through variance accounts over a period of 12 months maximum. As mentioned above, the effect of the proposed Act is to defer the collection of a total estimated amount of $28 billion (plus interest) of energy purchased from the generators over a period of 30 years. The proposed Act will not permit IESO to collect the funding shortfall before May 1, 2021 and the recovery process will be established through regulations. Such a long-term deferred recovery plan requires IESO to consider whether the uncollected energy costs qualify for deferral as a regulatory asset and whether it continues to meet the criteria that allow IESO to use the guidance for regulated operations of Topic 980. These two accounting issues are analyzed in the two tables below.

Criteria for the recognition of regulatory assets

ASC 980-340-25-1 states that rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

Criteria	Comment	Evaluation
(a) It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. (b) Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. *(emphasis added)* If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.	The proposed Act states that, • *A recording of the balance in the variance account is determinative of the balance as of the time of the recording.* • *Effective May 1, 2017, IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.* • *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.* • *The IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.* Based on the proposed Act, IESO has the right to recover the balance recorded in the variance account. As a result, it is clear that IESO will be able to recover the amount previously incurred rather than to provide for expected levels of similar future costs.	Met

Criteria for the adoption and continued use of ASC 980 guidance

Deferred recovery plans are plans adopted by regulators or legislations in response to significant increases in costs (e.g. purchased power costs). These plans typically provide for rates to remain fixed or increase moderately with a variance account mechanism to capture costs in excess of the level allowed in current rates. A regulated utility subject to such plans is required to consider whether it continues to meet the criteria that allow it to use the guidance for regulated operations of Topic 980, especially criteria ASC 980-10-15-2 (b).

The proposed plan for the recovery of purchase power costs over a 30 year period is considered a deferred recovery plan as the rates for the first four years will remain fixed and subsequently the rates will increase moderately with a variance account to capture energy costs in excess of the level allowed in current rates. The following is an analysis of the ASC 980-10-15-2 criteria.

Criteria	Comment	Evaluation
(a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party	Currently, IESO recognizes regulatory assets related to smart meters and PSAS transition costs as permitted by rates approved by the OEB and regulatory liabilities related to the variance accounts (eg. OESP, RPP and RRRP variance accounts) established under section 25.33 of the Electricity Act related to the procurement of energy.	Met

Criteria	Comment	Evaluation
regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.	It is important to note that both Hydro One and OPG are classified as government business enterprises and are reporting under IFRS in their consolidated financial statements, are consolidated by the modified equity method into the province's books, are regulated by the OEB, and their respective regulatory assets and liabilities are reported in the province's books.	

(b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products.	Currently, the rates approved by the OEB are designed to recover the IESO's costs of providing the regulated services and the pass-through related to the energy purchased from the generators.
	
	As mentioned above, a regulated utility subject to a deferred recovery plan is required to consider whether it continues to meet the criteria ASC 980-10-15-2 (b).
	
	This criterion requires a cause-and-effect relationship between a reporting entity's costs and its revenue. In addition, the timing of cost recovery and the related frequency of ratemaking is important. A reporting entity should consider its rate case experience, including the design of its rates and timing of recovery, when determining whether this criterion is met. These factors are analyzed below.
	
	Frequency of rate case
	
	- Currently, IESO is subject to OEB's annual reviews
	- Although the recovery of purchase energy costs will be frozen at the approved rate on May 1, 2017 for the first four years, the IESO will be granted a right to recover after May 1, 2021 the funding shortfall recorded in the variance account during the four-year period.
	  - *A recording of the balance in the variance account of the balance is determinative of the balance, as of the time of the recording. (We note that this confirms that there will be no prudence review by the OEB)*
	  - *Right to recover the balance recorded in the variance account.*
	  - *Obligation on the part of the OEB to dispose the variance account in accordance with the regulation.*
	- Subsequent to May 1, 2021, the OEB will be required to determine and set rates payable by specified consumers to allow for IESO to recover the balance
		Met

Criteria	Comment	Evaluation
	recorded in the variance account. - *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.* - *Despite anything to the contrary in the OEB Act, the Board may exercise any of its responsibilities under this Act without a hearing.* *Rates are designed to recover incurred costs* - There is a cause-and-effect relationship between the purchase energy costs and revenue, as IESO will be allowed to recover the costs incurred. - *A recording in the variance account of the balance in the variance account is determinative of the balance as of the time of recording (We note that this confirms that there will be no prudence review).* - *Right to recover the balance recorded in the variance account.* - *Obligation on the part of the OEB to ensure IESO will recover the balance recorded in the variance account.* *Periods of alternative ratemaking (e.g., rate freezes)* Evaluation of the second criterion requires additional judgment if the regulated utility is subject to any form of ratemaking that introduces uncertainty about the cause-and-effect relationship between costs and rates. A rate freeze period is defined as a fixed rate that is charged to customers during a period of time (more than two years) and the utilities are exposed to increases in operating and energy costs with no ability to recover the variances. This is not the case as IESO will be granted the right to recover fully the funding shortfall recorded in the variance account, including the first four-year period. - *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.*	

Criteria	Comment	Evaluation
	Costs uncertainty As the IESO will be granted the right to fully recover the funding shortfall recorded in the variance account, there is no uncertainty about the recovery of the costs. *Disallowances of costs* The OEB has never disallowed the recovery of any material costs incurred by IESO. More importantly, as the IESO will be granted by legislation the right to fully recover the funding shortfall recorded in the variance account, there is no risk of the potential disallowance of the purchase power costs. Based on the analysis of the above factors, there are no indications that this criterion would not be met. The above factors establish that there will be a direct cause-and-effect relationship between IESO's costs and its future collection.	
(c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs."	The remaining criterion is whether limitations, including considering demand levels at the approved rates, on the extent of recovery of the regulatory asset could prevent the IESO from recognizing a regulatory asset for the entire balance in the recovery right granted to the IESO. The proposed Act notes that: - *Effective May 1, 2017, the IESO's right to recover the balance in the variance account is subject to the following:* o *The Board shall, from time to time, determine and set rates payable by specified customers to allow for IESO to recover the balance recorded in the variance account.* o *IESO shall not be entitled to collect the variance account from specified consumers before May 1, 2021.* Although the process, especially the timing of the recovery of the regulatory asset has not been established yet by the OEB, the wording and intent of the proposed legislation is clear that it is intended by law to be recoverable over the period of 30 years. Further, given the nature and extent of customer demand for the power generated and distributed in Ontario, both at this time and projected in the future, it is reasonable to conclude that there will be sufficient demand to recover the regulatory asset. As with the other criteria, this will	Met

Criteria	Comment	Evaluation
	need to be continually evaluated throughout the recovery period.	

Management conclusion:

IESO management has concluded that the IESO can recognize a regulatory asset related to the variance account created by the proposed Act based on the foregoing analysis.

The variance account created by the proposed Act is subject to rate regulation by the OEB and the variance account will be established with the right to collect funds against the variance amount in the future. In these circumstances, the IESO is able to establish a regulated asset. The IESO financial statements are prepared in accordance with Canadian public sector accounting standards. Although PSAB does not provide specific guidance on rate regulated accounting, it does under PS 1150 *Generally Accepted Accounting Principles* allow for guidance to be followed from other accounting frameworks. IESO has applied guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, Regulated Operations in its accounting policies.

Our conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that the variance account created by the proposed Act will meet the criteria for the recognition of a regulatory asset stated in ASC 980-340-25-1. Furthermore, we have also considered the criteria stated in ASC 980-10-15-2 and believe that IESO should be allowed to continue to use the guidance for regulated operations of Topic 980.

Background for issue #2

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party), in addition to those described in the background for issue #1, are as follows:

1. The IESO currently has the right to collect the global adjustment ("GA") monthly from ratepayers through provisions in the Electricity Act. It is proposed that collection of a certain portion of the monthly GA be deferred in a regulatory asset for collection in the future, and that the right to recover the deferred GA from ratepayers be used as the basis for structured financing/ securitization.
2. In connection with the proposed Act, it is proposed that a trust to be created as a financial vehicle by OPG in connection with the deferred GA. The OPG Trust will finance the deferral of the GA by purchasing the regulatory asset from the IESO for the principal amount of the GA being deferred.
3. The OPG Trust is expected to finance these purchases from the IESO through a combination of senior secured financing raised in the capital markets, and subordinated financing from OPG (the funding for which will mostly be from equity injections from the OEFC/Province of Ontario).
4. OPG will be appointed as the Financial Services Manager and will be given the responsibility to direct the activities of the OPG Trust, through a services agreement and/or through the Trust's constating documents.

Appropriate Accounting Principle for issue #2

PS1300 *Government Reporting Entity*:

PSAS refer to government or government organizations. For the purpose of this analysis, the PSAS guidance below relating to government or government organizations should be read and understood as being the IESO (emphasis added).

- The government reporting entity should comprise government components and those organizations that are controlled by the government. [PS 1300.07]
- Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities. [PS 1300.08] (emphasis added).
- Whether a government controls an organization is a question of fact that must be determined by reference to the definition of control established in paragraph PS 1300.08 and the particular circumstances of each case. The determination of the fact that control exists will require the application of professional judgment. Government achieves its objectives through a wide range of organizations which individually will fall somewhere along a continuum. At one end of the continuum, it will be clear that an organization does not have the power to act independently and is controlled by the government. At the other end, the organization will have the power to act independently and, while government will have a level of influence on the organization, it will be clear that it does not have control. Along the continuum, consideration needs to be given to the nature of the relationship between the government and the organization in order to determine whether control exists. This Section provides guidance intended to assist in this assessment. [PS 1300.10]
- In applying this guidance, it is necessary to determine the substance of the relationship between the government and the organization. The true nature of certain relationships may not be completely reflected by their legal form. All relevant aspects and implications of the relationship would be considered in determining whether or not the government controls the organization. Where various aspects of the relationship are designed, in effect, to achieve an overall objective, they would be viewed as a whole. [PS 1300.11]
- Financial and operating policies are principles and practices that determine how an organization conducts its activities. The ability to govern these policies is an important element of government control because it establishes the fundamental basis for the conduct of the organization's operations and the achievement of its mission and mandate. [PS 1300.13]
- There are a variety of ways to govern the financial and operating policies of an organization. For example:
  (a) a government may establish an organization's fundamental purpose and eliminate or significantly limit the ability of the organization to make future decisions by predetermining the financial and operating policies of the organization;
  (b) a government may direct the financial and operating policies of an organization on an ongoing basis; or
  (c) a government may veto, overrule or modify the financial and operating policies established by an organization. [PS 1300.14]
- A government does not need to manage an organization's activities on a day-to-day basis to control the organization. It is the government's existing authority to determine the policies governing those activities that is important. [PS 1300.15]

– For the purposes of this Section, it is assumed that where the government has the power to govern the financial and operating policies of an organization, it expects to derive a financial or non-financial benefit. The government may also be exposed to the risk of loss. [PS 1300.16]

Issue #2: Is the trust to be established by Ontario Power Generation (the "OPG Trust") controlled by the IESO according to the guidance issued under PSAS 1300 *Government Reporting Entity* and, therefore, subject to consolidation by IESO?

Under PSAS, IESO is required to consolidate all entities that are considered to be part of its reporting entity, applying the guidance provided in *Section PS 1300 Government Reporting Entity.* Under PS 1300, IESO must consolidate all entities it "controls".

In determining whether or not the OPG Trust should be consolidated by IESO, it must first be determined whether or not the IESO exercises control as a consequence of power to govern the financial and operating policies of the OPG Trust resulting in expected benefits to the IESO or the risk of loss from the activities of the OPG Trust.

PS 1300.17 indicates that "whether a government controls an organization is a question of fact that requires the application of professional judgment based on the definition of control in this Section and the substance of the relationship in each case." Under PS 1300.08 control is defined as "the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities". Therefore, the determination of whether IESO will consolidate the OPG Trust will be based on an assessment of whether IESO is considered to control the OPG Trust based on the indicia of control set out in PS 1300. The assessment of the IESO's control of the OPG Trust is made based on the proposed Act, facts and nature of the relationship between the IESO and the OPG Trust and based on facts and assumptions provided by IESO. PS 1300.18 and .19 set out 11 potential indicia of control. Several of these indicia have been categorized as more persuasive of a finding of control (see the first four indicators in the table below). For each indicator that applies, the degree of government influence would determine its importance as evidence of control. Finally, the indicia are considered both collectively and individually.

A detailed analysis of the 11 Indicators of control is provided in the following table.

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
Primary (more persuasive) indicators (PS 1300.18):		
Government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization	- The proposed Act states: - *OPG is appointed as the Financial Services Manager for the purposes of this Act. (Section 13xx)* - *The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners. (Section 14xx (1))* - *Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees to recover, the costs of doing anything the*	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?

	Financial Services Manager is required or permitted to do under this or any other Act; and any other type of expenditure, the recovery of which is permitted by the regulations. (Section 14xx (3))
	- The Electricity Act, 1998 (EA) will be amended as follows:
	  - *In addition to the objects mentioned in subsection (1), the objects of OPG include exercising the powers and rights and performing the duties and obligations assigned to it under the Ontario Fair Hydro Plan Act, 2017 and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services." (Section 53.1 (1.1))*
	  - *"OPG may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects." (Section 53.1 (1.2))*
	- OPG will establish a trust to manage the collection of the regulatory asset and related financing and administrative expenses. The Board of Trustees of the OPG Trust will be the governing body of the Trust and will be appointed by OPG. OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees.
	- The IESO will not have any rights in respect of the appointment or replacement of the Board of Trustees of the OPG Trust.	

Government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses	- Section 23xx of the proposed Act states:
	  - *A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.*
	  - *Without limiting subsection (1), any transfer agreement that states an intention of the parties for*
		No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
	IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest. - *At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.* - Based on the proposed Act, *upon transfer by IESO of a portion of the regulatory asset to the OPG Trust, the investment asset resulting from the transfer is immediately vested in the OPG Trust, free and clear of any adverse claim.* (Section 24xx (1.1)) - Therefore, upon transfer of the regulatory asset to the OPG Trust, IESO will no longer have access/ability to direct the regulatory asset nor have the ongoing responsibility for losses. - The credit risk related to the collection of the investment asset is borne by the OPG Trust.	
Government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization	- IESO will not have any ownership in the OPG Trust and will not have the power to govern the financial and operating policies of the OPG Trust.	No
Government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations	- IESO will not have the power to dissolve the organization.	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
Other indicators that may provide evidence of control exist when government has the power to (PS 1300.18):		
Provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members	- OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees of the OPG Trust. - IESO will not provide input in the appointment of members of the Board of Trustees.	No
Appoint or remove the CEO or other key personnel	- OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees of the OPG Trust and other key personnel.	No
Establish or amend the mission or mandate of the organization	- The Trust will be established by OPG and the mandate of the Trust will be set based on the proposed Act.	No

Approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis	- The proposed Act states:
	  - *OPG is appointed as the Financial Services Manager for the purposes of this Act. (Section 13xx)*
	  - *"The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of refinancing a funding obligation." (Section 16 (1))*
	- OPG is the Financial Services Manager, not IESO.
	- IESO is not involved in the preparation or approval of the business plans or budget of the OPG Trust.
		No

Establish borrowing or investment limits or restrict the organization's investments	- Section 17 of the proposed Act states: - *The Financial Services Manager shall ensure that funding obligations incurred for the purposes*	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
	of this Act are incurred in a manner that is consistent with the applicable Financing Plan. - OPG not IESO, is responsible for ensuring that the borrowings of the OPG Trust meet the above conditions.	
Restrict the revenue-generating capacity of the organization, notably the sources of revenue	- N/A	No
Establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources	- As mentioned above, OPG will be granted by legislation the power to establish or amend the policies of the OPG Trust and the ability to appoint and remove all members of the Board of Trustees.	No

Management Conclusion:

IESO management has concluded that the OPG Trust to be established would not be controlled by the IESO and therefore is not subject to consolidation by the IESO.

Based on the foregoing analysis of the 11 indicators of control as defined in Section PS 1300 *Government Reporting Entity,* considered both individually and collectively there is no evidence of control by the IESO in respect of the OPG Trust. The IESO will not have the power to govern the Trust, nor have ongoing access to Trust's assets. The IESO will also not have any voting shares or future rights to the Trust nor the power to dissolve the Trust. Without control, the Trust is not subject to consolidation within the IESO financial statements.

Our Conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that based on the Proposed Act, none of the four primary (more persuasive) indicators of control are considered to be met, and none of the seven other indicators of control are considered to be met. Accordingly, we concur that the IESO does not control the OPG Trust under the proposed Act and hence would not consolidate the OPG Trust.

The adoption of the proposed Act (including the subsequent amendments of the Electricity Act and the OEB Act) and the finalization of the financing structure (including the bylaws and regulations of the OPG Trust) and other agreements will take several weeks. Accordingly, our judgment on the appropriate application of PSAS to the conclusion on control may change subject to further analysis of any changes to the terms of the proposed Act or review of the final regulations, financing structure and other agreements.

Background for issue #3

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party), in addition to those described in the background for issues #1 and 2, are as follows:

1. The total IESO funding shortfall for the period from May 1, 2017 to April 30, 2047 is estimated at $28 billion plus interest and will be recorded by the IESO in a variance account recognized as a regulatory asset.
2. The IESO does not currently have the financial capability to finance the regulatory asset and will transfer the variance account to an investment asset owner (i.e. OPG Trust) on a monthly basis.
3. The IESO will obtain a written legal opinion as to the validity and enforceability of the transfer and sale of the regulatory asset.
4. Based on an assessment of control performed under the issue #2, IESO will not consolidate the OPG Trust. We understand that an assessment of control under International Financial Reporting Standards ("IFRS") has been performed by OPG and they have concluded that the OPG Trust will be consolidated by OPG; we note that the financial reporting framework used by OPG in preparing its financial statements for consolidation into the Province's books is IFRS.
5. The Electricity Act, OEB Act and other regulations will be amended to reflect the following *extracts from the proposed Act:*

   Section 11xx IESO to receive amounts

   (2) The IESO shall, as an agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the regulations and the market rules made under section 32 of the *Electricity Act, 1998*.

   (4) All amounts received by the IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment interest owner, be received and held in trust by the IESO for the investment interest owners.

   (5) The IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the accounts referred to in subsection (2), to or for the benefit of the investment interest owners in accordance with the regulations.

   Section 12xx Pro rating of payments

   (3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

   Section 22xx Transfer of regulatory asset

   (1) The IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

   (2) An agreement between the IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to the IESO in an amount equal to the amount of the specified portion.

(3) Upon receipt by the IESO of the payment by the financing entity,

(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) the IESO shall retain no further right, title or interest in the investment interest.

Section 23xx Validity of transfer

(1) A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.

(3) At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

Section 25xx Investment asset established

(1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that are imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, IESO and other prescribed parties.

Section 26xx Transfer of investment interest

(2) An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Section 28xx Investment interest owner may grant security interest

(1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

(3) All provisions of the Personal Property Security Act shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

6. The terms of the transfer agreement between the IESO and the OPG Trust that will be signed and executed upon transfer of the regulatory assets will be in compliance with the dispositions of the proposed Act.

Appropriate Accounting Principle for issue #3

The Derecognition Section of ASC 980-20-40 provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation. [ASC 980-20-40]

Failure of an entity's operations to continue to meet the criteria in paragraph 980-10-15-2 can result from different causes. Examples include the following:

(e) Deregulation.

(f) A change in the regulator's approach to setting rates from cost-based rate-making to another form of regulation.

(g) Increasing competition that limits the entity's ability to sell utility services or products at rates that will recover costs (as used in paragraph 980-10-15-2).

(h) Regulatory actions resulting from resistance to rate increases that limit the entity's ability to sell utility services or products at rates that will recover costs if the entity is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts. [ASC 980-20-15-2]

PS1000 *Financial statement concepts*:

- This Section is to be used by preparers and auditors of financial statements in exercising their professional judgment as to the application of generally accepted accounting principles and in establishing accounting policies in areas in which accounting principles are developing. [PS1000.03]
- Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness. [PS1000.24]
- An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph [PS3210.04]. Thus, for example, an item does not qualify as an asset of a government if the item involves:
  (a) no future economic benefit;
  (b) future economic benefit, but the government cannot obtain it; or
  (c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred. [PS1000.37]

PS3210 *Assets*:

- Assets are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. [PS3210.03]
- Assets have three essential characteristics:
  (a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.
  (b) The public sector entity can control the economic resource and access to the future economic benefits.
  (c) The transaction or event giving rise to the public sector entity's control has already occurred. [PS3210.04]
- Control of an economic resource and of access to the future economic benefits are essential characteristics of an asset, whereas possession or ownership is not. [PS3210.22]

PS3430 *Restructuring transactions* [1]

- Individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date. [PS3430.21]
- When a transferor continues to be involved in the individual assets and/or liabilities it transferred to a recipient subsequent to the restructuring date, it would assess the nature and extent of its continued involvement against the definitions of assets and liabilities and applicable recognition criteria to evaluate whether:
  (a) derecognition of the asset and liability transferred would be appropriate; and
  (b) its continued involvement gives rise to a new asset or new liability that needs to be recognized. [PS3430.24]
- A new asset or new liability may arise from a restructuring due to a transferor's continued involvement in the individual assets and liabilities transferred (for example, if it agrees to guarantee repayment of all or a portion of a transferred liability or leases back a portion of a transferred asset). As the new asset or new liability is not transferred, together with related program or operating responsibilities, they are not part of the restructuring transaction. They would be accounted for in accordance with individual Sections of the PSA Handbook by both the transferors and recipients. [PS3430.25]

1 This Section applies to fiscal years beginning on or after April 1, 2018. […] Earlier adoption is permitted."

Issue #3: What is the accounting treatment for derecognition of the regulatory asset by the IESO upon transfer of the variance account to the OPG Trust?

Although ASC 980-20-40 states that

> *"Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation."*

Subtopic 980-20 relates to discontinuation of rate-regulated accounting when an entity no longer meets the criteria in paragraph 980-10-15-2. ASC 980-20-15-2 provides examples of when an entity no longer meets the criteria, including deregulation and change of the form of regulation. Thus, ASC 980 does not provide clear guidance for the derecognition of a regulatory asset other than in connection with the discontinuation of rate-regulated accounting.

The above guidance in ASC 980-20-40 provides general principles for the derecognition of assets.

It should also be noted that PSASs provide limited guidance on derecognition of non-financial assets and liabilities. Section 3430 *Restructuring transactions,* which is applicable for fiscal years on or after April 1, 2018 with early application permitted, has guidance for the derecognition of assets and liabilities.

- Paragraph 21 states that individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date.
- As stated in paragraph 24, when a transferor continues to be involved in the individual assets and/or liabilities it transferred to a recipient subsequent to the restructuring date, it would assess the nature and extent of its continued involvement against the definitions of assets and liabilities and applicable recognition criteria to evaluate whether derecognition of the asset and liability transferred would be appropriate and whether its continued involvement gives rise to a new asset or new liability that needs to be recognized.

Recognizing the proposed transaction is not a restructuring transaction, Section 3430, which has recently been issued by PSAB, provides current evidence of thinking in the application of the general PSAS principles in respect of the recognition and derecognition of assets and liabilities. Accordingly, the analysis as to whether the regulatory asset transferred to the OPG Trust can be derecognized is based on the foregoing guidance.

Criteria for the recognition of an asset

PS3210.03 states that assets are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. More generally, PSAS PS1000.37 suggests that an asset would no longer be recognized when it fails to meet the definition of an asset:

Criteria	Comment	Evaluation
Assets (PS3210.04/ PS1000.36): Assets have three essential characteristics: (a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows,	Based on the guidance, the regulatory asset does not qualify as an asset of IESO if it cannot obtain the future economic benefits. Upon transfer of the regulatory asset, IESO will have no further rights or obligations in connection with the asset transferred. - *IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.* - *Upon receipt by IESO of the payment by the financing entity, IESO shall retain no further right, title or interest in the corresponding investment interest.*	Not Met

Criteria	Comment	Evaluation
or to reduce cash outflows. (b) The public sector entity can control the economic resource and access to the future economic benefits. (c) The transaction or event giving rise to the public sector entity's control has already occurred. *Financial statement concepts (PS1000.37):* An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph [see above]. Thus, for example, an item does not qualify as an asset of a government if the item involves: (a) no future economic benefit (b) future economic benefit, but the government cannot obtain it.	- *A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.* - *Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.* - *At the time a transfer of the regulatory asset is made, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor."* Upon transfer of the regulatory asset, the OPG Trust will have the right to sell the asset to another party or to grant a security interest in favour of any person to secure a funding obligation. - *Upon transfer, the financing entity becomes an investment asset owner and acquires an investment interest."* - *An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.* - *An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.* Based on the proposed Act, it is clear that IESO will have no rights to the benefits associated with the future cash inflows related to the regulatory asset as it will have transferred its right to recover the IESO funding shortfall to the OPG Trust. Further, it is also clear that IESO will have lost control over the regulatory asset once it is transferred to OPG Trust.	

Management conclusion:

IESO management has concluded that the regulatory asset will be derecognized upon transfer of the variance account to the OPG Trust.

The transfer of the variance account transfers the control and the benefits associated with the right to collect funds in the future against the variance amount to the OPG Trust. This will eliminate the IESO asset by the amount of the transfer as the IESO will no longer control an economic resource or have access to future economic benefits for that amount. The funds collected from the transfer will in turn reduce the associated debt held by the IESO, maintaining the IESO's net $ nil balance in the market accounts.

Our conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that the regulatory asset should be derecognized on transfer to the OPG Trust as IESO no longer has rights or future economic benefits associated with the asset.

Other Matters

The ultimate responsibility for the decision on the appropriate application of PSAS for the specific transactions rests with management as preparers of the financial statements. Our judgment on the appropriate application of PSAS for the specific transaction is based solely on the facts, circumstances and assumptions provided to us as described above. Should these facts and circumstances differ, our conclusion may change.

This letter has been prepared in draft form and will be updated upon receipt of the adopted legislation (including the amendments of the Electricity Act and the OEB Act) and finalized financial structure (including the bylaws and regulations of the OPG Trust) and other relevant agreements necessary for us to provide our final opinion, of which legislation and other relevant agreements are expected to be enacted/ finalized on or before June 30, 2017. This letter will not be updated as a consequence of pronouncements by the Public Sector Accounting Board, or any other authoritative bodies, that occur subsequent to the date of this letter.

This letter is intended solely for the information and use of the Board of Directors and management of the Company, and is not intended to be and should not be used, quoted, relied upon by, or otherwise referred to by anyone other than these specified parties or for any other purpose.

No one other than the Board of Directors and management of the Company is authorized by KPMG to rely upon any information or views expressed herein**.** KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

per Michel Picard
Partner
(416) 777 8414
mpicard@kpmg.ca

Appendix A:

Draft of the Ontario Fair Hydro Plan Act, 2017

Version 6

This confidential draft document is provided for discussion purposes only. It should not be construed as representing the position adopted by the Government of Ontario on any of the topics included or not included in this document. The notes included in this document are intended only to help facilitate a discussion of the topics to which they relate. Any potential legislation is subject to the approval of the Ontario Legislature.

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A proposal to create Legislation.

Ontario Fair Hydro Plan Act, 2017, if enacted

A proposal to create Legislation.

Ontario Fair Hydro Plan Act, 2017, if enacted

EXPLANATORY NOTE TO BE ADDED BY LEGISLATIVE COUNSEL TO ANY FINAL BILL PRIOR TO INTRODUCTION.

Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects.[1] These commitments can only be achieved if costs are shared fairly among consumers, today and in the future.

Electricity rates have risen for two key reasons. First, decades of under-investment in the electricity system resulted in the need to invest more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable. Second, the decision to eliminate Ontario's use of coal and produce clean, renewable power has created additional costs.

The actions taken to achieve a clean, modern and reliable electricity system have resulted in significant costs to residential consumers. The burden of financing these system improvements and funding key programs has unfairly fallen almost entirely on the shoulders of those consumers.

The Government of Ontario is committed to ensuring that the costs of financing these investments and the associated charges to consumers are allocated fairly among present and future generations.

Recognizing that the electricity infrastructure that has been built and the policy decisions that have been made will create benefits for years to come, costs should be allocated fairly over time, so that residential consumers in the future pay their fair share for the benefits that they receive from the investments already made.

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[1] FLS: please see the preamble of the *Green Energy Act, 2009.*

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PART I
GENERAL

Interpretation
Definitions

1xx. (1) In this Act,

"Board" means the Ontario Energy Board; ("French")

"clean energy adjustment" means the amount determined under section 10xx and payable by specified consumers; ("French")

"clean energy benefits" means the value of the benefits determined to be derived by or accruing to specified consumers as a result of the clean energy initiative, including as a result of clean energy costs; ("French")

"clean energy costs" means the value of the costs allocated to specified consumers as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

(a) the amounts to be paid or reflected by IESO in adjustments made under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts or amounts for,

(i) renewable energy generation or capacity,

(ii) conservation and demand management,

(iii) energy storage,

(iv) energy efficiency,

(v) natural gas generation and capacity, excluding contracts relating to amounts payable by IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed,

(b) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(c) such other costs or estimated costs as may be prescribed; ("French")

"clean energy initiative" means the policies of the Government of Ontario related to,

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(a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,

(b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

(c) promoting conservation, demand management and energy efficiency, and

(d) investing in energy infrastructure to ensure a clean, modern and reliable system; ("French")

"electricity vendor"[2] means,

(a) a licensed distributor,

(b) a licensed retailer,

(c) IESO in circumstances where it directly invoices a specified consumer for electricity used in Ontario, or

(d) such other person as may be prescribed; ("French")

"fair allocation amount" means an amount calculated under section 15xx; ("French")

"finance amount" means the finance amount determined in accordance with the regulations; ("French")

"financing entity" means an entity established or caused to be established as described in subsection 17xx (3); ("French")

"Financial Services Manager" means the Financial Services Manager appointed under section 13xx; ("French")

"Financing Plan" means a plan prepared under section 16xx; ("French")

"funding obligation" means a payment obligation incurred by or on behalf of an investment interest owner to fund its ownership of an investment interest or a payment obligation that meets such other criteria as may be prescribed; ("French")

[2] FLS - this is similar to the definition of "electricity vendor" in the Ontario Rebate for Electricity Consumers Act, 2016

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"funding rebate" means a payment obligation incurred by IESO as part of the transfer of the regulatory asset; ("French")

"IESO" means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; ("SIERE")

"IESO deferral" means the amount determined under section 20xx; ("French")

"investment asset" means the rights and interests described in section 25xx; ("French")

"investment interest owner" means a financing entity that has acquired and holds an investment interest; ("French")

"investment interest" means,

(a) an ownership interest in the investment asset, and

(b) in circumstances where the ownership interest is transferred, the rights and benefits specified in the agreement under which the interest is transferred; ("French")

"licensed distributor" means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system within the meaning of the *Electricity Act, 1998*; ("French")

"licensed retailer" means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; ("French")

"Minister" means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; ("ministre")

"Ontario Power Generation Inc." means the corporation incorporated as Ontario Power Generation Inc. under the *Business Corporations Act* on December 1, 1998; ("Ontario Power Generation Inc.")

"prescribed" means prescribed by the regulations; ("prescrit")

"reference period" means,

(a) the period beginning on July 1, 2017 and ending on October 31, 2017, and

(b) during the period beginning on November 1, 2017 and ending on April 30, 2047 or ending on such later day as may be prescribed,

(i) every six-month period following the period mentioned in clause (a); or

(ii) any period shorter than six months, as may be prescribed; ("French")

"refinancing" means, subject to the regulations, the incurrence of debt in connection with a redemption, repayment or repurchase of a funding obligation; ("French")

"regulation" means a regulation made under this Act; ("règlement")

"regulatory asset" means the right and interest established under section 21xx; ("French")

"specified consumer" means,

(a) a person who has an account with an electricity vendor for the supply of electricity in Ontario and meets the criteria set out in subsection (2); or

(b) such other person as may be prescribed; ("French")

"transfer" includes, when used in relation to an investment interest, the assignment, conveyance, disposition or sale of the investment interest; ("French")

"true up amount" means a true up amount determined in accordance with the regulations; ("French")

"unit sub-metering" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("activités liées aux compteurs divisionnaires d'unité")

"unit sub-meter provider" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("fournisseur de compteurs divisionnaires d'unité")

"variance account" means the variance account established by IESO under subsection 20.1xx (1). ("French")

Specified consumer

(2) For the purposes of clause (a) of the definition of "specified consumer" in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of 50 kilowatts or less, or such other amount as may be prescribed.

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2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.

3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or has had the obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.

4. The person's account with the electricity vendor relates to,

    i. a dwelling,

    ii. a property within the meaning of the *Condominium Act, 1998*,

    iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or

    iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.

5. The person satisfies such criteria as may be prescribed.

Transfer of regulatory asset

(3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 22xx (3):

1. A reduction in the balance in the variance account.

2. The adjustment of the regulatory asset.

3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Effect of invalidity, etc.[3]

2xx. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if one or more provisions are held to be invalid, the intention of the

[3] FLS: this is from the *Climate Change Mitigation and Low-carbon Economy Act, 2016*

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Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect the validity or enforceability of a funding obligation incurred before the day that the provision is held to be invalid or ceases to be in effect, or any rights or obligations associated with the funding obligation.

Purpose

3xx. (1) The purposes of this Act are,[4]

(a) to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers;

(b) to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province; and

(c) to align clean energy costs with clean energy benefits, in order to provide fairness for specified consumers.

Crown bound

4xx. This Act binds the Crown.

Protection and assurances

Prohibition

5xx. (1) No action or omission by the Board, the Minister or the Crown shall be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.

Agreements

(2) The Minister and the Minister of Finance may together, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding the performance of IESO or electricity vendors under this Act or similar transactions.

Guarantee, indemnification

(3) The Lieutenant Governor in Council may by order,

[4] FLS: Please see the *Electricity Act, 1998* for much of the wording proposed in this section.

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(a) authorize the Minister and the Minister of Finance, acting together on behalf of the Province,

(i) to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and

(ii) to determine terms and conditions of the guarantee or indemnity and the maximum liability for the guarantee or indemnity;

(b) specify terms and conditions that must be included in any guarantee or indemnity given by the Minister and the Minister of Finance; and

(c) specify a maximum liability for the guarantee or indemnity.

PART II
FAIR ADJUSTMENT

Definitions

6xx. In this Part,

"regulated rate consumer" means a specified consumer who meets the following criteria:

1. The consumer is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1998* for the purposes of subsection 79.16 (1) of that Act.

2. The consumer would, if the consumer were not subject to this Act, be invoiced the rate determined by the Board under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*. ("French")

Regulated rate consumer, first adjustments

6.1xx (1) Despite any order under subsection 78 (3.1) of the *Ontario Energy Board Act, 1998* and despite section 79.16 of that Act, the electricity rates payable by regulated rate consumers for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would achieve the following outcome: a fictional regulated rate consumer who meets the prescribed criteria would be charged an invoice amount that is 25 per cent less than the invoice amount that would have been charged to that consumer under the comparison rates described in subsection (2).

Comparison rates

(2) The comparison rates are the rates that would have been effective May 1, 2017 if they had been determined by the Board solely using the method prescribed by the

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regulations made under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*, without taking into account any forecasted impact of any other provisions of this Act.

Invoice amounts

(3) Each invoice amount mentioned in subsection (1) shall be determined in accordance with the regulations.

Other specified consumers, first adjustment

6.2xx (1) For the period beginning on July 1, 2017 and ending on April 30, 2018, the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* shall, with respect to specified consumers who are not regulated rate consumers, be further adjusted by electricity vendors in accordance with the determinations of the Board under subsection (2).

Board to make determinations

(2) The Board shall, in accordance with the regulations, determine the adjustments to be made by electricity vendors.

Same, regulations

(3) The regulations may specify different adjustments to be made in respect of prescribed classes of specified consumers who are not regulated rate consumers.

Determinations by Board

6.3xx The Board shall make the determinations mentioned in sections 6.1xx and 6.2xx no later than fifteen business days after the day this section receives Royal Assent and, regardless of whether the Board makes the determinations before or after July 1, 2017, the determinations shall be effective as of July 1, 2017.

Implementation by electricity vendors

6.4xx (1) As soon as possible after the Board makes determinations under section 6.3xx, each electricity vendor shall, in respect of electricity used on or after July 1, 2017, ensure that its invoices reflect the determinations of the Board.

Same

(2) The electricity vendor shall ensure that, if any of its specified consumers have been invoiced in a manner that does not reflect the determinations of the Board under section 6.3xx, the specified consumer receives the difference between the amounts shown on the invoice and the amounts reflecting the Board's determinations, provided as a lump sum credit on the first invoice issued after the electricity vendor has adapted its invoices or by such other means as may be prescribed.

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Subsequent adjustments

7xx. (1) Despite clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998* and subject to subsection (2), the Lieutenant Governor in Council may prescribe the methodology to be applied by the Board after April 30, 2018 for the purpose of determining,

(a) electricity rates for specified consumers; or

(b) adjustments to be applied by electricity vendors to the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* in respect of prescribed classes of specified consumers.

Limitation

(2) Any prescribed methodology to be applied in respect of a period after June 30, 2021 shall have regard to the following:

1. The fair allocation amount in respect of the period.

2. Any clean energy adjustments payable in respect of the period.

3. Such other matters as may be prescribed.

Sub-metering

7.1xx (1) This section applies if a specified consumer provides to another person electricity in respect of which a determination of the Board referred to in section 6.3xx or section 7xx applies.

Same

(2) If an invoice for the electricity is issued to the person by the specified consumer or a unit sub-meter provider providing unit sub-metering for the specified consumer, the amount payable for the electricity by the person who is liable to pay the invoice shall be determined in accordance with the regulations.

PART III
CLEAN ENERGY ADJUSTMENT

Specified consumers to pay

8xx. (1) Upon receipt of an invoice from an electricity vendor that includes an amount in respect of the clean energy adjustment, a specified consumer shall pay the amount to the electricity vendor, as agent of the investment interest owners.

Same

(2) For greater certainty, subsection (1) applies regardless of,

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(a) whether the clean energy adjustment was determined in a manner that was inconsistent with this Act; and

(b) whether the amount payable in respect of the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan, including in a manner that failed to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Terms

(3) The payment shall be made in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Indebtedness of specified consumer

(4) An unpaid amount that is required to be paid by a specified consumer under this section constitutes indebtedness of the specified consumer to each investment interest owner to the extent of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer.

Unit sub-metering

(6) A specified consumer who provides electricity through sub-metering may collect amounts in respect of the clean energy adjustment payable under this section in accordance with the regulations.

Irrevocability of amount

9xx. (1) An amount in respect of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness resulting from the clean energy adjustment and is irrevocable upon invoicing the consumer and may not be set off or by passed.

Exception

(2) Subsection (1) does not apply to the extent that the invoice reflects a clerical, typographical or calculation-related error.

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Determination of clean energy adjustment
Financial Services Manager to determine

10xx. (1) The Financial Services Manager shall determine the clean energy adjustment payable by all specified consumers in respect of each month in a reference period by taking the following steps:

1. Calculate the sum of the following:

    i. The estimated finance amount in respect of the reference period.

    ii. The true up amount in respect of the reference period.

2. Divide the sum calculated under paragraph 1 by the number of months in the reference period.

Regulations re true up amount

(3) The Lieutenant Governor in Council shall, in making regulations with respect to the determination of the true up amount, have regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the finance amount when it is due.

2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

    i. differences between the estimated and actual finance amount for the applicable reference period,

    ii. differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and

    ii. variations in billings due to variations in electricity consumption.

Financial Services Manager to notify Board

(4) The Financial Services Manager shall, in accordance with the regulations, notify the Board of the clean energy adjustment in respect of a reference period and such other information related to the determination of the clean energy adjustment as may be prescribed.

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Board to determine rates

(5) Without changing the clean energy adjustment, the Board shall, in accordance with the regulations, determine the rate at which specified consumers are invoiced to recover the clean energy adjustment in respect of the reference period.

IESO to receive amounts

11xx. (2) IESO shall, as an agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the regulations and the market rules made under section 32 of the *Electricity Act, 1998*.

Account

(3) All of the following amounts received by IESO shall, until paid to or for the benefit of the investment interest owners in accordance with subsection (5), be deposited promptly into an account established for the purposes of receiving those amounts:

1. Amounts described in subsection 11xx (2).

2. Payments made by specified consumers directly to IESO as electricity vendor under subsection 8xx (1).

3. Proceeds of amounts described in paragraphs 1 and 2.

Same, held in trust

(4) All amounts received by IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment interest owners, be received and held in trust by IESO for the investment interest owners.

IESO to remit

(5) IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the accounts referred to in subsection (2), to or for the benefit of the investment interest owners in accordance with the regulations.

Electricity vendor to invoice specified consumers

12xx. (1) Each electricity vendor shall issue an invoice to each of its specified consumers for the amount payable by the consumer in respect of the clean energy adjustment, as determined by applying the rate set by the Board under subsection 10xx (5) and in accordance with the regulations.

Electricity vendor to report

(1.1) Each electricity vendor shall, in accordance with the regulations, promptly report to IESO the total amount invoiced to its specified consumers in respect of the clean

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energy adjustment, the amount collected and such other information as may be prescribed.

Electricity vendor to collect

(2) Each electricity vendor shall, as agent of the investment interest owners, collect amounts in respect of the clean energy adjustment from specified consumers in accordance with the regulations.

Pro rating of payments

(3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

Held in trust

(4) Payments received by an electricity vendor from or on behalf of specified consumers in respect of the clean energy adjustment and all proceeds of the payments shall, until paid to or for the benefit of the investment interest owners in accordance with subsection (5), be received by and held by each electricity vendor in trust for the benefit of the investment interest owners.

Remittance to IESO

(5) Each electricity vendor shall remit amounts in respect of the clean energy adjustment to IESO for the benefit of the investment interest owners in accordance with the regulations.

PART IV
IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

13xx. Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act.

Duties and powers

14xx. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

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Same

(2) The administration of the investment asset may include providing information to IESO in respect of obligations under Part III and such other activities as may be prescribed.

Fees, etc.

(3) Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees in relation to such matters as may be prescribed in accordance with the regulations.

Same, Board approval

(4) Before establishing fees under subsection (3), the Financial Services Manager shall submit them to the Board for approval in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Minister to calculate fair allocation amount

15xx. (1) Subject to subsections (2) and (3), before the first funding obligation is incurred, the Minister shall calculate a fair allocation amount in respect of each reference period, applying such method as the Minister considers appropriate and in accordance with the following steps:

1. Determine the estimated clean energy costs and estimated clean energy benefits allocated to specified consumers in respect of the reference period.

2. Determine the estimated reduction in the amounts payable by specified consumers as a result of rates determined under Part II in respect of all previous reference periods, including the estimated reduction in clean energy costs described in clause (a) of the definition of "clean energy costs" in subsection 1 (1) that would otherwise have been payable by specified consumers in the absence of this Act.

3. Determine the amount, if any, by which the determination under paragraph 1 exceeds the determination under paragraph 2.

4. Calculate the sum of the amount determined under paragraph 3 and such other amounts as may be prescribed.

Principles

(2) In calculating the fair allocation amount, the Minister shall have regard to the following principles:

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1. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among the specified consumers in respect of each reference period.

2. Calculations should be made having regard to the need to align each fair allocation amount with the estimated finance amount payable during the reference period.

3. Estimated clean energy costs allocated to specified consumers in respect of a reference period should be allocated in proportion to the estimated clean energy benefits attributed to the specified consumers in respect of the reference period.

4. Such other principles as may be prescribed.

Assumptions

(3) In calculating the fair allocation amount, the Minister shall make such assumptions as the Minister considers to be reasonable regarding the following:

1. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.

2. The expected number of specified consumers in respect of each reference period.

3. The expected electricity consumption rates in respect of each reference period.

4. Such other assumptions as may be prescribed.

Minister to provide amount to Financial Services Manager

(4) The Minister shall provide the fair allocation amount in respect of each reference period to the Financial Services Manager.

Recalculation

(5) A calculation of the fair allocation amount under this Part may be changed by such person as may be prescribed in accordance with such requirements as may be prescribed.

Same

(6) No change under subsection (5) shall affect any clean energy adjustment that has already been determined under section 10xx or any funding obligations that have already been incurred before the change.

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Information

(7) The Minister, IESO, the Financial Services Manager, the Board and electricity vendors shall provide such information as may be prescribed in accordance with the regulations for the purposes of facilitating a change to a calculation of the fair allocation amount.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

16xx. (1) The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of a refinancing.

Plan to be provided to Minister

(1.1) The Financial Services Manager shall provide the Financing Plan to the Minister.

Principles

(2) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Funding obligations should be incurred such that, along with any funding obligations already incurred, the estimated finance amount that would, subject to any refinancing, become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period, in each case after reducing the fair allocation amount to reflect determinations of the Board under Part II in respect of the reference period.

2. Incurrences should be implemented in a manner that, in the opinion of the Financial Services Manager, is reasonable, cost effective and that reflects prevailing market terms and conditions.

3. Reasonable assumptions should be made regarding such matters as may be prescribed.

Limitation

(4) In respect of each reference period from May 1, 2017 to April 30, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment in respect of the reference period unless,

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(a) the amounts are payable in respect of a reference period in respect of which the Board has not made any determinations under Part II; or

(b) if the Board has made a determination under Part II in respect of the reference period, the funding obligations incurred would not result in amounts payable in respect of the clean energy adjustment during the reference period in an amount that exceeds the limit determined in accordance with the regulations.

Other reports

(3.1) The Financial Services Manager shall submit to the Minister such reports and information as the Minister may require from time to time and shall, if required by the Minister to do so, examine, report and advise on any question relating to the Financing Plan.

Amendments to plan

(6) The Financial Services Manager may amend the Financing Plan at any time.

Same

(7) In the event that the Financing Plan is amended, any reference in this section to the Financing Plan is deemed to be a reference to the plan as amended.

Implementation of Financing Plan

17xx. (1) The Financial Services Manager shall ensure that funding obligations incurred for the purposes of this Act are incurred in a manner that is consistent with the applicable Financing Plan.

Financing entities

(3) In accordance with the Financing Plan, the Financial Services Manager may establish or cause to be established one or more financing entities that may incur funding obligations.

Prohibition

(3.1) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, Ontario Power Generation Inc., the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation or other agreement.

Effect of amendment to fair allocation amount

(4) Each funding obligation incurred and each transfer made by a financing entity is deemed to be consistent with the Financing Plan and to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

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Same

(2) For greater certainty, subsection (4) applies despite the failure of the Financial Services Manager to comply with subsection (1).

PART V
THE REGULATORY ASSET

IESO deferral

20xx. (1) The IESO deferral for each month, commencing May 1, 2017, shall be determined by IESO in accordance with the regulations.

Same, retrospective amounts

(1.1) For greater certainty, the regulations may provide for the IESO deferral to include an amount that was incurred by IESO on or after May 1, 2017 and before the day this Act comes into force.

Electricity vendors to provide information

(2) Electricity vendors shall provide to IESO such information as IESO may reasonably request for the purposes of determining the IESO deferral under subsection (1) and such further information as may be prescribed.

Same

(3) IESO may rely on information provided by electricity vendors for the purposes of the determination under subsection (1).

Variance account to be established, maintained

20.1xx (1) IESO shall establish and maintain a variance account for the purposes of this section.

Recording in variance account

(2) IESO shall record the following in the variance account:

1. The IESO deferral for each month.

2. All payments received by IESO resulting from the exercise of the right of recovery under section 21xx and any transfer under section 22xx.

3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences on or after May 1, 2017 and before the day this section comes into force.

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Recording determinative

(3) Subject to the correction of any obvious error by IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

Rights of investment interest owner

(4) No change made by IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 22x, affect the rights acquired by the investment interest owner under the transfer.

Regulatory asset established

21xx. (1) Effective May 1, 2017, IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

Board to set rates

(2) Subject to subsection (3), the Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.

Limitation

(3) IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

Same, limitations

(4) The Board's powers under subsection (3) shall be exercised in accordance with the regulations.

Transfer of regulatory asset

22xx. (1) IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

Agreement

(2) An agreement between IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to IESO in an amount equal to the amount of the specified portion.

Effect of payment

(3) Upon receipt by IESO of the payment by the financing entity,

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(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) IESO shall retain no further right, title or interest in the corresponding investment interest.

Validity of transfer

23xx. (1) A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

Same

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.

Deemed perfection, etc.

(3) At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI
THE INVESTMENT ASSET

Effect of transfer

24xx. (1) The transfer of a specified portion of the regulatory asset under section 22x creates an investment asset or, if it is not the first transfer, adds to the investment asset.

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Same

(1.1) Upon transfer of a specified portion of the regulatory asset under section 22xx to a financing entity, the investment asset resulting from the transfer is immediately vested in the financing entity, free and clear of any adverse claim.

Investment asset established

25xx. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that are imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, IESO and other prescribed parties.

3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.

4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge and invoice for the clean energy adjustment.

5. The right to enforce the duties and obligations under this Act of each electricity vendor and IESO to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by any electricity vendor to recover payment of the clean energy adjustment.

6. All rights of any kind related to any of the other property rights or interests that comprise the investment interest, including any rights to receive funding rebates.

7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether it is invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

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Not affected by failure to impose etc. clean energy adjustment

(1.1) An investment interest is not affected by any failure to impose, attribute, invoice, accrue or collect amounts in respect of the clean energy adjustment.

No set off, etc.

(2) The investment asset shall not be set off,

(a) by a consumer, an electricity vendor, IESO, an agent of the investment interest owners or an owner in the Province of a distribution system within the meaning of the *Electricity Act, 1998*;

(b) in connection with any default of a person mentioned in clause (a); or

(c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(3) The rights of the investment interest owners to collect and enforce their rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with Part III of this Act.

Collective action required

(4) If one investment interest owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment interest owner collectively and in coordination with all other investment interest owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment interest owners as a collective in accordance with its terms.

Transfer of investment interest

26xx. An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

27xx. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the transferee a valid property right and interest in, to and under the applicable investment interest acquired in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment interest owner's right, title and interest in, to and under an

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investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected as described in the *Personal Property Security Act*, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer, and the property rights and interests acquired by the investment interest owner shall have priority over any liens in favour of such other persons.

Investment interest owner may grant security interest

28xx. (1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment interest owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may

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subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any account of any electricity vendor, an agent of an electricity vendor or other person who may have commingled such revenues or other proceeds with other funds.

Notice required

(7) The secured party shall be entitled to exercise the rights of an investment interest owner only after the secured party has given notice of the enforcement of its security interest to IESO.

Definition

(8) For the purposes of this section, a security interest is perfected when it is perfected as described in the *Personal Property Security Act*.

PART VII
MISCELLANEOUS

Appointment of agent, invoicing or collection

29xx. If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Not Crown agent

30xx. For greater certainty, a person appointed under section 29xx is not an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Board's authority

30.1xx (1) Each electricity vendor, IESO and the Financial Services Manager shall maintain such accounts and provide such information to the Board as the Board may require for the purposes of carrying out its responsibilities under this Act, in the form and manner and within the time required by the Board.

No hearing required

(2) Despite anything to the contrary in the *Ontario Energy Board Act, 1998*, the Board may exercise any of its responsibilities under this Act without a hearing.

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Sequestration

31xx. (1) A court in the Province may, upon application by an investment interest owner or a secured party, order the sequestration and payment of amounts in respect of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment interest owner or secured party by any person or entity authorized to collect amounts in respect of the clean energy adjustment, including defaults on any required remittance of amounts in respect of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Choice of law

32xx. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to a transfer under this Act or the creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section 5XX shall be the laws of the Province.

Conflict

33xx. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

34xx. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required to be taken under the Financing Plan or in relation to the determination of the fair allocation amount.

Liability

35xx. (1) No action or other civil proceeding shall be commenced against any employee of the Province or Ontario Power Generation Inc. for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under this Act, the regulations under this Act or for any alleged neglect or default in the exercise or performance in good faith of such a power or duty.

Same

(2) Nothing in subsection (1) shall be read as limiting the effect of subsection 19 (1) of the *Electricity Act, 1998* or subsection 11 (1) of the *Ontario Energy Board Act, 1998*.

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Same

(3) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act*, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.

References in marketing materials and offering documents

36xx. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under section 5xx unless the prescribed requirements, if any, are satisfied.

Regulations

38xx. (1) The Lieutenant Governor in Council may make regulations in respect of the following matters:

1. [5]Governing anything that is required or permitted to be prescribed or that is required or permitted to be done by, or in accordance with, the regulations or as authorized, specified or provided in the regulations.

2. Defining, for the purposes of a regulation, words and expressions used in this Act that are not defined in the Act.

3. Prescribing types of payment obligations that constitute funding obligations.

4. Governing the determination of classes of specified consumers, which may include determination based on the manner in which rates are determined for different classes of specified consumers.

5. Governing the determination of the finance amount and the true-up amount and how those amounts are to be applied to the clean energy adjustment.

6. Governing the inclusion of information under this Act on or with invoices, which may include requiring notice to be provided by electricity vendors to specified consumers and other prescribed persons regarding the adjustments, including providing for different requirements in different circumstances and for different classes of specified consumers.

7. Governing the inclusion of information about the clean energy adjustment and any other matters provided for under this Act on or with invoices issued to specified consumers, including the form that the information must take and the

[5] FLS - see s. 78 (1) of the Climate Change Mitigation and Low-carbon Economy Act, 2016 - paras. 1 and 2.

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form of the invoices and the form of any notice to be provided to the specified consumer under this Act[6];

8. Governing the manner by which invoices or notices provided for under this Act are to be provided to specified consumers and other prescribed persons.

9. Governing the Financial Services Manager's power to establish and charge fees, including the ability to recover costs and expenditures and to earn a return.

9.1 Providing for a right of compensation for investment interest owners affected by a breach of section 25xx and the manner in which such a right may be enforced under this Act.

10. Prescribing the time within which any action required by this Act may be required to be done.

11. Providing for such other matters as the Lieutenant Governor in Council considers advisable to carry out the purpose of this Act.

Limitation

(2) Despite subsection (1) or any other Act, no regulation under this Act shall have the effect of reducing, impairing, postponing or terminating the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or impairing or postponing the invoicing, collection, remittance or recovery of the clean energy adjustment.

PART VIII[7]
AMENDMENTS TO OTHER ACTS

ELECTRICITY ACT, 1998

200x. (1) Subsection 6 (1) of the *Electricity Act, 1998* would be amended by adding the following clauses:

(q.0.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,

[6] FLS - see *OEBA s.79.17 and 88(1)(z.11) and (z.12)*

[7] FLS: These amendments are drawn from previous drafting contained in gov2016.146.e05 (which was drafted as amendments to the EA, 1998).

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(i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*;

(ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities;

(iii) engaging in activities related to the transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,

(A) incurring liabilities in relation to the regulatory asset,

(B) transferring the regulatory asset under section 22x for consideration, and

(C) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

200.1xx (1) Subsection 25.33 (1) of the Act would be amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*;

(1.1) Subsection 25.33 (2) of the Act would be amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*;

(2) Subsection 25.33 (3) of the Act would be amended by adding the following paragraph:

4. A consumer who is a specified consumer within the meaning of the *Ontario Fair Hydro Plan Act, 2017* or such other consumer as may be prescribed.

(3) Clause 25.33 (4) (b) of the Act would be amended by adding "or as may be required by a regulation made under this Act or the *Ontario Fair Hydro Plan Act, 2017*" at the end.

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(4) Subsection 25.33 (5) of the Act would be amended by adding "or under the *Ontario Fair Hydro Plan Act, 2017*" at the end

201x. Section 53.1 of the Act would be amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

53.1 (1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

Deemed assets, non-subsidiary

(1.3) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is not a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of the financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries shall not form part of the assets and liabilities of the financing entity.

Deemed assets, subsidiary

(1.4) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of that financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries; and,

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries shall not form part of the assets and liabilities of that financing entity.

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Definition, financing entity

(1.5) For the purposes of this section, "financing entity" has the same meaning as in the *Fair Hydro Plan Act, 2017.*

AMENDMENTS TO ONTARIO ENERGY BOARD ACT, 1998

205x. Subsection 70 (2.1) of the Act would be amended by adding the following paragraph:

4. The licensee is required to comply with the *Ontario Fair Hydro Plan Act, 2017*.

205.1x Section 70 of the Act would be amended by adding the following subsection:

(2.3) Every licence issued to a unit sub-meter provider is deemed to contain the condition that the unit sub-meter provider is required to comply with the *Ontario Fair Hydro Plan Act, 2017* and the regulations made under it.

206x. Section 78.1 of the Act would be amended by adding the following subsection:

Same, limitation re Ontario Power Generation Inc.

(3) The determination of a payment to Ontario Power Generation Inc. under this section shall not include any consideration of amounts related to activities of Ontario Power Generation Inc. carried out in relation to the *Ontario Fair Hydro Plan Act, 2017*.

Same

(3.1) The amounts referred to in subsection (3) include, without limitation, the following:

1. Amounts related to the appointment of Ontario Power Generation Inc. as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

2. Amounts related to the charging of fees for performing duties as the Financial Services Manager.

3. Amounts related to exercising the powers and performing the duties of the Financial Services Manager.

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4. Amounts related to the consolidation of the assets and liabilities for accounting purposes of any special purpose financing entities established under and for the purposes of that Act.

207xx. Subsection 79.16 (3) of the Act would be repealed.

PART IX
COMMENCEMENT AND SHORT TITLE

Short Title - this proposal for legislation would, if approved by the Legislature, have a short title to be determined by Government.

Timing – this proposal for legislation would, if approved by the Legislature, come into force on a date to be established by Government.

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Ernst & Young
222 Bay Street
P.O. Box 251
Toronto ON
M5K 1J7

Tel: +1 416 943 2615
Fax: +1 416 943 3767
ey.com

The Special Committee of the Board of Directors
Ontario Power Generation Inc. (the "Company")
700 University Avenue
Toronto, ON M5G 1X6

May 5 2017

Dear Sirs/Madames:

This letter is being issued to the Special Committee to assist them in their evaluation of management's analysis of the application of International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB")) to the specific transaction described in the Company's memorandum entitled *OPG Accounting Considerations of Ontario Fair Hydro* dated May 2 2017, herein referred to as "the Management Memorandum". We are issuing this letter in our role as auditors of the Company for the year ending December 31, 2017. As the Province consolidates OPG on an IFRS basis, this letter pertains solely to management's IFRS analysis as contained in the Management Memorandum.

We have read the Management Memorandum and we agree with management's analysis therein, subject to all of the assumptions and limitations identified therein. Specifically, we concur that the existing in draft legislation, along with the yet undrafted Regulation and special purpose vehicle (TRUST) documents, and various other agreements assuming they include the required criteria that Management has identified as outstanding in its Appendix A, would be sufficient to support consolidation of the TRUST with OPG Inc.

Additionally, we specifically refer you to the section entitled "Conclusion" in the Management Memorandum, which indicates that their analysis is based on draft legislation as well as their assumptions regarding the terms and conditions of certain contractual arrangements and other documentary evidence that is not yet drafted. Therefore, the Management Memorandum will be required to be updated to reflect the final contents of the legislation and other relevant contractual arrangements and documentary evidence. We will review the updated Management Memorandum once it is available, and update you on our viewpoints once our review of such updated Management Memorandum is completed.

The scope of this letter and any views expressed herein are limited to the transactions, facts, circumstances and assumptions provided to us by management or the Company as described in the Management Memorandum. If such facts, circumstances or assumptions differ, our conclusions may change.

We have not performed an audit or a review of the Management Memorandum. Additionally, we have not performed an audit as of any date or for any period subsequent to December 31, 2016.

The ultimate responsibility for the proper accounting treatment under IFRS and US GAAP rests with the Company.

We have not been asked for, nor do we express, an opinion on the tax consequences of the transactions described herein.

The accounting for such transactions could be affected by actions of the International Accounting Standards Board, the IFRS Interpretations Committee, the Ontario Securities Commission, or other regulatory bodies. Any such actions occurring prior to the finalization of the 2017 IFRS consolidated financial information will be required to be analyzed by management, and such analysis will be reviewed by us in the context of the audit procedures we will perform on the consolidated IFRS financial information for the year ending December 31, 2017.

Our work does not include the provision of legal advice and we make no representations regarding questions of legal interpretation of any possible structure or strategy. We make no representation regarding the sufficiency of our work for any purpose.

This report is intended solely for the information and use of the Special Committee, Board of Directors and management. We understand that a copy of this letter may be provided to the Province of Ontario, the Independent Electricity System Operator, and/or the Ontario Energy Board. It is not intended to be, and should not be, used by anyone other than these specified parties.

This analysis, or portions thereof, should not be referred to or distributed to any other person or entity, other than those noted in the paragraph directly above. It is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document.

Yours sincerely

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Tracy E Brennan
Partner
416-943-2615

May 2, 2017

OPG ACCOUNTING CONSIDERATIONS OF ONTARIO FAIR HYDRO PLAN

Purpose:

The purpose of this document is to summarize the preliminary views of Ontario Power Generation (OPG) on the ability for OPG to consolidate the Financing Entity Trust associated with the Ontario Fair Hydro Plan.

This memo is assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. Note that this assessment is preliminary pending the finalization of the Legislation, the Trust indentures, Regulations, financing structure and other detailed terms, and all related documentary evidence. This assessment will be updated once final documentation is available.

Background:

On March 2, 2017, the Province of Ontario (the Province) announced Ontario's Fair Hydro Plan (the Plan) aimed at reducing electricity bills by 25 percent on average for all residential consumers in the province. As part of the Plan, the Province has proposed financing a portion of the Global Adjustment costs over a longer time period for Regulated Price Plan eligible customers (e.g., residential, farm, small businesses).

On April 13th, the Province requested that OPG consider administering the financing associated with the Plan, because of OPG's participation in the market, regulatory knowledge and the potential ability to consolidate the related financing activities. To undertake this financing, OPG will establish a Financing Entity Trust (the Trust) to finance and administer the Global Adjustment costs through a mixture of external financing and an equity injection from the Ontario Financing Authority. It is expected that OPG will control the Trust for accounting purposes and that its financial position and results will be consolidated within OPG's consolidated financial statements.

Assumptions made to perform accounting analysis which are not yet addressed in Legislation – it is expected that these matters will be addressed in Regulations, Trust documents, and various other agreements:

- The Regulation must require interest, carrying and administrative costs to be paid to the Trust in cash on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs.
- The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.
- The Minister of Energy will have the ability to replace the Financial Services Manger (OPG) if there is a failure to perform. There will be a bifurcation of roles where the Province could not remove OPG as manager/administrator with respect to the existing debt placed by the Trust, but could remove OPG's responsibility/right to prepare the Financing Plan going forward. The ability for the Minister of Energy to remove OPG as the Financial Services Manager should not impact the recoverability of existing intangible assets.

- The calculation of the Fair Allocation Amount will be performed by the Minister of Energy.
- OPG has the ability to appoint and remove the Trustee (or Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust.
- Neither the OEB nor any other party can discretionally reduce the management fee or performance fee except due to a calculation error.
- The margin on the interest rates associated with Tranche B and Tranche C which will be recovered from the ratepayers will be reflective of the risk profile of the debt and the associated market terms.
- The indemnification provided to the Trust by the Minister of Finance on behalf of the Province as described in *Part I – General - Section 5.3 Guarantee, indemnification Protection and assurances* will be subject to terms and conditions in a separate Provincial support agreement. The guarantee is expected to be in place only in the event of a Payment Guarantee Event, such as if the Legislative Assembly of Ontario repeals the Fair Hydro Act or amends the Act in a way that adversely impacts the ability of the Trust to fully recover an intangible asset in order to pay the obligations of the Trust.
- The approval by the Ontario Energy Board of the Financial Services Manager (i.e. OPG's) fees as described in *Part IV – Implementation - Section 14.4 Same, Board Approval* will not allow them to change or limit the management fee structure, but only ensure that it is prudent by ensuring it is calculated in accordance with the Regulations.
- In the event that a different Financial Services Manager is appointed by the Minister of Energy, the IESO is required to continue to make cash payments for interest to the Trust for the existing debt. Principal repayments on existing debt will continue to be repaid by ratepayers to the Trust in accordance with the terms of the issued debt.
- All other items as indicated in *Appendix A.*

Accounting Analysis:

In order to meet the accounting definition of 'control', accounting guidance must be considered. There are no bright lines to determine whether OPG has exposure, or rights, to variable returns from its involvement with the Trust, or whether it has the ability to affect the returns of the Trust through its power over the Trust. Rather, all facts and circumstances are considered when assessing whether an entity has control over another entity.

In order to consolidate the Trust, OPG must be able to demonstrate that it controls the Trust.

Control

An investor controls an investee if and only if the investor has all the following:

a) *power over the investee;*
b) *exposure, or rights, to variable returns from its involvement with the investee; and*
c) *the ability to use its power over the investee to affect the amount of the investor's returns.* [IFRS 10, paragraph 7]

Purpose and design of the investee
When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities. [IFRS 10, paragraph B5]

Criteria	Analysis
Purpose and design of the Trust	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
Relevant activities of the Trust and how decisions are made about those activities	Relevant activities: The relevant activities of the Trust are: • To evaluate and make decisions on financing alternatives, duration, and the strategy to minimize financing costs. • To effectively manage funding obtained through the capital markets and be able to make or lose any spread from financing • To provide funding to the IESO in return for an interest in a future cash flow stream • To obtain funding through the capital markets and other vehicles available to OPG to be able to provide the IESO funding. • To make capital and funding decisions required to meet the Fair Allocation Plan objectives as set out in Legislation • To finance the requirements associated with the short-fall amount • To raise debt, pay bond debt holders, and determine capacity for the Trust to raise additional financing Financing Plan (Legislation: Part IV – Implementation) • OPG's plan for managing the assets of the Trust will be dictated through a 'Financing Plan'. • The Financial Services Manager (i.e. the Trust) shall provide the Financing Plan to the Minister. The Financing Plan is expected to follow Principles as stipulated in the Legislation which indicate that the assumptions must be reasonable and that the Trust has the power to determine what is reasonable and cost-effective. The Trust makes all the decisions in determining the relevant activities as listed above. • OPG can amend the Financing Plan at any time without the approval of the Minister. Fair Allocation Amount (Legislation: Part IV – Implementation) • The 'Fair Allocation Amount' ("FAA") is the amount of the deferral for the reference period and includes finance amounts. The current Legislation dictates that the Minister of Energy is to calculate the FAA. • This does not impact OPG's relevant activities in the Trust as OPG's variable returns are based on financing decisions which are not dictated by the FAA. OPG can choose to accept or reject the purchase of the intangible asset which is based on the Fair Allocation Amount.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
	<u>Decisions made and voting rights of the Trust:</u> OPG has the ability to appoint and remove the Trustee (and if applicable Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust. **[NOT YET ADDRESSED IN CURRENT LEGISLATION]** *Voting of members:* Except as otherwise stated, all decisions of the members (if applicable) shall be made by the Trustee who will be appointed by OPG. <u>Termination Rights</u> OPG cannot be removed from its role in the Trust. The Province has the right to remove OPG as the 'Financial Services Manager' for failure to perform. This will not impact debt that has already been issued for which OPG is already managing through the Trust or the recoverability of existing intangible assets. It the right is exercised, it serves to reduce or eliminate the scope of new business activities of the Trust but it does not affect OPG's ability to control the Trust. Should a new Financial Services Manager be appointed, a separate assessment would be made as to which party if any would control it.
Assessment	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees. For the reasons noted above, OPG has control over the decisions to be made about the relevant activities.

Power over the investee	
Criteria	**Analysis**
Identify whether OPG's rights give it the current ability to direct the relevant activities of the Trust (Substantive rights)	See above for relevant activities of the Trust.
Assessment	OPG has the ability to direct the relevant activities of the Trust. OPG can amend the Financing Plan at any time, without approval from the Minister. Further, if the Minister of Energy chooses not to continue with OPG's current Financing Plan, OPG can withdraw its Financing Plan, without impacting the existing debt and related intangible assets that is already in the Trust. The Province would just appoint a new party to participate in future securitizations and OPG would continue to manage the debt that already exists in the Trust. If future financing transactions are with a different SPV, a separate consolidation analysis would be prepared at that time as to which party if any would consolidate the SPV.

Exposure or rights to variable returns	
Criteria	**Analysis**
Dividends, other distributions of economic benefits from an investee and changes in the value of the investor's investment in that investee [IFRS 10, paragraph B57(a)]	OPG is expected to realize management fees from its activities with the Trust.
Remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee [IFRS 10, paragraph B57(b)]	**[NOT YET ADDRESSED IN CURRENT LEGISLATION]** OPG has exposure and rights to variable returns from the Trust in the form of the following: • The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns. • OPG, through ownership of the most subordinated debt, is exposed to risk of non-collection. Given that the program is expected to run until 2047, this 30 year time period results in uncertainty about the future collection of OPG's amount at risk. OPG and the OFA (5% out of 44% contribution) would be the last parties to get paid in the event that the program stops running due to a change in Government, if electricity demand is not high enough to allow for collection from ratepayers in a timely manner, etc. The end date of 2047 that is prescribed in the Legislation results in uncertainty toward whether this program will continue and whether OPG will have collected its amount at risk at that time. • In the event that there is a market disruption whereby OPG is not able to obtain debt from the financial markets (e.g. due to a recession), the Province will provide funding in the event that OPG wishes to continue purchasing intangible assets from the IESO. This is considered to be a protective right as it does not impact the relevant activities of the Trust, but is designed to protect both parties and does not give either party more or less power over the Trust. It is designed to allow OPG to keep purchasing intangible assets if it wishes to. • Protective rights are typically held to prohibit fundamental changes in the activities of an investee that the holder does not agree with and usually apply only in exceptional circumstances (i.e., upon a contingent event). This is true for this right as it is only applicable if there is a market disruption and the Trust is not able to obtain financing from external markets. Further, the fundamental activities of the Trust would change if it were not able to obtain financing from external markets.
Returns that are not available to	• OPG will have synergistic benefits from combining operating

Exposure or rights to variable returns	
other interest holders. For example, an investor might use its assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the investor's other assets [IFRS 10, paragraph B57 (c)]	functions with the Trust given its extensive knowledge on the market and current regulatory knowledge.
Assessment	To determine which party is the most 'at risk' in the event that the loans default, expected loss rates were obtained from Moody's and DBRS. Using the *Moody's Investors Service – Loss Given Default for Speculative Grade Companies* dated December 4, 2015, the 4-year Idealized Expected Loss ranges from 0.00% for a triple A rated bond to 0.30% for an A3 rated bond. DBRS Expected Loss Ratings give an indication of the expected loss of a loan portfolio. As per a November 2016 publication, the 10-year expected loss rates range from 0.1% for a AAA rated bond to 1.7% for an A (low) rated bond. Given that OPG's subordinated debt is equal to 5% of the total debt, which is higher than the default rates above, 100% of the risk is with both OPG and the OFA since they are the last parties to get paid should there be any default with the debt. OPG is also exposed to variable returns from the Trust from its performance on decisions made on financing alternatives, duration, and the strategy to minimize financing costs through the variable fee component of the management fee. Therefore, OPG has the exposure to variable returns from the Trust.

Ability to use power to affect returns	
Criteria	**Analysis**
Ability of investor to use its power to affect the investor's returns from its involvement with the investee	OPG needs to have both power over the Trust (i.e. as a Principal, not an agent), exposure or rights to the variable returns from the Trust, and the ability to use its power to affect OPG's returns from its involvement with the Trust OPG has the ability to use its power over the relevant activities of the Trust to affect its returns from its involvement with the Trust through the variable fee component.

Ability to use power to affect returns	
	Further, the Trust's ability to use its power to affect returns is in a manner that is consistent with being a principal. See *Appendix B* for Principal-Agent analysis.
Assessment	OPG has the ability to use its power to affect returns of the Trust.

Conclusion:

Based on the current **[May 1, 2017]** draft of the legislation, the conditions to ensure the ability of OPG to consolidate the operations of the Trust have not fully been reflected. As noted in Appendix A, several conditions must be evident in the Regulations, Trust documents, and various other agreements which are not yet drafted and therefore not yet available for our review and assessment. In OPG's assessment, while no current clause of the Legislation would hamper the ability to effect a consolidation within OPG Inc.'s financial statements, there are several key conditions for consolidation that are currently not present within the Legislation. On the assumption that future Regulations, Trust documents and various other agreements fully capture these operating conditions, and that no new conditions that would conflict with OPG's control of the trust are introduced, OPG believes that consolidation of the Trust is supportable.

APPENDIX A:

Terms necessary for OPG to consolidate the Global Adjustment Trust

Note that these are assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. These are subject to change as subsequent drafts of the Legislation are issued.

Legend:

✓ **- Addressed by the Legislation drafted May 1, 2017**

RT – Not addressed by Legislation and must be addressed in Regulations, Trust Documentation or various other agreements

Ω - Will not be addressed in Legislation/Regulations or Trust but is the intended plan

Issue	No.	Requirements
Directive	1 ✓	The Trust must be undertaken by OPG as a business initiative on its merits. A Shareholder Directive is to be limited to direct OPG to investigate the option of establishing a Trust vehicle to administer, finance and operate the Global Adjustment plan and the operation of that Trust and the control, risk and rewards of that Trust will determine its consolidation into OPG as a business enterprise. ***MET - The Province will not direct OPG to participate in the Fair Hydro Plan. A letter was issued from the Minister of Energy to OPG on April 13th requesting OPG's involvement in the implementation of the Fair Hydro Plan. OPG's Board Chair responded to the Minister on April 18th committing OPG to work with the IESO and OEB to develop a plan. OPG will have the option to prepare, implement and amend a financing plan (in accordance with principles set out in legislation) and propose the adoption of such plan as the 'Financing Plan'. OPG will have the right to withdraw its financing plan at any time.***
Trust	2 **RT**	The Trust should not operate in a predetermined way such that OPG does not have decision-making authority over the Trust's ongoing activities after its formation (i.e. should not operate on 'autopilot'). ***OPG will be the sole unit holder of the Trust. All decisions over the relevant activities of the Trust (as described above) will be made by OPG.***
	3 **RT**	OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the Trust. ***OPG will be the sole unit holder of the Trust. The Province will be involved in the Board of Trustees, but OPG is expected to have the majority vote.***

<table>
<tr><th>Issue</th><th>No.</th><th>Requirements</th></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td>4
RT</td><td>The Province cannot have the right to veto OPG's decisions about the relevant activities of the Trust. OPG must have the power over the relevant activities of the Trust and be compensated. The relevant activities of the Trust include (but are not limited to) the evaluation and decisions on financing alternatives, duration, and the strategy to minimize financing costs. OPG must have the power to establish operating and capital budgets of the Trust.

OPG will have the ability to make decisions about the financing alternatives, duration, and the strategy to minimize financing costs. OPG will have the power to establish operating and capital budgets of the Trust with no veto right by the Province.</td></tr>
<tr><td></td><td>5
RT</td><td>OPG must have the power to determine or change operating and financing policies of the Trust, which will affect the variability of risks and returns.

The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.</td></tr>
<tr><td></td><td>6
Ω</td><td>The Province or its agencies must not directly or indirectly fund (through debt or equity) more than 50% of the following:
a. The Trust
b. The most subordinated debt of the Trust

See below for financing structure.

<table>
<tr><th></th><th>Risk Profile</th><th>Source</th><th>% of Total Fundin Requirement</th></tr>
<tr><td>Tranche A Senior Debt</td><td>the least risky</td><td>Capital Markets</td><td>51%</td></tr>
<tr><td>Tranche B Sub Debt</td><td>In between A&C</td><td>OPG via OEFC</td><td>39%</td></tr>
<tr><td>Tranche C Sub Debt</td><td>the most risky</td><td>OPG via OEFC</td><td>5%</td></tr>
<tr><td></td><td></td><td>OPG via Capital Markets</td><td>5%</td></tr>
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</td></tr>
<tr><td></td><td>7
Ω</td><td>OPG must own at least 50% of the most subordinated debt and must be no less than 5% of the debt of the Trust. Such ownership must be financed entirely by OPG through operating cash flows or external debt, without assistance from Provincial sources.

See chart in Point 6 above.</td></tr>
</table>

Issue	No.	Requirements
	8 **RT**	OPG must have the ability to earn variable returns by exercising its authority, which shall be accomplished as follows: a. The cash flow from the restructured asset shall include interest determined based on a relevant benchmark that is appropriate relative to the restructured asset, plus an appropriate margin consistent with the relevant market and other risks ***The cash flow from the restructured asset will include interest income that is equal to the interest expense (i.e. interest expense is passed back to the ratepayers). The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	✓	b. OPG shall have the authority to determine the financing strategy, which will vary the financing costs with the objective of enabling the Trust to achieve a more favourable return compared to the benchmark for interest on the restructured asset ***OPG will determine the financing strategy through the proposal of its 'Financing Plan'. The 'Financing Plan' will only be required to follow general Parameters and Principles as set forth in the Legislation but funding decisions will be made entirely by OPG. The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	Ω	c. The Trust shall establish classes of liabilities (senior, subordinated and the most subordinated). The classes would allow the Trust to delineate financing of lower risk investment and investment that would bear higher residual risk. The delineation would limit OPG's self-funded investment to a reasonable level in order to allow OPG to remain a self-sustaining entity. ***OPG's portion of the most subordinated debt will be limited to a reasonable level. If it is determined that OPG's portion is not at a reasonable level, OPG has the option to withdraw its Financing Plan.***
	RT	c. OPG shall, through its ownership of the most subordinated liability, be able to capture and retain the pricing difference between cost of financing and benchmark for interest on the restructured asset, or any residual risk of restructured asset. The targeted return of the subordinated liability should be reflective of the underlying risks and compensate holders for active management that would be required.

Issue	No.	Requirements
		OPG will be able to capture the pricing difference between cost of financing and benchmark for interest through the performance fee which is described in point 5) above and the 'Exposure or rights to variable returns' section above.
	Ω	d. OPG should participate in the detailed design of the above and the Trust documentation to ensure that it has substantive power and variability, which will allow OPG's Board of Directors to evaluate the opportunity as a business initiative instead of through a shareholder directive. ***OPG will be involved in the Trust documentation.***
	RT	Defined Forced Majeure for emergency events (e.g. unlikely credit market event or disruption where it is not possible to borrow from the market at a reasonable rate), OFA may provide bridge financing beyond the designated percentage for a defined period. ***This will be structured through a separate indemnification agreement. This is not expected to impact consolidation of the Trust because this is seen as a protective right which is only in affect when a contingency arises and not as a result of the relevant activities of the Trust.***
Legislation	9 ✓	The Legislation must require interest, carrying and administrative costs to be paid to the Trust on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs. ***Under Part III – Clean Energy Adjustment – Section 8.3 Terms, of the Legislation, the expectation is that the Legislation will allow for interest payments to be paid to the Trust on a monthly basis in cash. The Trust will not accrue interest to the current intangible asset balances but this interest amount could form part of future intangible assets that are purchased from the IESO.***
	10 RT	The Legislation must dictate the manner in which the restructured asset would be determined, collected, and the period of collection, so that the determination of the restructured asset will not be subject to the Province's decisions on an ongoing basis, but determined based on a formula. Alternatively, the Legislation may allow for an adjustment to the pre-determined deferral formula based on specific parameters that would limit the adjustment to the restructured asset. Adjustments beyond the specific parameters would require approval by the Board of Trustee. **The Regulations are expected to dictate the 'Fair Allocation Plan' which will be based on high level Principles and Parameters of the Plan, including the attribution methodology. The Legislation or Regulation determines the following principles:** • **25% Reduction (June 1, 2017) where the average bill will**

Issue	No.	Requirements
		reduce by 25% including of HST and social programs noted above • **Inflation Period (November 2017 – April 2022) where bill increases are capped at inflation** • **Straight-line Increase Period (May 2022 – April 2027) where bills increased at a straight-line rate (i.e., 8% per year) which is set so that borrowing will not exceed the Trust's capacity.** • **Amortization Period (May 2027 – April 2047) where debt built up over the previous periods is repaid by ratepayers.** **OPG will determine the manner in which the intangible asset, once purchased from the IESO will be collected and the period of collection.** **The recoverability of the existing intangible assets cannot be impacted by the Province.** **Although the Province may determine the Principles and Parameters around the 'Fair Allocation Plan', it does not impact the activities of the Trust once OPG has purchased the intangible asset.**
	11 **RT**	The Legislation must be written to avoid legal or constitutional challenges and be irrevocable to reduce the cost of borrowing and with a specific formula which determines the deferral amount. **See above.**
	12 **RT**	The spirit of the above terms should be reflected in the Trust Indenture Agreement as well as Legislation, wherever possible. ***Trust Indenture and Regulations still outstanding.***

APPENDIX B:

Link between power and returns: principal-agency situations

The third criterion for having control is that the investor must have the ability to use its power over the investee to affect the amount of the investor's returns. When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether the decision-maker is a principal or an agent to determine whether it has control. This is because if the decision-maker has been delegated rights that give it power, the decision-maker must assess whether those rights give it power for its own benefit, or merely power for the benefit of others. As an agent cannot have control over the investee, it does not consolidate the investee. A principal may have control over the investee, and if so, would consolidate the investee.

A decision maker shall consider the overall relationship between itself, the investee being managed and other parties involved with the investee, in particular all the factors below, in determining whether it is an agent:

a) the scope of its decision-making authority over the investee

   As discussed above, OPG has decision-making authority over the Trust and its relevant activities. The Province has no right to determine what sort of funding decisions OPG should make to fund the intangible assets that they will purchase and OPG can choose not to purchase future intangible asset purchases.
   Terms and Conditions to support this point: 1, 2, 3, 4, 5

b) the rights held by other parties (paragraphs B64–B67).

   There are no substantive removal rights held by the Province for debt that already exists in the Trust.

   Terms and Conditions to support this point: 3, 4, 5

c) the remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs B68–B70).

   See section on 'Exposure or rights to variable returns' above.

   Terms and Conditions to support this point: 6, 7, 8, 9

d) the decision maker's exposure to variability of returns from other interests that it holds in the investee (paragraphs B71 and B72).

   See section on 'Exposure or rights to variable returns' above.

   OPG will receive a 44% equity injection from the Province of Ontario, indirectly through the Ontario Financing Authority. Given that currently, the majority (currently 51%) of the Trust debt will be from External Markets and not the Province, it can be argued that OPG did not receive the majority of its interest in the investee as a contribution or loan from the Province. This shows that OPG is a principal, not a de-facto agent.

   Terms and Conditions to support this point: 6, 7, 8, 9

Conclusion: OPG is not an agent for the Province as the arrangement does not provide for the Province to directly absorb any variability associated with the structure. If the Province decides to intervene at a later date due to evolving market conditions, an assessment would be made at that future date.

Analysis on whether OPG is an agent for ratepayers

OPG is not an agent for the ratepayers because OPG has substantive exposure to risk of loss of its own funds. The ratepayers do not have any of their own funds in any of the subordinated tranches and further, no decision making authority is delegated to the ratepayers relating to the relevant activities of the Trust.

Analysis on whether OPG is an agent for the IESO

OPG is not an agent of the IESO because the IESO faces no continuing risk of loss after sale of the intangible asset to OPG.

From: Hindmarch-Watson, Tim (CAB) [Tim.Hindmarch-Watson2@ontario.ca]
To: Felix Fung (MOF) [Felix.Fung@ontario.ca]; James Strang (MOF) [James.Strang@ontario.ca]
Subject: Fw: OFHP - LRC Submission
Date: Sunday, May 07, 2017 15:35:25
Attachment 1: LRC_MinistryApprovalForm OFHP May 7.doc
Attachment 2: GOV2017.089.e01.docx
Attachment 3: OFHA Compendium FINALv04.docx
Attachment 4: OFHP Variance Memo v03.doc

Fyi

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Sunday, May 7, 2017 2:09 PM
To: Hindmarch-Watson, Tim (CAB)
Cc: Moore, Karen (CAB)
Subject: OFHP - LRC Submission

Hi Tim,

Please find attached the final LRC submission. Also attached are the final legislation, compendium and variance memo.

This is Minister signed and hard copies will be delivered first thing on Monday morning.

Thanks,
Martin

Ontario

LEGISLATION AND REGULATIONS COMMITTEE: MINISTRY APPROVAL FORM

+LRC Tracking #: (DLEG-847)
EVista Tracking #: (SUB—DL-2017-00665)

Ministry of Energy

Ontario Fair Hydro Act, 2017
Legislation

Profile at a Glance

Priority: Key
Public Interest: Very High
Key Stakeholder Interest: High
New Costs/Burdens: Yes for Government, Yes for Stakeholders
New Savings/Opportunities: Yes for Stakeholders; No for Government

Proposed Items for Review

1. New legislation titled the Ontario Fair Hydro Act, 2017

Approvals required prior to LRC

	Committee and date	Cabinet Date
Policy	Cabinet approval received March 1	
TB/MBC	TB/MBC approval received March 9	

Deputy Minister _____ Date _____

Minister _____ Date _____

s. 1 Proposal and Context

- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), intended to lower bills on average by 25% for a typical residential consumer, starting in the summer of 2017. About half a million small businesses and farms are also expected to benefit.

- Any rate increases for residential consumers over four years would be held to the rate of inflation.

- These measures include the 8% rebate introduced in January and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

- The OFHP also announced enhancements to a number of existing programs targeted at more vulnerable electricity consumers, including funding some or all of the costs of these programs from the tax base rather than the electricity ratebase.

- OFHP is part of a significant system restructuring that will address long-standing policy challenges and ensure greater fairness.

- To implement OFHP, the Ministry has prepared the Fair Hydro Act, 2017 in close collaboration with key ministries (i.e., Treasury Board, Finance, Attorney General, Cabinet Office), agencies (i.e., OEB, IESO, OPG) and third party financial advisors and local distribution companies (LDCs).
    - The proposed Fair Hydro Act, 2017 would be an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998 and Electricity Act, 1998.

- The proposed OFHP legislation, supporting regulations and amendments to existing legislation (e.g., Electricity Act and Ontario Energy Board Act) will, if passed, enable implementation of the following key components of the Plan:

    A. Refinancing the Global Adjustment (GA) – The proposed legislation outlines how costs would be fairly allocated among eligible consumers over time.

    B. Helping Vulnerable Electricity Consumers – The proposed legislation broadens the Rural or Remote Rate Protection Program (RRRP) by creating a new distribution rate protection component, expands the Ontario Electricity Support Program (OESP) and establishes a new On-Reserve First Nations Delivery Credit. The legislation also allows for these programs to be funded (partially for RRRP) through the tax-base.

A. GA Refinancing

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in clean energy initiatives are allocated fairly among present and future generations of consumers.

- Refinancing the Global Adjustment (GA) would be achieved through the proposed stand-alone legislation, regulations and amendments to existing legislation and regulations.

- Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the GA. These mechanisms are described below.

B. Social Programs

- The proposed Ontario Fair Hydro Plan would help vulnerable electricity consumers by enhancing electricity support programs and shifting program costs onto the tax-base:
    - Enable Rural or Remote Electricity Rate Protection (RRRP) costs to be funded through provincial revenues;
    - Enhance Rate Protection through creation of new tax-base funded Distribution Rate Protection (DRP);
    - Enable Ontario Electricity Support Program (OESP) costs to be moved to tax base;
    - Create a new First Nation On-Reserve Delivery Credit, funded through provincial revenues

s. 2 Approach and Intended Outcomes

A. GA Refinancing

- The Fair Hydro Act, 2017 attempts to balance several key factors including financeability, accounting requirements and legal considerations.

- Following an extensive consultation process with internal and external experts, the proposed legislation strikes a balance between these three factors by:
    - Supporting financeability through a number of features, including enabling a provincial guarantee and provisions intended to provide certainty to investors in order to reduce borrowing costs and attract a wide investor base;

  - Addressing the necessary accounting requirements through mechanisms to record funding, interest and the transfer of regulatory assets to avoid a fiscal impact to the province; and
  - Mitigating legal risk by developing a methodology that attempts to fairly aligns costs and benefits.

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of clean energy initiatives are allocated fairly among present and future generations of consumers.
  - Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The proposed legislation would outline:
  - Roles and responsibilities for the OEB, IESO, OPG and the Province;
  - A detailed Preamble, Purpose and Definitions;
  - Details with respect to cost allocation, rate reduction methodology, implementation and financing;
  - Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
  - Amendments to other acts.

- The associated amendments to existing legislation and regulations include:
  - Electricity Act, 1998: amendments to provide OPG with the authority to establish a special purpose vehicle (SPV) for the investment asset and Ontario Energy Board Act, 1998: amendments to allow for OEB to set rates recognizing GA refinancing.

Preamble and Purpose

- The preamble of the proposed legislation establishes the rationale for the allocation of "clean energy costs" over time. That is, the development of a clean, modern and reliable electricity system has increased costs for ratepayers.

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of these investments are allocated fairly among present and future generations of consumers.
  - Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the Global Adjustment. Note: These mechanisms are described below.

- The legislation also restricts the OEB, Minister of Energy and the Crown from reducing, impairing or ending Clean Energy Adjustments in the future:
  - The Lieutenant Governor in Council may authorize the Ministers of Finance and Energy to enter into guarantees and indemnities related to the Act.

- The proposed legislation aligns eligibility with the Ontario Rebate for Electricity Consumers Act, 2016.

Fair Adjustment

- Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for a typical residential consumer, and to achieve comparable bill reductions for other eligible consumers, for the period July 1, 2017 to April 30, 2018.
    - Under the legislation, the OEB must determine the amount within 15 business days of the legislation receiving Royal Assent.

- The Fair Adjustment also allows the LGIC to make regulations prescribing electricity rates after April 30, 2018.

Clean Energy Adjustment

- The Clean Energy Adjustment is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period.

- The proposed Act outlines:
    - The process for determining the total Clean Energy Adjustment amount;
    - The obligation on individual ratepayers for the repayment of the amount; and
    - The inability to offset or bypass re-collection of the amount.

Fair Allocation Amount

- The Fair Allocation Amount is a calculation and allocation of clean energy costs and clean energy benefits over time.
    - The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager. Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
    - It is expected that the calculation would lead to decreased rates in the near term with upward pressure on rates in the long term.

- Under the legislation the calculation of the Fair Allocation Amount is guided by the principles and purposes of the Act including the proportional allocation of clean energy costs and benefits.

Financial Services Manager

- The legislation appoints OPG as the Financial Services Manager.

Financing Plan

- The Fair Allocation Amount is a calculation and allocation of clean energy costs and clean energy benefits over time.

  - The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager. Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
  - It is expected that the calculation would lead to decreased rates in the near term with upward pressure on rates in the long term.

- Under the legislation the calculation of the Fair Allocation Amount is guided by the principles and purposes of the Act including the proportional allocation of clean energy costs and benefits.

Regulatory Asset

- IESO will have a funding deferral resulting from the reduction in amounts collected during the first four years.

- The legislation enables IESO to record the under-collection of GA in a variance account, and deems the rights associated with this under-collected amount to be a Regulatory Asset.
  - OEB would determine rates to allow IESO to recover under-collection recorded in its variance account in the event the Regulatory Asset is not sold.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust.

Investment Asset

- The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

  - The legislation establishes property rights for the Investment Asset such as the right to collect principal and interest and financing costs in the form of the clean energy adjustment from eligible consumers.

- The Investment Asset may in turn be sold to other investors or group of investors.

- Through the legislation, the Board, Minister and Crown undertake not to hinder the charging and remittance or collection of clean energy adjustments.
  - The Province, through the Minister of Finance and the Minister of Energy may agree to guarantee performance, any debts and obligations and backstop its undertaking.

Amendments to Other Acts

- The legislation stipulates required amendments to existing legislation such as:
  - The Electricity Act, 1998 – to expand the objects of IESO and OPG to enable them to perform their rights and obligations in the proposed Act

- The Ontario Energy Board Act, 1998 – to address license conditions and the determination of regulated payments.

B. Social Programs

- The proposed legislation provides the authority to implement two new rate mitigation programs and expands upon two existing programs.

- To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

- The proposed legislation is intended to provide rate relief and assistance for:

    - **High Distribution Cost Customers**: Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
    - **Low-Income Customers**: Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
    - **First Nation On-Reserve Customers**: On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

Proposed Changes to the Ontario Energy Board Act, 1998 ("OEBA" or "Act")

- The Ontario Energy Board Act, 1998 would be amended to facilitate the roll out, expansion or change in funding of the following programs.

i. Rural or Remote Rate Protection (RRRP)

- RRRP is an existing program currently funded by ratepayers through the regulatory line of the electricity bill. Currently costs $1.58/month for a 750kWh consumer.
- Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province. For R2 customers the enhanced RRRP, or Distribution Rate Protection (DRP), is provided in addition to the RRRP the customers are already eligible for under the existing RRRP.

- Section 79 would be amended to provide the government the ability to fund a portion of the Rural or Remote Rate Protection Program through the tax base by prescribing certain classes of consumers who will be funded through a legislative appropriation.

- This includes the ability to pass regulations respecting the making of rules for the compensation of distributors with the money appropriated flowing from the legislature through the IESO to the various LDCs who would then provide the rate relief directly on consumers' bills.
- Should the legislation pass, Energy proposes to amend O. Reg 442/04 to enable provincial funding to compensate Hydro One for provision of RRRP to its R2 customers.

ii. Expanded RRRP - Distribution Rate Protection

- While the RRRP helps mitigate some of the higher distribution costs for Hydro One R2 customers, there is an opportunity to provide further relief to consumers in relatively high-distribution cost outlier LDCs. This relief would be financed from the tax base.
- Mitigation would be provided by harmonizing distribution rates for prescribed LDCs, as set by the Ontario Energy Board. The mechanism for determining this rate would be set out in regulation.

- The new section 79.3 of the Act would enable Distribution Rate Protection, which satisfies the commitment to expand RRRP.
  - The section includes the power to pass regulations prescribing LDCs, the classes of consumers or consumers designated as distribution rate protected consumers, the maximum amount of the monthly base distribution charge, limitation periods, and the type of information required by the Board and Ministry to implement and administer the program, including financial transactions.

iii. Ontario Electricity Support Program (OESP)

- Section 79.2 would be repealed and replaced in order to provide the government with the ability to shift funding for the OESP (once existing rate-based pooled funding has been depleted) from the rate base to the tax base, and the ability to share information with MCSS to coordinate OESP and social assistance programs. The Ministry has already completed a regulatory amendment that, effective May 1, 2017:
  - Increases the existing OESP credit scales by an additional 50%; and
  - Expands the categories of OESP credits.
  - Provides for OESP to be funded from the tax-base once the IESO's OESP variance account has been depleted.

- The legislative amendments would provide authority to make regulations to replace existing O. Reg. 314/15 to implement these changes.

- The total fiscal impacts to the province from the newly enhanced OESP will amount to: $140 million in 2017-18, $261 million in 2018-19, $325 million in 2019-20 and $375 million in 2020-21.

- Schedule 2 amends the OESP provisions by prescribing the ability to fund the program from the tax base.
    - The section also provides that the Ontario Energy Board or any other entity prescribed in legislation would be responsible for administering the program.
    - In addition, the licenses of LDCs, the IESO, unit-sub meter providers or electricity retailers are deemed to include anything which is necessary to administer and implement the program as may be set out in regulations or by the Board.
    - The section also requires that the Ontario Energy Board continue funding the program using the amounts previously accumulated in the IESO's OESP variance account which is the difference between funds collected through the regulatory charge and expended on OESP to date, until these amounts are depleted and the program shifts to the tax-base.
    - The section provides for broad regulation making power and includes the provision for the creation of different classes of rate assisted consumers and establishing rules for the calculation of the rate assistance to be provided.
    - New provisions also provide the necessary authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers in the future to support increased participation in the OESP program among social assistance clients.

- Note: the intended approach involves proclaiming s.79.2 into force on a future date to be named by proclamation. This would allow time for the funds accumulated in the IESO's OESP variance account to be more fully expended prior to the repeal and replacement of s.79.2.
    - However, the MCSS data sharing provisions, along with ss. Amendments to s. 79.2.1, the new sections 79.3 and 79.4, would come into force upon Royal Assent.
    - The OESP charge has been removed from electricity bills, however a surplus account has been accumulated which the OEB will continue to use until depleted.

iv. First Nations On-Reserve Delivery Credit

- On June 27, 2016, following discussions on Hydro One shares and rates at COO's All Chiefs Conference, the Minister of Energy issued a letter directing the OEB to prepare a report providing "*advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers*".

- The program is premised around the findings in the OEB report on a First Nations Delivery Rate Assistance. The proposed program features include:
    - Eliminating the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, from the bills of prescribed on-reserve customers. Regulations would then prescribe those on reserve consumers which are eligible for the on reserve credit.

  - Continue to provide eligibility to OESP while not disturbing eligibility for the Low Income Energy Assistance Program (LEAP) currently funded by distributors outside of these amendments to the OEBA; and
  - The program would be carried out by the 11 affected LDCs serving on-reserve consumers identified by the OEB in its report, including; Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution.

- The program is anticipated to have a fiscal impact on Government of $20 million, as estimated by the Ontario Energy Board, to implement.

- The new section 79.4 of the Act would establish the First Nation On-Reserve Delivery Credit. The section provides that for all prescribed consumers, living on-reserve, the entirety of their delivery line items will be removed from their bill as a delivery credit.
  - The program would be entirely funded through the tax base.
  - The section includes the power to make regulations prescribing further program details such as eligibility and funding parameters.

v. Ministry of Finance Accountability Provisions

- The social programs all involve the expenditure of tax money to fund the partial or entire program costs. As a result, the Ministry of Finance and Treasury Board Secretariat require that such money be tracked and accounted for throughout the process.

- Therefore, the OEBA has been amended to include new provisions between ss. 79.5 to 79.11 as follows
  - Section 79.5 – imposes information sharing and auditing requirements for the Ministry of Finance.
  - Section 79.6 – Defines the Finance Minister as the Minister responsible for ss. 79.7 to 79.11.
  - Section 79.7 – mandates record keeping, retention and content requirements.
  - Section 79.8 – enables the Minister of Finance to appoint inspectors who may carry out inquiries
  - Section 79.9 – sets out the regime for the recovery of overpayments
  - Section 79.10 – imposes confidentiality requirements on Ministry staff for the collection of information
  - Section 79.11 – creates offences for false or deceptive statements, fraud and the unlawful destruction of records.

s. 3 **Direction and Urgency**

A. GA Refinancing

- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower bills for residential consumers as well as most small businesses and farms. The initiative was announced as starting in the summer of 2017.

- The legislation for GA refinancing requires the OEB to make further rate adjustments no later than fifteen business days after the legislation receives Royal Assent for Regulated Price Plan (RPP) consumers to achieve the full 25% for a typical residential consumer, and for other eligible consumers to also receive a comparable bill reduction.

- The full reduction from the OFHP is expected to be addressed through a July 1st RPP rate adjustment.

B. Social Programs

- The direction for the creation and implementation of the social programs is found in a variety of sources including the Cabinet Minute, throne speech given on the government's efforts to mitigate the high price of electricity in Ontario, and public commitments made by the Minister and other key government spokespeople.

- The program has been announced to commence as of July 1, 2017. This includes both local announcements and organized speeches and press conferences.

s. 4 Impact Assessment and Costs

A. GA Refinancing

- The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.
    - o The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recovered.
    - o The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year.

- It is still possible that the full value of the Regulatory Asset may not be purchased.

- In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

- In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt.
    - The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line.
    - The Ministry of Energy has received an appropriation for $1.1 billion operating asset to support these injections for the fiscal year 2017/18, and will report back through PRRT for future funding. Based on the final fair allocation amount calculation, the equity injections would be required until the period of recovery begins.
    - The injections will be fiscally neutral for the province as they will be offset with the value of shares purchased from OPG.

- OPG will seek to achieve the highest possible credit rating (AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV/Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

B. Social Programs

i. Social Programs

Government Impact

- As approved in the TB/MBC submission of Mach 1st, 2017 and confirmed in Vote-Item 2905-1, the financial impacts on Government of the social programs for the period July 1 2017- March 31 2018 are anticipated to be as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection	344,000,000
Ontario Electricity Support Program	140,000,000
On-Reserve First Nations Delivery Credit	15,000,000

- ENERGY will report back to TB/MBC in fall 2017-18 with an update on out-year projections following analysis on rate applications before the Ontario Energy Board.

Stakeholder Impact

The Schedule 2 social programs will impact Local Distribution Companies and their consumers.

- For example, the Distribution Rate Protection program would involve 8 LDCs, the First Nations On-Reserve Delivery Credit will involve 11 LDCs and the only impacted LDC from the changes to the legacy RRRP program is Hydro One Networks Inc. (the R2 rate class).
- There may be modest impacts on unit sub-meter providers and retailers, due to the requirement to flow financial assistance through to consumers served such entities.

- The compliance costs for LDCs will involve the expenditure of money to alter their billing systems in order to carry out the program. This includes costs to alter the bill presentment and to include a new line on the bill that highlights the First Nations On-Reserve Delivery Credit.

Agency Impact

- The Ontario Energy Board would have a role in continuing to administer the OESP and in setting the harmonized monthly base distribution charge for the purposes of the Distribution Rate Protection Program.

- The Independent Electricity System Operator would be responsible for for flowing the funds used to reimburse/compensate LDCs for the costs of delivering the social programs from the money appropriated for such purposes from the legislature. This requires the IESO to monitor program specific variance accounts and flow the amounts necessary to compensate LDCs for the costs incurred in carrying out the programs.

- The proposal advances the government's overarching goal of reducing the cost of electricity paid by residential customers, especially those facing the highest costs of delivery.

s. 5 Implementation

A. GA Refinancing

- On April 20, 2017, the Ontario Energy Board (OEB) announced new Regulated Price Plan (RPP) rates effective May 1 that include a portion of the bill reduction proposed under the OFHP.

- These new RPP rates will include 50% of the estimated reduction in GA. This reduction in RPP rates, along with the removal of the OESP charge and the existing 8% rebate, will mean that May bills will be 17% lower than they would otherwise have been for an average consumer (15% lower for the typical Toronto Hydro consumer).

- The legislation for GA refinancing requires the OEB to make further rate adjustments no later than fifteen business days after the legislation receives Royal Assent for

RPP consumers to achieve the full 25% for a typical consumer and for other eligible consumers to receive a comparable bill reduction.

- The full reduction from the OFHP is expected to be addressed through a July 1st RPP rate adjustment.

- Regulations will be required to supplement the framework of the legislation to ensure that the OEB can make the required rate adjustments and to enable the financing contemplated by OPG SPV/Trust.

- The regulations are anticipated to be brought forward in mid and late June.

B. Social Programs

- The social programs would be implemented through subsequent regulations to follow that will expand upon the legislative framework to provide actual program specifications.

- The regulations are anticipated to be brought forward by late June, to allow for a July 1st program implementation.

- The efforts required to implement the programs would primarily fall upon the impacted LDCs who would need to adjust their billing systems in order to carry out the program.
    - For the OESP, the legislation contains transitional retroactive application of the provisions to offset any potential lapses in implementation.
    - The transitional retroactivity powers mitigate the risk of LDCs being unable to actualize the necessary OESP-related changes to their billings systems in time for the July 1st roll out and provides the utilities an extra prescribed time period (anticipated to be in the range of three months) to sort out any billing system alterations.
    - For the high-cost distribution rate protection and the on-reserve credit, there are more limited transitional provisions provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided.

C. Legal Considerations

- In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a “low” risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the “short” term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in

order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

- Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:
    - The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
    - If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
    - By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
    - The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

- The bill provides for provincial assurances, guarantees and a statutory cause of action.

- **The provincial assurance provision** is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

- The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

- In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the

Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

- **The guarantee provisions** are intended to backstop the provincial assurance provision and provide that:
    - the Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - the Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted.

A statutory cause of action may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

s. 6 Delivery and Results Tracking

A. GA Refinancing

- The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister. Such update calculations will be required given uncertainty related to electricity demand, interest rates and actual GA costs.

- The legislation establishes a framework for processes once the ratepayer relief is set. There is limited control once the plan is set, which could represent challenges for electricity planning and rate mitigation in future Long-Term Energy Plans.

- Under the legislation, OPG, as the Financial Services Manager, must prepare a Financing Plan and submit it to the Minister.
    - The Financing Plan sets out the funding obligations and amounts related to the financing of the under-collected GA amounts.

B. Social Programs

- As the social programs are funded through the tax-base, and in keeping with normal practice, Treasury Board Secretariat and the Ministry of Finance require that provisions be included that track the flow of tax money and hold all parties accountable for the proper allocation of tax money (proposed new OEBA s. 79.5-79.11).

- The actual implementation of the programs would be required to be shown on the bill (timelines will be in stated in the regulations). This timeline is in accordance with the feedback provided to the Ministry and the Board by affected LDCs.

s.7 Stakeholder Consultations

A. GA Refinancing

- In the development of the proposed legislation, the Ministry of Energy has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors (lawyers and accountants) and third party financiers (i.e., investment dealers).

- In addition, the Ministry hosted LDC workshop sessions on March 16 and April 19, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation.

B. Social Programs

- The Ministry has consulted with Energy agencies such as the Ontario Energy Board and the Independent Electricity System Operator on their respective roles and responsibilities.

- The Chief of Ontario (COO) have publicly supported the introduction of the First Nations Delivery Credit. ENERGY met with COO on April 26, 2017 to discuss implementation.

- The Ministry held working groups with all affected LDCs:
    - The Ministry received several quantitative data submissions from LDCs to help support the program and to buttress the implementation issues flagged by the utilities.
    - The consultations occurred in person and over teleconference.

- The consultations respecting the RRRP, the DRP and the On-Reserve First Nations Delivery Credit revealed concerns from LDCs over the costs of implementation and the timelines and obstacles to implementing the billing system changes.
- The feedback from the OEB helped to shape the estimates for the program costs of the proposed On-Reserve First Nations Delivery Credit as well as implementation timelines for the aforementioned program.

- Other key Ministries such as the Ministry of Finance and Treasury Board Secretariat were consulted as their will be a role for them to play in overseeing the implementation of the program funding.

s.8 Other Jurisdictions and Harmonization

A. GA Refinancing

- The program would not impact upon any other jurisdiction.
- GA refinancing does not harmonize Ontario rules with other jurisdictions and are not comparable to other Canadian jurisdictions.

B. Social Programs

- The program would not impact upon any other jurisdiction.
- The social programs do not harmonize Ontario rules with other jurisdictions and are not comparable to other Canadian jurisdictions.

s. 9 Communications

A. GA Refinancing

- The communications for GA refinancing will be referenced in ongoing announcements related to OFHP broadly, and as necessary targeted communications for specific stakeholder group can be developed.
- Energy has prepared a Communications Snapshot which summarizes the approach to communications.

B. Social Programs

- Energy has prepared a Communications Snapshot which summarizes the approach to communications.
- In respect of the First Nations On-Reserve Delivery Credit, the LDCs will work in collaboration with the Chiefs of Ontario and the Ministry to promote and advertise the availability of the credit to all eligible on-reserve customers.

s. 10 **Contacts and Appendices**

Contacts

	Name	Phone Number
Ministry Policy/Program	Tim Christie/Sunita Chander	5-6708/5-6594
Ministry Legal	Carolyn Calwell	2-8392
Ministry Communications		
Assistant or Deputy Minister's Office		
Cabinet Office Policy		

Appendices

Appendix A: Variance Memo
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Fair Hydro Act, 2017

EXPLANATORY NOTE

The Bill enacts a new Act and makes amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*.

SCHEDULE 1
ONTARIO FAIR HYDRO PLAN ACT, 2017

The Schedule enacts the *Ontario Fair Hydro Plan Act, 2017*. The Act establishes a framework under which the costs and benefits associated with the "clean energy initiative" are to be allocated among present and future consumers of electricity. The "clean energy initiative" is defined in Part I as consisting of the policies of the Government of Ontario related to such matters as eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies.

Under Part II, the Ontario Energy Board is required to determine reduced electricity rates and to determine other adjustments to be made for certain classes of consumers in respect of specified periods of time. For example, for the class of consumers referred to as "regulated rate consumers", the electricity rates payable for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would achieve a 25 per cent reduction in certain costs for a hypothetical member of the class who meets prescribed criteria. Details regarding the determinations are prescribed by regulations.

Part III requires certain electricity consumers to pay an amount in respect of the "clean energy adjustment". The clean energy adjustment is determined by the Financial Services Manager in accordance with rules set out in the Act and the regulations. (Section 18 of the Act appoints Ontario Power Generation Inc. as the Financial Services Manager.) Part III also specifies the roles and responsibilities of electricity vendors and the Independent Electricity System Operator ("IESO") with respect to the collection and remittance of amounts in respect of the clean energy adjustment.

Part IV requires the Minister of Energy to calculate a "fair allocation amount" by taking specified steps in accordance with principles and assumptions set out in the Act. For example, the Act provides that the purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among certain consumers. Part IV also requires the Financial Services Manager to prepare a written

plan entitled the “Financing Plan”, which is to be used to evaluate whether potential funding obligations should be incurred. Principles and limitations regarding the preparation and implementation of the plan are provided.

Part V requires the IESO to determine the “IESO deferral” in accordance with the regulations and to establish and maintain a variance account in which it records the IESO deferral each month. A “regulatory asset” is created under section 25; the IESO has the right to recover the balance recorded in the variance account from certain consumers. The IESO is authorized to transfer a specified portion of the regulatory asset to a financing entity; this transfer results in the creation of the investment asset and the acquisition by the transferee of a corresponding “investment interest”. Various rules respecting the validity and priority of such a transfer are set out.

In Part VI, rules in respect of the “investment asset” are provided. Section 29 provides that the investment asset constitutes a current and irrevocable property right and interest, consisting collectively of various specified rights and interests of investment interest owners. Rules respecting the validity and priority of such a transfer and the granting of a security interest by an investment interest owner are included.

Part VII deals with various miscellaneous matters, including regulation-making authority of the Lieutenant Governor in Council.

The *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* are amended to address various matters relating to the enactment of the new Act. For example, the objects of the IESO and Ontario Power Generation Inc. are expanded to address powers and duties under the new Act.

SCHEDULE 2
AMENDMENTS TO THE ONTARIO ENERGY BOARD ACT, 1998

The *Ontario Energy Board Act, 1998* is amended. Among the amendments:

1. Section 79 of the Act is amended so that compensation for the rate protection provided to certain classes of rural or remote consumers may be funded out of money appropriated by the Legislature, rather than by consumers.

2. Section 79.2 of the Act, which governs the Ontario Electricity Support Program, is repealed and replaced. The program is continued, but will be funded out of money appropriated by the Legislature after the variance account maintained by the Independent Electricity System Operator, formerly established under the Plan, is exhausted, rather than by consumers. There are provisions relating to the sharing, use and disclosure of information relating to the administration of the Ontario Electricity Support Program.

3. Programs are established to aid certain distribution rate-protected residential consumers and on-reserve consumers.

4. Various amendments of a technical and administrative nature are made to support the implementation and oversight of these programs including provisions related to auditing, record-keeping, inspections and inquiries, offences and penalties.

Bill **2018**

An Act to enact the Ontario Fair Hydro Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

Her Majesty, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows:

Contents of this Act

1. This Act consists of this section, sections 2 and 3 and the Schedules to this Act.

Commencement

2. (1) Subject to subsections (2) and (3), this Act comes into force on the day it receives Royal Assent.

Schedules

(2) The Schedules to this Act come into force as provided in each Schedule.

Different dates for same Schedule

(3) If a Schedule to this Act provides that any of its provisions are to come into force on a day to be named by proclamation of the Lieutenant Governor, a proclamation may apply to one or more of those provisions, and proclamations may be issued at different times with respect to any of those provisions.

Short title

3. The short title of this Act is the *Fair Hydro Act, 2017*.

SCHEDULE 1
ONTARIO FAIR HYDRO PLAN ACT, 2017

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Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects. These commitments can only be achieved if costs are shared fairly among consumers, today and in the future.

Electricity rates have risen for two key reasons. First, decades of under-investment in the electricity system resulted in the need to invest more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable. Second, the decision to eliminate Ontario's use of coal and produce clean, renewable power has created additional costs.

The actions taken to achieve a clean, modern and reliable electricity system have resulted in significant costs to residential consumers. The burden of financing these system improvements and funding key programs has unfairly fallen almost entirely on the shoulders of those consumers.

The Government of Ontario is committed to ensuring that the costs of financing these investments and the associated charges to consumers are allocated fairly among present and future generations.

Recognizing that the electricity infrastructure that has been built and the policy decisions that have been made will create benefits for years to come, costs should be allocated fairly over time, so that residential consumers in the future pay their fair share for the benefits that they receive from the investments already made.

PART I
GENERAL

Interpretation

Definitions

1. (1) In this Act,

"Board" means the Ontario Energy Board; ("Commission")

"clean energy adjustment" means the amount determined under section 15 and payable by specified consumers; ("ajustement pour l'énergie propre")

"clean energy benefits" means the value of the benefits determined to be derived by or accruing to specified consumers as a result of the clean energy initiative, including as a result of clean energy costs; ("avantages de l'énergie propre")

"clean energy costs" means the value of the costs allocated to specified consumers as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

(a) the amounts to be paid or reflected by the IESO in adjustments made under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts or amounts for,

(i) renewable energy generation or capacity,

(ii) conservation and demand management,

(iii) energy storage,

(iv) energy efficiency,

(v) natural gas generation and capacity, excluding contracts relating to amounts payable by the IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed,

(b) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(c) such other costs or estimated costs as may be prescribed; ("coûts de l'énergie propre")

"clean energy initiative" means the policies of the Government of Ontario related to,

(a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,

(b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

(c) promoting conservation, demand management and energy efficiency, and

(d) investing in energy infrastructure to ensure a clean, modern and reliable system; (“initiative pour l’énergie propre”)

“electricity vendor” means,

(a) a licensed distributor,

(b) a licensed retailer,

(c) the IESO in circumstances where it directly invoices a specified consumer for electricity used in Ontario, or

(d) such other person as may be prescribed; (“vendeur d’électricité”)

“fair allocation amount” means an amount calculated under section 20; (“French”)

“finance amount” means the finance amount determined in accordance with the regulations; (“French”)

“Financial Services Manager” means the Financial Services Manager appointed under section 18; (“gestionnaire des services financiers”)

“financing entity” means an entity established or caused to be established by the Financial Services Manager as described in subsection 22 (2); (“entité de financement”)

“Financing Plan” means the plan prepared under section 21; (“plan de financement”)

“funding obligation” means a payment obligation incurred by or on behalf of an investment interest owner to fund its ownership of an investment interest or a payment obligation that meets such other criteria as may be prescribed; (“obligation financière”)

“funding rebate” means a payment obligation incurred by the IESO as part of the transfer of the regulatory asset; (“French”)

“IESO” means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; (“SIERE”)

“IESO deferral” means the amount determined under section 23; (“French”)

"investment asset" means the rights and interests described in section 29; ("actif d'investissement")

"investment interest" means,

(a) an ownership interest in the investment asset, and

(b) in circumstances where the ownership interest is transferred, the rights and benefits specified in the agreement under which the interest is transferred; ("participation d'investissement")

"investment interest owner" means a financing entity that has acquired and holds an investment interest; ("propriétaire de l'actif d'investissement")

"licensed distributor" means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system within the meaning of that Act; ("distributeur titulaire d'un permis")

"licensed retailer" means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; ("détaillant titulaire d'un permis")

"Minister" means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; ("ministre")

"Ontario Power Generation Inc." means the corporation incorporated as Ontario Power Generation Inc. under the *Business Corporations Act* on December 1, 1998; ("Ontario Power Generation Inc.")

"prescribed" means prescribed by the regulations; ("prescrit")

"reference period" means,

(a) the period beginning on July 1, 2017 and ending on October 31, 2017, and

(b) during the period beginning on November 1, 2017 and ending on either April 30, 2047 or such later day as may be prescribed,

(i) every six-month period following the period mentioned in clause (a); or

(ii) any period shorter than six months, as may be prescribed; ("période de référence")

"refinancing" means, subject to the regulations, the incurrence of debt in connection with a redemption, repayment or repurchase of a funding obligation; ("refinancement")

"regulation" means a regulation made under this Act; ("règlement")

"regulatory asset" means the right established under section 25; ("actif réglementaire")

"specified consumer" means,

(a) a person who has an account with an electricity vendor for the supply of electricity in Ontario and meets the criteria set out in subsection (2), or

(b) such other person as may be prescribed; ("consommateur déterminé")

"transfer" includes, when used in relation to an investment interest, the assignment, conveyance, disposition or sale of the investment interest; ("transfert")

"true up amount" means a true up amount determined in accordance with the regulations; ("French")

"unit sub-metering" has the same meaning as in the *Energy Consumer Protection Act, 2010;* ("activités liées aux compteurs divisionnaires d'unité")

"unit sub-meter provider" has the same meaning as in the *Energy Consumer Protection Act, 2010;* ("fournisseur de compteurs divisionnaires d'unité")

"variance account" means the variance account established by the IESO under subsection 24 (1). ("French")

Specified consumer

(2) For the purposes of clause (a) of the definition of "specified consumer" in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of not more than 50 kilowatts, or such other amount as may be prescribed.

2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.

3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or has had the

obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.

4. The person's account with the electricity vendor relates to,

    i. a dwelling,

    ii. a property within the meaning of the *Condominium Act, 1998*,

    iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or

    iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.

5. The person satisfies such criteria as may be prescribed.

Transfer of regulatory asset

(3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 26 (3):

1. A reduction in the balance in the variance account.

2. The adjustment of the regulatory asset.

3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Effect of invalidity

2. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if one or more provisions are held to be invalid, the intention of the Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect the validity or enforceability of a funding obligation incurred before the day that the provision is held to be invalid or ceases to be in effect, or any rights or obligations associated with the funding obligation.

Purposes

3. The purposes of this Act are,

(a) to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers;

(b) to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province; and

(c) to align clean energy costs with clean energy benefits, in order to provide fairness for specified consumers over time.

Crown bound

4. This Act binds the Crown.

Protection and assurances

Prohibition

5. (1) No action or omission by the Board, the Minister or the Crown shall be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.

Agreements

(2) The Minister and the Minister of Finance may together, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding the performance of the IESO or electricity vendors under this Act or related transactions.

Guarantee, indemnification

(3) The Lieutenant Governor in Council may by order,

(a) authorize the Minister and the Minister of Finance, acting together on behalf of the Province,

(i) to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and

(ii) to determine terms and conditions of the guarantee or indemnity and the maximum liability for the guarantee or indemnity;

(b) specify terms and conditions that must be included in any guarantee or indemnity given by the Minister and the Minister of Finance; and

(c) specify a maximum liability for the guarantee or indemnity.

PART II
FAIR ADJUSTMENT

Definitions

6. In this Part,

"regulated rate consumer" means a specified consumer who meets the following criteria:

1. The consumer is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1998 for the purposes of subsection 79.16 (1) of that Act.*

2. The consumer would, if the consumer were not subject to this Act, be invoiced the rates determined by the Board under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*. ("French")

Regulated rate consumers, first adjustments

7. (1) Despite any order under subsection 78 (3.1) of the *Ontario Energy Board Act, 1998 and despite section 79.16 of that Act, t*he electricity rates payable by regulated rate consumers for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would result in a hypothetical regulated rate consumer who meets the prescribed criteria being charged an invoice amount that is 25 per cent less than the invoice amount that would have been charged to that consumer under the comparison rates described in subsection (2).

Comparison rates

(2) The comparison rates are the rates that would have been effective May 1, 2017 if they had been determined by the Board *solely using the method prescribed by the regulations made under clause 79.16 (1) (b) of the Ontario Energy Board Act, 1998*, without taking into account any forecasted impact of any other provisions of this Act.

Invoice amounts

(3) The types of amounts to be included or excluded in each invoice amount mentioned in subsection (1) are the types of amounts specified in the regulations.

Other specified consumers, first adjustments

8. (1) For the period beginning on July 1, 2017 and ending on April 30, 2018, the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998 shall, with respect to specified consumers who are not regulated rate consumers, be further adjusted*

*by e*lectricity vendors in accordance with the determinations of the Board under subsection (2).

Board to make determinations

(2) The Board shall, in accordance with the regulations, determine the adjustments to be made by electricity vendors.

Same, regulations

(3) The regulations may specify different adjustments to be made in respect of prescribed classes of specified consumers who are not regulated rate consumers.

Determinations by Board

9. The Board shall make the determinations mentioned in sections 7 and 8 no later than 15 business days after the day this section receives Royal Assent and, regardless of whether the Board makes the determinations before or after July 1, 2017, the determinations shall be effective as of July 1, 2017.

Implementation by electricity vendors

10. (1) As soon as possible after the Board makes determinations under section 9, each electricity vendor shall, in respect of electricity used on or after July 1, 2017, ensure that its invoices reflect the determinations of the Board.

Same

(2) The electricity vendor shall ensure that, if any of its customers who are specified consumers have been invoiced in a manner that does not reflect the determinations of the Board under section 9, the specified consumer receives the difference between the amounts shown on the invoice and the amounts reflecting the Board's determinations, provided as a lump sum credit on the first invoice issued after the electricity vendor has adapted its invoices or by such other means as may be prescribed.

Subsequent adjustments

11. (1) Despite clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998 and s*ubject to subsection (2), the Lieutenant Governor in Council may prescribe the methodology to be applied by the Board after April 30, 2018 for the purpose of determining,

(a) electricity rates for regulated rate consumers; or

(b) adjustments to be applied by electricity vendors to the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998 in respect of prescribed classes of specified consumers who are not regulated rate consumers.*

Limitation

(2) Any prescribed methodology shall have regard to the following:

1. The purposes of this Act.

2. The clean energy costs borne by specified consumers over time.

3. Such other matters as may be prescribed.

Sub-metering

12. (1) This section applies if a specified consumer provides to another person electricity in respect of which a determination of the Board referred to in section 9 or 11 applies.

Same

(2) If an invoice for the electricity is issued to the person by the specified consumer or a unit sub-meter provider providing unit sub-metering for the specified consumer, the amount payable for the electricity by the person who is liable to pay the invoice shall be determined in accordance with the regulations.

PART III
CLEAN ENERGY ADJUSTMENT

Specified consumers to pay

13. (1) Upon receipt of an invoice from an electricity vendor that includes an amount in respect of the clean energy adjustment, a specified consumer shall pay the amount to the electricity vendor as agent of the investment interest owners.

Same

(2) For greater certainty, subsection (1) applies regardless of,

(a) whether the clean energy adjustment was determined in a manner that was inconsistent with this Act; and

(b) whether the amount payable in respect of the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan, including in a manner that failed to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Terms

(3) The payment shall be made in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Indebtedness of specified consumer

(4) An unpaid amount that is required to be paid by a specified consumer under this section constitutes indebtedness of the specified consumer to each investment interest owner to the extent of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer.

Unit sub-metering

(6) A specified consumer who provides electricity through unit sub-metering may collect amounts in respect of the clean energy adjustment payable under this section in accordance with the regulations.

Irrevocability of amount

14. (1) An amount in respect of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness resulting from the clean energy adjustment and is irrevocable upon invoicing the consumer and may not be set off or bypassed.

Exception

(2) Subsection (1) does not apply to the extent that the invoice reflects a clerical, typographical or calculation-related error.

Determination of clean energy adjustment
Financial Services Manager to determine

15. (1) The Financial Services Manager shall determine the clean energy adjustment payable by all specified consumers in respect of each month in a reference period by taking the following steps:

1. Calculate the sum of the following:

    i. The estimated finance amount in respect of the reference period.

    ii. The true up amount in respect of the reference period.

2. Divide the sum calculated under paragraph 1 by the number of months in the reference period.

Regulations re true up amount

(2) The Lieutenant Governor in Council shall, in making regulations with respect to the determination of the true up amount, have regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the finance amount when it is due.

2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

   i. differences between the estimated and actual finance amount for the applicable reference period,

   ii. differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and

   iii. variations in billings due to variations in electricity consumption.

Financial Services Manager to notify Board

(3) The Financial Services Manager shall, in accordance with the regulations, notify the Board of the clean energy adjustment in respect of a reference period and such other information related to the determination of the clean energy adjustment as may be prescribed.

Board to determine rates

(4) Without changing the clean energy adjustment, the Board shall, in accordance with the regulations, determine the rates at which specified consumers are invoiced to recover the clean energy adjustment in respect of the reference period.

IESO to receive amounts

16. (1) The IESO shall, as agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the market rules made under section 32 of the *Electricity Act, 1998 or the regulations*.

Account

(2) All of the following amounts received by the IESO shall, until remitted to or for the benefit of the investment interest owners in accordance with subsection (4), be

deposited promptly into an account established for the purposes of receiving those amounts:

1. Amounts described in subsection (1).

2. Payments made by specified consumers directly to the IESO as electricity vendor under subsection 13 (1).

3. Proceeds of amounts described in paragraphs 1 and 2.

Same, held in trust

(3) All amounts received by the IESO in respect of the clean energy adjustment shall, until remitted to or for the benefit of the investment interest owners, be held in trust by the IESO for the investment interest owners.

IESO to remit

(4) The IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the amounts referred to in subsection (1), to or for the benefit of the investment interest owners in accordance with the regulations.

Electricity vendor to invoice specified consumers

17. (1) Each electricity vendor shall issue an invoice to each of its customers who is a specified consumer for the amount payable by the consumer in respect of the clean energy adjustment, as determined by applying the rate set by the Board under subsection 15 (4) and in accordance with the regulations.

Electricity vendor to report

(2) Each electricity vendor shall, in accordance with the regulations, promptly report to the IESO the total amount invoiced to its customers who are specified consumers in respect of the clean energy adjustment, the amount collected and such other information as may be prescribed.

Electricity vendor to collect

(3) Each electricity vendor shall, as agent of the investment interest owners, collect amounts in respect of the clean energy adjustment from specified consumers in accordance with the regulations.

Pro rating of payments

(4) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

Held in trust

(5) Payments received by an electricity vendor from or on behalf of specified consumers in respect of the clean energy adjustment and all proceeds of the payments shall, until remitted to the IESO for the benefit of the investment interest owners in accordance with subsection (6), be held by each electricity vendor in trust for the benefit of the investment interest owners.

Remittance to IESO

(6) Each electricity vendor shall remit amounts in respect of the clean energy adjustment to the IESO for the benefit of the investment interest owners in accordance with the regulations.

PART IV
IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

18. Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act.

Duties and powers

19. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

Same

(2) The administration of the investment asset may include providing information to the IESO in respect of obligations under Part III and such other activities as may be prescribed.

Fees

(3) Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees in relation to such matters as may be prescribed in accordance with the regulations, which regulations may provide for the ability to recover costs and expenditures and to earn a return.

Same, Board approval

(4) Before establishing fees under subsection (3), the Financial Services Manager shall submit them to the Board for approval in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Minister to calculate fair allocation amount

20. (1) Subject to subsections (2) and (3), before the first funding obligation is incurred the Minister shall calculate a fair allocation amount in respect of each reference period, applying such method as the Minister considers appropriate and in accordance with the following steps:

1. Determine the estimated clean energy costs and estimated clean energy benefits allocated to specified consumers in respect of the reference period.

2. Determine the estimated reduction in the amounts payable by specified consumers as a result of determinations of the Board under Part II in respect of all previous reference periods, including the estimated reduction in clean energy costs described in clause (a) of the definition of "clean energy costs" in subsection 1 (1) that would otherwise have been payable by specified consumers in the absence of this Act.

3. Determine the amount, if any, by which the determination under paragraph 1 exceeds the determination under paragraph 2.

4. Calculate the sum of the amount determined under paragraph 3 and such other amounts as may be prescribed.

Principles

(2) In calculating the fair allocation amount, the Minister shall have regard to the following principles:

1. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among the specified consumers in respect of each reference period.

2. Calculations should be made having regard to the need to align each fair allocation amount with the estimated finance amount payable during the reference period.

3. Estimated clean energy costs allocated to specified consumers in respect of a reference period should be allocated in proportion to the estimated clean energy benefits attributed to the specified consumers in respect of the reference period.

4. Such other principles as may be prescribed.

Assumptions

(3) In calculating the fair allocation amount, the Minister shall make such assumptions as the Minister considers to be reasonable regarding the following:

1. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.

2. The expected number of specified consumers in respect of each reference period.

3. The expected electricity consumption rates in respect of each reference period.

4. Such other assumptions as may be prescribed.

Minister to provide amount to Financial Services Manager

(4) The Minister shall provide the fair allocation amount in respect of each reference period to the Financial Services Manager.

Recalculation

(5) A calculation of the fair allocation amount under this Part may be changed by such person as may be prescribed in accordance with such requirements as may be prescribed.

Same

(6) No change under subsection (5) shall affect any clean energy adjustment that has already been determined under section 15 or any funding obligations that have already been incurred before the change.

Information

(7) The Minister, the IESO, the Financial Services Manager, the Board and electricity vendors shall provide such information as may be prescribed in accordance with the regulations for the purposes of facilitating a change to a calculation of the fair allocation amount.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

21. (1) The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of a refinancing.

Plan to be provided to Minister

(2) The Financial Services Manager shall provide the Financing Plan to the Minister.

Principles

(3) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Funding obligations should be incurred such that, along with any funding obligations already incurred, the estimated finance amount that would, subject to any refinancing, become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period, in each case after reducing the fair allocation amount to reflect determinations of the Board under Part II in respect of the reference period.

2. Incurrences should be implemented in a manner that, in the opinion of the Financial Services Manager, is reasonable, cost effective and that reflects prevailing market terms and conditions.

3. Reasonable assumptions should be made regarding such matters as may be prescribed.

4. Such other principles as may be prescribed.

Limitation

(4) In respect of each reference period from July 1, 2017 to April 30, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment in respect of the reference period unless,

(a) the amounts are payable in respect of a reference period in respect of which the Board has not made any determinations under Part II; or

(b) if the Board has made a determination under Part II in respect of the reference period, the funding obligations incurred would not result in amounts payable in respect of the clean energy adjustment during the reference period in an amount that exceeds the limit determined in accordance with the regulations.

Other reports

(5) The Financial Services Manager shall submit to the Minister such reports and information as the Minister may require from time to time and shall, if required by the Minister to do so, examine, report and advise on any question relating to the Financing Plan.

Amendments to plan

(6) The Financial Services Manager may amend the Financing Plan at any time.

Same

(7) In the event that the Financing Plan is amended, any reference in this Act to the Financing Plan is deemed to be a reference to the plan as amended.

Incurrence of funding obligations

22. (1) The Financial Services Manager shall ensure that funding obligations incurred for the purposes of this Act are incurred in a manner that is consistent with the applicable Financing Plan.

Financing entities

(2) In accordance with the Financing Plan, the Financial Services Manager may establish or cause to be established one or more financing entities that may incur funding obligations.

Prohibition

(3) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, Ontario Power Generation Inc., the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation or other agreement.

Effect of amendment to fair allocation amount

(4) Each funding obligation incurred and each transfer made by a financing entity is deemed to be consistent with the Financing Plan and to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Same

(5) For greater certainty, subsection (4) applies despite the failure of the Financial Services Manager to comply with subsection (1).

PART V
THE REGULATORY ASSET

IESO deferral

23. (1) The IESO deferral for each month, commencing May 1, 2017, shall be determined by the IESO in accordance with the regulations.

Same, retrospective amounts

(2) For greater certainty, the regulations may provide for the IESO deferral to include an amount that was incurred by the IESO on or after May 1, 2017 and before the day this section comes into force.

Electricity vendors to provide information

(3) Electricity vendors shall provide to the IESO such information as the IESO may reasonably request for the purposes of determining the IESO deferral under subsection (1) and such further information as may be prescribed.

Same

(4) The IESO may rely on information provided by electricity vendors for the purposes of the determination under subsection (1).

Variance account to be established, maintained

24. (1) The IESO shall establish and maintain a variance account in which it records the following:

1. The IESO deferral for each month.

2. All payments received by the IESO resulting from the exercise of the right of recovery under section 25 and any transfer under section 26.

3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences on or after May 1, 2017 and before the day this section comes into force.

Recording determinative

(2) Subject to the correction of any obvious error by the IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

Rights of investment interest owner

(3) No change made by the IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 26, affect the rights acquired by the investment interest owner under the transfer.

Regulatory asset established

25. (1) Effective May 1, 2017, the IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

Board to set rates

(2) Subject to subsection (3), the Board shall, from time to time and in accordance with the regulations, determine and set rates payable by specified consumers to allow for the IESO to recover the balance recorded in the variance account.

Limitation

(3) The IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

Transfer of regulatory asset

26. (1) The IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

Agreement

(2) An agreement between the IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to the IESO in an amount equal to the amount of the specified portion.

Effect of payment

(3) Upon receipt by the IESO of the payment by the financing entity,

(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) the IESO shall retain no further right, title or interest in the corresponding investment interest.

Validity of transfer

27. (1) A transfer of a specified portion of the regulatory asset under section 26 constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

Same

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for the IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of the IESO's right to

recover the corresponding amount in the variance account and not merely as a security interest.

Deemed perfection, etc.

(3) At the time a transfer of the regulatory asset is made under section 26, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI
THE INVESTMENT ASSET

Investment asset established

28. (1) The transfer of a specified portion of the regulatory asset under section 26 creates an investment asset or, if it is not the first transfer, adds to the investment asset.

Same

(2) Upon transfer of a specified portion of the regulatory asset under section 26 to a financing entity, the investment asset resulting from the transfer is immediately vested in the financing entity, free and clear of any adverse claim.

Investment asset, irrevocable rights and interests

29. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that is imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, the IESO and other prescribed parties.

3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.

4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge and invoice for the clean energy adjustment.

5. The right to enforce the duties and obligations under this Act of each electricity vendor and the IESO to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by any electricity vendor to recover payment of the clean energy adjustment.

6. All rights of any kind related to any of the other property rights or interests that comprise the investment interest, including any rights to receive funding rebates.

7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether it is invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

Not affected by failure to impose etc. clean energy adjustment

(2) An investment interest is not affected by any failure to impose, attribute, invoice, accrue or collect amounts in respect of the clean energy adjustment.

No set off, etc.

(3) The investment asset shall not be set off,

(a) by a consumer, an electricity vendor, the IESO, an agent of the investment interest owners or an owner in the Province of a distribution system within the meaning of the *Electricity Act, 1998*;

(b) in connection with any default of a person mentioned in clause (a); or

(c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(4) The rights of the investment interest owners to collect and enforce their rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with Part III of this Act.

Collective action required

(5) If one investment interest owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment interest

owner collectively and in coordination with all other investment interest owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment interest owners as a collective in accordance with its terms.

Transfer of investment interest

30. An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

31. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the transferee a valid property right and interest in, to and under the applicable investment interest acquired in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment interest owner's right, title and interest in, to and under an investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected as described in the *Personal Property Security Act*, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer, and the property rights and interests acquired by the investment interest owner shall have priority over any liens in favour of such other persons.

Investment interest owner may grant security interest

32. (1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment interest owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any account of any electricity vendor, an agent of an electricity vendor or other person who may have commingled such revenues or other proceeds with other funds.

Notice required

(7) The secured party shall be entitled to exercise the rights of an investment interest owner only after the secured party has given notice of the enforcement of its security interest to the IESO.

Definition

(8) For the purposes of this section, a security interest is perfected when it is perfected as described in the *Personal Property Security Act.*

PART VII
MISCELLANEOUS

Appointment of agent, invoicing or collection

33. (1) If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Same, not Crown agent

(2) For greater certainty, a person appointed under this section is not an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Board's authority

34. (1) Each electricity vendor, the IESO and the Financial Services Manager shall maintain such accounts and provide such information to the Board as the Board may require for the purposes of carrying out its responsibilities under this Act, in the form and manner and within the time required by the Board.

No hearing required

(2) Despite anything to the contrary in the *Ontario Energy Board Act, 1998*, the Board may exercise any of its responsibilities under this Act without a hearing.

Sequestration

35. (1) A court in the Province may, upon application by an investment interest owner or a secured party, order the sequestration and payment of amounts in respect of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment interest owner or secured party by any person or entity authorized to collect amounts in respect of the clean energy adjustment, including defaults on any required remittance of amounts in respect of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Choice of law

36. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to a transfer under this Act or the creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section 5 shall be the laws of the Province.

Conflict

37. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

38. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required to be taken under the Financing Plan or in relation to the determination of the fair allocation amount.

Liability

39. (1) No action or other civil proceeding shall be commenced against any employee of the Province or Ontario Power Generation Inc. for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under this Act, the regulations under this Act or for any alleged neglect or default in the exercise or performance in good faith of such a power or duty.

Same

(2) Nothing in subsection (1) shall be read as limiting the effect of subsection 19 (1) of the *Electricity Act, 1998* or subsection 11 (1) of the *Ontario Energy Board Act, 1998.*

Same

(3) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.*

References in marketing materials and offering documents

40. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under section 5 unless the prescribed requirements, if any, are satisfied.

Regulations

41. (1) The Lieutenant Governor in Council may make regulations in respect of the following matters:

1. Governing anything that is required or permitted to be prescribed or that is required or permitted to be done by, or in accordance with, the regulations or as authorized, specified or provided in the regulations.

2. Defining, for the purposes of a regulation, words and expressions used in this Act that are not defined in the Act.

3. Governing the incurrence of debt for the purposes of the definition of "refinancing" in subsection 1 (1).

4. Governing the inclusion of information under this Act on or with invoices, which may include requiring notice to be provided by electricity vendors to specified consumers and other prescribed persons regarding the adjustments, including providing for different requirements in different circumstances and for different classes of specified consumers.

5. Governing the inclusion of information about the clean energy adjustment and any other matters provided for under this Act on or with invoices issued to specified consumers, including the form that the information must take and the form of the invoices and the form of any notice to be provided to the specified consumer under this Act.

6. Governing the manner by which invoices or notices provided for under this Act are to be provided to specified consumers and other prescribed persons.

7. Providing for a right of compensation for investment interest owners affected by a breach under section 29 and the manner in which such a right may be enforced under this Act.

8. Prescribing the time within which any action required by this Act may be required to be done.

9. Providing for such other matters as the Lieutenant Governor in Council considers advisable to carry out the purpose of this Act.

Limitation

(2) Despite subsection (1) or any other Act, no regulation under this Act shall have the effect of reducing, impairing, postponing or terminating the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or impairing or postponing the invoicing, collection, remittance or recovery of the clean energy adjustment.

PART VIII
AMENDMENTS TO OTHER ACTS

Electricity Act, 1998

42. (1) Subsection 6 (1) of the *Electricity Act, 1998* is amended by adding the following clause:

(q.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,

(i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*,

(ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities,

(iii) engaging in activities related to the transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,

(A) incurring liabilities in relation to the regulatory asset,

(B) transferring the regulatory asset under section 26 for consideration, and

(C) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

(2) Subsection 25.33 (1) of the Act is amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by the IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*.

(3) Subsection 25.33 (2) of the Act is amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by the IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*.

(4) Clause 25.33 (4) (b) of the Act is amended by adding "or as may be required by a regulation made under this Act or the Ontario Fair Hydro Plan Act, 2017" at the end.

(5) Subsection 25.33 (5) of the Act is amended by adding "or under the Ontario Fair Hydro Plan Act, 2017" at the end.

(6) Section 53.1 of the Act is amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

(1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

Deemed assets, non-subsidiary

(1.3) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is not a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of the financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries shall not form part of the assets and liabilities of the financing entity.

Deemed assets, subsidiary

(1.4) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of that financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries shall not form part of the assets and liabilities of that financing entity.

Definition, financing entity

(1.5) For the purposes of this section,

"financing entity" has the same meaning as in the *Fair Hydro Plan Act, 2017*.

Ontario Energy Board Act, 1998

43. (1) Subsection 70 (2.1) of the *Ontario Energy Board Act, 1998* is amended by adding the following paragraph:

4. The licensee is required to comply with the *Ontario Fair Hydro Plan Act, 2017*.

(2) Section 70 of the Act is amended by adding the following subsection:

Deemed condition of licences, unit sub-meter provider, *Ontario Fair Hydro Plan Act, 2017*

(2.4) Every licence issued to a unit sub-meter provider is deemed to contain the condition that the unit sub-meter provider is required to comply with the *Ontario Fair Hydro Plan Act, 2017* and the regulations made under it.

(3) Section 78.1 of the Act is amended by adding the following subsections:

Same, limitation re Ontario Power Generation Inc.

(3) The determination of a payment to Ontario Power Generation Inc. under this section shall not include any consideration of amounts related to activities of Ontario Power Generation Inc. carried out in relation to the *Ontario Fair Hydro Plan Act, 2017*.

Same

(3.1) The amounts referred to in subsection (3) include, without limitation, the following:

1. Amounts related to the appointment of Ontario Power Generation Inc. as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

2. Amounts related to the charging of fees for performing duties as the Financial Services Manager.

3. Amounts related to exercising the powers and performing the duties of the Financial Services Manager.

4. Amounts related to the consolidation of the assets and liabilities for accounting purposes of any special purpose financing entities established under and for the purposes of that Act.

(4) Subsection 79.16 (3) of the Act is repealed.

PART IX
COMMENCEMENT AND SHORT TITLE

Commencement

44. This Schedule comes into force on the day the *Fair Hydro Act, 2017 receives* Royal Assent.

Short title

45. The short title of the Act set out in this Schedule is the *Ontario Fair Hydro Plan Act, 2017*.

SCHEDULE 2
AMENDMENTS TO THE ONTARIO ENERGY BOARD ACT, 1998

1. (1) Subsection 79 (4) of the *Ontario Energy Board Act, 1998* is repealed and the following substituted:

Liability

(4) All consumers are required, in accordance with the regulations, to contribute towards the amount of any compensation required under subsection (3) that is not otherwise provided under subsection (4.1).

Payments for certain classes

(4.1) Compensation required under subsection (3) may be provided with respect to one or more prescribed classes of consumers who receive rate protection under this section, in a manner provided for in the regulations.

Money appropriated by the Legislature

(4.2) The compensation provided for in subsection (4.1) shall be paid for out of the money appropriated for those purposes by the Legislature.

Information, etc.

(4.3) If provided for in the regulations, the Board, the IESO and distributors, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of the rate protection or of anything else provided for in this section.

(2) Clause 79 (5) (e) of the Act is repealed and the following substituted:

(e) prescribing rules respecting the amounts that must be collected to compensate distributors, taking into account any compensation provided under subsection (4.1), including rules,

(i) respecting the calculation of those amounts,

(ii) respecting the calculation of any off-set to the liability of consumers under subsection (3) having regard to those amounts,

(iii) establishing the time and manner of collection,

(iv) requiring the amounts to be paid in instalments and requiring the payment of interest or penalties on late payments,

(v) prescribing methods of ensuring that the amounts required cannot be bypassed, and

(vi) respecting the distribution of those amounts to consumers;

(e.1) prescribing classes of consumers for the purposes of subsection (4.1), and governing how and when the compensation is to be provided with respect to the rate protection provided to them, including, without restricting the generality of the foregoing, requiring the IESO to receive payments or amounts from the Minister of Energy and to make payments to licensed distributors or to prescribed persons and prescribing how and when payments are to be made;

2. Section 79.2 of the Act is repealed and the following substituted:

Rate assistance

79.2 (1) The Minister shall make provision for rate assistance for rate-assisted consumers having regard to their economic circumstances, and where the Minister makes such provision, shall do so out of the money provided for in subsection (4).

OESP

(2) The program known as the "Ontario Electricity Support Program" in English and "Programme ontarien d'aide relative aux frais d'électricité" in French is continued for the purpose of providing rate assistance to rate-assisted consumers having regard to their economic circumstances.

Administered by Board

(3) The Ontario Electricity Support Program shall be administered by the Board, or when the regulations so provide, by a Minister of the Crown or other entity provided for in the regulations.

Money appropriated by the Legislature

(4) The money required for the purposes of the Ontario Electricity Support Program shall be paid out of the money appropriated for those purposes by the Legislature, once the amounts recorded in the variance account referred to in subsection (5) are no longer sufficient to provide for the funding of the program when taken on their own.

Variance account

(5) The money required for the purposes of the Ontario Electricity Support Program shall be provided out of the credit balance in the variance account maintained by the IESO under the Program as it existed before the coming into force of section 2 of Schedule 2 to the *Fair Hydro Act, 2017* until the amounts recorded in the account are no longer sufficient, when taken on their own, to fund the Program.

Variance account depleted

(6) The IESO shall provide the Ministry of Energy with advance notice, on a timely basis, of the time the IESO estimates that the amounts reflected in the variance account would be less than the amount required to meet its obligations related to funding the Ontario Electricity Support Program for the upcoming month.

How provided

(7) Rate assistance provided under this section shall be provided with respect to consumers prescribed in the regulations, and shall be provided at the times provided for in the regulations and in the amounts and in the manner provided for in the regulations.

Payments with respect to prior use

(8) The regulations may require provision of rate assistance to prescribed classes of rate-assisted consumers with respect to electricity consumed during a period prior to the date of the making of the regulation, but no such rate assistance shall be required under the regulations with respect to electricity consumed before January 1, 2016.

Transitional

(9) The regulations may require the provision of rate assistance for a rate-assisted consumer with respect to a period prior to the date on which the consumer became a rate-assisted consumer if the consumer meets all of the criteria prescribed by the regulations.

Distributors, etc.

(10) A distributor, a unit sub-meter provider and any other person or entity that may be prescribed is entitled to be compensated from the money referred to in subsection (4) or subsection (5), as the case may be, for any lost revenue resulting from the provision of rate assistance under the Ontario Electricity Support Program.

Deemed licence conditions, IESO, settlements, payments, etc.

(11) Every licence issued to the IESO, a distributor or unit sub-meter provider or a retailer of electricity shall be deemed to contain conditions requiring the licensee to do anything necessary to implement and administer the provision of rate assistance under this section as may be required by the regulations or the Board, including requirements with respect to,

(a) making payments to the IESO, distributors, unit sub-meter providers and other persons and entities identified by the regulations;

(b) receiving payments or other amounts from the IESO, distributors, unit sub-meter providers and other persons and entities identified by the Minister;

(c) requiring licensees to pass any rate assistance provided for under this section through to rate-assisted consumers in the manner provided for in the regulations;

(d) engaging in settlement activities;

(e) providing information to and receiving information from the Ministry of Energy, the Board, the IESO, distributors, unit sub-meter providers, retailers of electricity and any other prescribed persons and entities in the time and in the manner provided for by the Board or as may be prescribed; and

(f) entering into agreements or arrangements with licensees and other persons.

Information, etc.

(12) If provided for in the regulations, the Board, the IESO, distributors, retailers of electricity and unit sub-meter providers, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of rate-assistance or of anything else required under this section.

Conflicts, etc.

(13) Where any conflict exists between an order of the Board, a code issued by the Board or a licence condition and this section or a regulation made under this section, this section or the regulation made under this section shall prevail to the extent of the conflict.

Regulations

(14**)** The Lieutenant Governor in Council may make regulations governing anything dealt with in this section and without limiting the generality of the foregoing, may make regulations,

(a) governing anything that is described in this section as being prescribed or as being provided for in the regulations or that is required to be done in accordance with the regulations;

(b) governing the time or times at which rate assistance shall be paid or become payable to rate-assisted consumers;

(c) governing the determination of classes of consumers who are rate-assisted consumers, including providing for different classes of rate-assisted consumers;

(d) requiring that certain costs and expenditures related to the Ontario Electricity Support Program be only incurred with the prior approval of the Minister, and governing those costs and expenditures;

(e) establishing rules for the calculation of the amount of the rate assistance to be provided;

(f) governing payments under this section, including determining the method or methods of calculating the amount of rate assistance to be provided;

(g) setting maximum amounts of the total annual value of rate assistance that may be provided;

(h) requiring a distributor, the IESO or a unit sub-meter provider or other prescribed person or entity to make or receive payments in respect of rate assistance, including requiring them to make or receive payments directly to or from the Ministry of Energy or to receive overpayments directly or indirectly from consumers or other persons entitled to receive the rate assistance and prescribing the circumstances in which such payments are to be made and received and such overpayments are to be received as well as methods for determining the amounts payable or to be received;

(i) requiring the IESO to receive payments from the Minister and requiring the IESO to make payments to the Board, to licensed distributors, to unit sub-meter providers or to prescribed persons, in respect of the rate assistance provided under this section and governing methods for determining the amounts payable;

(j) governing the Board's or other prescribed entity's administration and program-related costs in administering the Ontario Electricity Support Program;

(k) governing transitional matters arising from the changes made to the Ontario Electricity Support Program as a result of the enactment of the *Fair Hydro Financing Plan Act, 2017*.

Retroactivity

(15) A regulation made under this section is, if it so provides, effective with reference to a period before it is filed.

General or particular

(16) A regulation under this section may be general or particular in application, may provide for different classes of persons and entities and may prescribe different rules for different persons or entities or different classes of persons or entities.

Verification of eligibility

(17) Section 11 of the *Ministry of Revenue Act* applies with respect to the Ontario Electricity Support Program as a government assistance program administered by the Board.

Definitions

(18) In this section,

"Government assistance program" has the meaning provided for in subsection 11 (2) of the *Ministry of Revenue Act*; "(programme d'aide gouvernementale)"

"rate-assisted consumer" means a consumer referred to in subsection (7). "(consommateur admissible à l'aide tarifaire)"

3. The Act is amended by adding the following section:

Confidentiality, information sharing, etc.

79.2.1 (1) For the purposes of section 79.2, the Board or the Minister or entity having responsibility for administering the Ontario Electricity Support Program may enter into an agreement with the Minister of Community and Social Services to provide the services to the public listed in subsection (2) on behalf of the Board, Minister or the entity, as the case may be, in relation to the administration of the Ontario Electricity Support Program.

Agreement, etc.

(2) The services that may be included in an agreement referred to in subsection (1) are the following:

1. Providing documents and information about the Ontario Electricity Support Program.

2. Processing applications for the Ontario Electricity Support Program.

Arrangements with others

(3) The Minister of Community and Social Services may arrange with another person or entity to provide, on behalf of that Minister, services that that Minister is authorized to provide under an agreement referred to in subsection (1).

Personal information

(4) The Minister of Community and Social Services is authorized to collect, use, disclose and retain personal information necessary to provide the services authorized by

an agreement referred to in subsection (1), but shall not collect, use, disclose or retain more personal information than is reasonably necessary to provide the services.

Limitation

(5) Except where otherwise authorized under subsection (7), the Minister of Community and Social Services shall not collect, use, disclose or retain personal information provided for in subsection (4) without the consent of the individual to whom the information relates.

Duty to transfer personal information

(6) The Minister of Community and Social Services shall transfer an individual's personal information provided for in subsection (4) into the control of the Board, Minister or entity responsible for administering the Ontario Electricity Support Program promptly after processing an application for the Ontario Electricity Support Program, but may retain such personal information as is reasonably necessary to confirm that an individual has been provided a service.

Use of personal information, etc.

(7) The Minister of Community and Social Services may use personal information maintained by that Minister in connection with the administration of the Ontario Disability Support Program and the program established pursuant to the *Ontario Works Act, 1997*, for the purpose of identifying and contacting individuals eligible for the rate assistance provided under the Ontario Electricity Support Program, and to provide services authorized under an agreement referred to in subsection (1).

Deemed compliance

(8) The use of personal information as allowed by subsection (7) is deemed to comply with section 41 of the *Freedom of Information and Protection of Privacy Act*.

Disclosure of list

(9) In order to assist the Minister of Community and Social Services to identify individuals eligible for rate assistance, the Board or the Minister or entity having responsibility for administering the Ontario Electricity Support Program shall, as soon as practicable after the coming into force of this section, disclose to the Minister of Community and Social Services a list of individuals who are enrolled in the Ontario Electricity Support Program, together with their mailing address and other contact information.

Use of list

(10) The Minister of Community and Social Services may use the information on the list provided under subsection (9) to determine whether an individual who is currently enrolled in the Ontario Disability Support Program or the program established under the *Ontario Works Act, 1997* is also enrolled in the Ontario Electricity Support Program.

Destruction of list

(11) The Minister of Community and Social Services shall destroy the list provided under subsection (9) no later than one year after receiving the list.

Notification about the management of personal information

(12) The Minister of Community and Social Services shall ensure that a notice is published on a website describing,

(a) the purpose for which that Minister collects, uses, discloses and retains personal information in connection with the Ontario Electricity Support Program;

(b) the types of personal information that may be collected, used, disclosed and retained in connection with the Ontario Electricity Support Program, and the circumstances in which the personal information may be collected, used, disclosed and retained in connection with that Program; and

(c) the title, and contact information, including an email address, of an employee who can answer an individual's questions about the use of the personal information under this section.

4. The Act is amended by adding the following sections:

Distribution rate-protected consumers

79.3 (1) The Minister shall provide for distribution rate protection to distribution rate-protected residential consumers having regard to the costs of the distribution of electricity to such consumers with respect to electricity consumed on or after the date prescribed by the regulations.

Money appropriated by the Legislature

(2) The money required for the purposes of the provision of distribution rate protection under this section shall be paid out of the money appropriated for those purposes by the Legislature.

Maximum charge

(3) Despite any order of the Board, or anything else under this Act, where the regulations so provide, a prescribed distributor who distributes electricity to distribution rate-protected residential consumers shall not charge those consumers, or a prescribed class of those consumers, any amount for monthly base distribution charges more than,

(a) the maximum amount for the charge that is provided for in the regulations; or

(b) the amount determined by the Board after applying any calculations, processes or methods provided for in the regulations.

Distributors

(4) A distributor who is prescribed under this section is entitled to be compensated from the money referred to in subsection (2) for lost revenue resulting from the provision of the distribution rate protection to distribution rate-protected residential consumers under this section.

Information, etc.

(5) If provided for in the regulations, the Board, the IESO and distributors, or any of them shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of distribution rate protection or of anything else required under this section.

Limitation periods for distribution rate protection, consumer

(6) Despite any past entitlement of a consumer who is eligible to distribution rate protection under this section, no distribution rate protection is payable to a consumer after a limitation period prescribed by the regulations in respect of the consumer, other than in such circumstances as may be prescribed by the regulations.

Limitation, reimbursement of distributor, etc.

(7) Despite any requirement under this Act to reimburse a prescribed distributor or other person for distribution rate protection provided by them to distribution rate-protected residential consumers under this section, no amounts for reimbursement are payable to the prescribed distributor or other person after a limitation period prescribed by the regulations in respect of the prescribed distributor or other person, where such reimbursement is based on a consumer's past entitlement under this section which has not yet been paid or reimbursed under this section, other than in such circumstances as may be prescribed by the regulations.

Transitional

(8) If, for technical or operational reasons, a distributor referred to in subsection (3) is unable to adapt its invoices to comply with this section and the regulations by the time it issues its first invoice for electricity consumed after the prescribed date in respect of an account of a consumer who is eligible for distribution rate protection under this section,

(a) the distributor shall adapt its invoices as soon as possible and, in any event, no later than a date prescribed in the regulations; and

(b) consumers continue to be entitled to receive the distribution rate protection to which they are entitled under this Act and may receive it as a lump sum credit

on the invoice for the first billing period after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Regulations

(9) The Lieutenant Governor in Council may make regulations,

(a) prescribing consumers or classes of consumers as distribution rate-protected residential consumers for the purposes of this section;

(b) prescribing dates for the purposes of subsections (1) and (8);

(c) prescribing distributors for the purposes of this section;

(d) governing anything that is described in this section as being prescribed or as being provided for in the regulations or that is required to be done in accordance with the regulations;

(e) governing the provision of distribution rate protection by the Minister in respect of distribution rate-protected residential consumers under this section including determining the method or methods of calculating the amount of rate protection to be provided;

(f) requiring the IESO to receive payments from the Minister and to make payments to licensed distributors, or to persons prescribed by the regulations, in respect of the distribution rate protection provided for under this section and prescribing methods for determining the amounts payable to distributors or distribution rate-protected residential consumers in respect of that protection.

Interpretation

(10) In this section,

"distribution rate-protected residential consumer" has the meaning provided for in the regulations; **(French)**

"monthly base distribution charges" has the meaning provided for in the regulations. (frais de distribution mensuels de base)

Delivery credit for on-reserve consumers

79.4 (1) The Minister shall provide a delivery credit to on-reserve consumers who meet the criteria prescribed under this section with respect to electricity consumed on or after the date prescribed by the regulations.

Money appropriated by the Legislature

(2) The money required for the purposes of the provision of the credits required under this section shall be paid out of the money appropriated for those purposes by the Legislature.

Eligible costs

(3) The eligible costs for the delivery credit referred to in subsection (1) are,

(a) the sum of the following charges for which the consumer would otherwise be liable,

(i) all variable and fixed distribution charges,

(ii) all charges based on the retail transmission network service rate,

(iii) all charges based on the retail transmission connection service rate,

(iv) all charges related to losses incurred in the distribution of electricity, except for such amounts that are included in regulatory charges provided for in the regulations, and

(v) any other charges that may be prescribed in the regulations; or

(b) where no separate charges for delivery are provided for by the distributor or other person or entity that may be prescribed in the regulations, the monthly service charge or such other amount as may be prescribed for or in respect of a prescribed distributor.

Delivery credit

(4) A distributor, person or entity shall, unless the regulations provide otherwise, provide the delivery credit referred to in subsection (1) by crediting the account of an on-reserve consumer.

Same

(5) The regulations may require that distributors and any other persons or entities provide a delivery credit to an on-reserve consumer who is entitled to a delivery credit under subsection (1) in such manner or in accordance with such methods as may be prescribed.

Same

(6) A distributor or any person or entity as may be prescribed is entitled to be compensated from the money referred to in subsection (2) for any lost revenue resulting from the provision of the delivery credits under this section.

Information, etc.

(7) If provided for in the regulations, the Board, the IESO and distributors, and other persons or entities, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of the delivery credits or of anything else required under this section.

Limitation periods for delivery credit, consumer

(8) Despite any past entitlement of an on-reserve consumer who is eligible for a delivery credit under this section, no delivery credit is payable to an on-reserve consumer after a limitation period prescribed by the regulations in respect of the on-reserve consumer, other than in such circumstances as may be prescribed by the regulations.

Limitation, reimbursement of distributor, etc.

(9) Despite any requirement under this Act to reimburse a distributor or other persons or entities for delivery credits provided by them to on-reserve consumers under this section, no amounts for reimbursement are payable to the distributor or other persons or entities after a limitation period prescribed by the regulations in respect of the distributor or other persons or entities, where such reimbursement is based on an on-reserve consumer's past entitlement under this section which has not yet been paid or reimbursed under this section, other than in such circumstances as may be prescribed by the regulations.

Transitional

(10) If, for technical or operational reasons, a distributor referred to in subsection (4) is unable to adapt its invoices to comply with this section and the regulations by the time it issues its first invoice for electricity consumed after the prescribed date in respect of an eligible account,

(a) the distributor shall adapt its invoices as soon as possible and, in any event, no later than a date prescribed in the regulations; and

(b) on-reserve consumers continue to be entitled to receive the delivery credit to which they are entitled under this Act and may receive it as a lump sum credit on the invoice for the first billing period after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Regulations

(11) The Lieutenant Governor in Council may make regulations,

(a) governing who is an on-reserve consumer for the purposes of this section and, without limiting the generality of the foregoing, may provide that consumers

who occupy certain areas are on-reserve consumers, and may do so without regard to whether those areas constitute a "reserve" under any other Act or law;

(b) prescribing dates for the purposes of subsections (1) and (10);

(c) governing provision of the delivery credits provided to on-reserve consumers under this section and, without restricting the generality of the foregoing, governing anything that under this section is to be prescribed or provided for in the regulations, or that is to be done in accordance with the regulations;

(d) determining the method or methods of calculating the amount of the delivery credits to be provided by the Minister in respect of on-reserve consumers under this section;

(e) requiring the IESO to make and receive payments to and from the Minister and to make payments to licensed distributors, or to persons prescribed by the regulations, in respect of the delivery credits provided for under this section and prescribing methods for determining the amounts payable to distributors or on-reserve consumers in respect of the credits provided.

Interpretation

(12) In this section,

"on-reserve consumer" has the meaning provided for in the regulations.

Application

79.5 Sections 79.6 through 79.11 apply to the programs provided for under sections 79, 79.2, 79.3 and 79.4 to the extent that they are funded by money appropriated for those purposes by the Legislature.

Definition

79.6 In sections 79.7 to 79.11,

"Finance Minister" means the Minister of Finance or such other member of the Executive Council to whom the administration of those sections is assigned under the *Executive Council Act*.

Records

79.7 (1) Every distributor and every other person prescribed by regulation shall keep at a location in Ontario such records as are necessary to determine and verify compliance with sections 79, 79.2, 79.3 and 79.4 and the regulations associated with them and any records required by those regulations to be kept.

Electronic records

(2) If a person keeps records in an electronic form, the person shall ensure that, from the time the records are first made and for as long as they are required to be retained,

(a) they remain complete and unaltered, apart from any changes or additions made in the normal course of communication, storage or display; and

(b) they are capable of being printed and of being produced in electronically readable format for inspection, examination or audit.

Retention of records

(3) Records required to be kept under subsection (1) shall not be destroyed unless authorization has been given in writing by the Finance Minister.

Offence

(4) Every person who fails to keep records in accordance with this section is guilty of an offence and, on conviction, is liable to a fine of not less than $50 and not more than $5,000.

Inspections and inquiries

79.8 (1) The Finance Minister may appoint one or more inspectors who are authorized to exercise any of the powers and perform any of the duties of a person authorized by the Minister under subsection 31 (1) of the *Retail Sales Tax Act* for any purpose related to the administration and enforcement of sections 79, 79.2, 79.3 and 79.4 of this Act.

Same

(2) Subsections 31 (1), (2), (2.1) and (2.2) of the *Retail Sales Tax Act* apply, with necessary modifications, with respect to the administration and enforcement of sections 79, 79.2, 79.3 and 79.4 of this Act.

Admission of evidence

(3) The Finance Minister, or a person authorized by the Finance Minister, may, for any purpose related to the administration of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them, reproduce from original data stored electronically any information previously submitted as required under those sections or regulations in any form by any person, and the electronically reproduced document shall be admissible in evidence and shall have the same probative force as the original document would have had if it had been proved in the ordinary way.

Inquiry

(4) The Finance Minister may, for any purpose related to the administration of sections 79, 79.2, 79.3 and 79.4 of this Act or the regulations made in association with

them, authorize any person, whether or not the person is an employee in the Ministry of the Finance Minister, to make such inquiry as the Finance Minister considers necessary with reference to anything relating to the administration of this Act or the regulations.

Copies

(5) If a book, record or other document is examined or produced under this section, the person by whom it is examined or to whom it is produced or any officer of the Ministry may make, or cause to be made, one or more copies of it, and a document purporting to be certified by the person to be a copy made pursuant to this section is admissible in evidence and has the same probative force as the original document would have if proved in the ordinary way.

Compliance

(6) No person shall hinder or molest or interfere with any person doing anything that the person is authorized by this section to do or prevent or attempt to prevent any person doing any such thing.

Same

(7) Despite any other law to the contrary, every person shall, unless the person is unable to do so, do everything the person is required by this section to do.

Administration of oaths

(8) Declarations or affidavits in connection with statements of information submitted pursuant to this section may be taken before any person having authority to administer an oath or before any person specially authorized for that purpose by the Lieutenant Governor in Council, but any person so specially authorized shall not charge any fee for doing so.

Application of *Public Inquiries Act, 2009*

(9) Section 33 of the *Public Inquiries Act, 2009* applies to an inquiry under subsection (4).

Recovery of overpayments

Definitions

79.9. (1) In this section,

"inspector" means an inspector referred to in section 79.8; ("inspecteur")

"overpayment" means an amount received by a person in excess of that to which the person is entitled under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them. ("trop-perçu")

Notice of overpayment

(2) If it appears to an inspector that a person has received an overpayment, the Finance Minister may send a written notice to the person advising the person of the following:

1. That the person has received an overpayment.

2. The amount of the overpayment and how it was calculated.

3. The required steps to be taken by the person with respect to the overpayment.

4. The date, not more than six months after the date of the notice, by which these steps must be completed.

5. That the Finance Minister has the authority to assess the person for the amount of the overpayment, plus interest, if the person fails to complete the required steps by the specified date.

Calculation of amount of overpayment

(3) For the purposes of this section, an inspector shall calculate an overpayment or the outstanding balance of an overpayment in the manner and form and using such procedures as the Finance Minister considers adequate and expedient.

Assessment

(4) If a person fails to complete the steps required in a notice under subsection (2) within the time specified in the notice, and any additional time requested by the person and permitted by the Finance Minister, the Finance Minister may assess or reassess the amount of the overpayment, or the outstanding balance of the overpayment, based on the inspector's calculation described in subsection (3).

Penalty

(5) If the Finance Minister makes an assessment or reassessment under subsection (4) and is satisfied that the person's non-compliance with the required steps in the notice was attributable to neglect, carelessness, wilful default or fraud, the Finance Minister may assess a penalty against the person equal to the outstanding balance of the overpayment when the penalty is assessed.

Time limit

(6) The Finance Minister shall not assess or reassess under subsection (4) more than 48 months after the end of the month in which the person received the overpayment.

Exception, where misrepresentation, etc.

(7) Subsection (6) does not apply if the Finance Minister establishes that the person has made a misrepresentation that is attributable to neglect, carelessness or wilful default or has committed any fraud in supplying information under this Act or the regulations or in omitting to disclose information.

Deeming

(8) An amount assessed or reassessed by the Finance Minister under this section is deemed, for the purposes of the administration and enforcement of this Act, to be a debt retirement charge owing and payable, as defined in subsection 85 (1) of the *Electricity Act, 1998*, that has been collected, on the last day of the month in which the person received the overpayment, by the person as a collector appointed under subsection 85.3 (1) of the *Electricity Act, 1998* and, for those purposes,

(a) sections 85.11, 85.12, 85.14, 85.17 and 85.30 of that Act apply with necessary modifications;

(b) in the application of sections 85.11 and 85.14 of that Act and without limiting the generality of clause (a) of this subsection, references to the Financial Corporation are read as references to the Minister of Finance and references to the Minister of Finance are read as references to the Finance Minister as defined in section 79.6 of this Act;

(c) the regulations made under that Act for the purposes of calculating the rate or rates of interest payable under section 85.11 of that Act and the manner of calculating the amount of interest apply with necessary modifications; and

(d) sections 23 and 36, subsections 37 (1), (1.1) and (2) and sections 37.1, 38 and 39 of the *Retail Sales Tax Act* apply with necessary modifications.

Disposition of repaid amounts

(9) If all or part of an overpayment is repaid to the Finance Minister, the Minister of Energy shall make such financial arrangements and payments as may be necessary to ensure that any person entitled to all or part of the overpayment receives the appropriate amount.

Confidentiality

79.10 (1) Except as authorized by this section, no person employed by the Government of Ontario shall,

(a) knowingly communicate or knowingly allow to be communicated to any person any information obtained by or on behalf of the Minister of Energy or

the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; or

(b) knowingly allow any person to inspect or to have access to any record or thing obtained by or on behalf of either Minister for the purposes of this Act.

Testimony

(2) No person employed by the Government of Ontario shall be required, in connection with any legal proceedings,

(a) to give evidence relating to any information obtained by or on behalf of the Minister of Energy or Finance Minister for the purposes of this Act; or

(b) to produce any record or thing obtained by or on behalf of either Minister for the purposes of this Act.

Exception

(3) Subsections (1) and (2) do not apply in respect of,

(a) criminal proceedings under any Act of the Parliament of Canada;

(b) proceedings in respect of the trial of any person for an offence under an Act of the Legislature; or

(c) proceedings relating to the administration or enforcement of this Act or Part V.1 or VI of the *Electricity Act, 1998*.

Communication

(4) A person employed by the Government of Ontario may, in the course of duties in connection with the administration or enforcement of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them,

(a) communicate or allow to be communicated to another person employed by the Government of Ontario in the administration or enforcement of any law or to an employee of the Board information obtained by or on behalf of either Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; and

(b) allow another person employed by the Government of Ontario in the administration or enforcement of any law or an employee of the Board to inspect or have access to any record or thing obtained by or on behalf of either Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

Reciprocal communication

(5) A person who receives information or obtains access to any record or thing under subsection (4) has a duty to communicate or furnish to that Minister on a reciprocal basis any information, record or thing obtained by the person that affects the administration or enforcement of this Act.

Use of information

(6) Any information, record or thing communicated or furnished under this section may be used only for the administration or enforcement of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them or an Act that is administered or enforced by the person receiving the information, record or thing.

Same

(7) The Finance Minister may permit information or a copy of any record or thing obtained by or on behalf of the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them to be given to,

(a) the person from whom the information, record or thing was obtained;

(b) any person by whom an amount is payable or has been paid under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; or

(c) the legal representative of a person mentioned in clause (a) or (b) or the agent of the person authorized in writing in that behalf.

Information

(8) The Finance Minister may permit information or a copy of any record or thing obtained by or on behalf of the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them to be given to any person employed by any government if,

(a) the information, record or thing obtained by that government for the purpose of any Act that imposes a tax or duty are communicated or furnished on a reciprocal basis to the Minister; and

(b) the information, record or thing will not be used for any purpose other than the administration or enforcement of a law that provides for the imposition of a tax or duty.

Offence

(9) Every person who contravenes any provision of this section is guilty of an offence and on conviction is liable to a fine of not more than $2,000.

Offences

False statements, etc., and fraud

79.11 (1) Every person who engages in any of the following acts or omissions is guilty of an offence:

1. Making, participating in, assenting to or acquiescing in the making of a false or deceptive statement in any document or answer required or submitted under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

2. Destroying, altering, mutilating, hiding or otherwise disposing of information or records of any person, for the purpose of evading compliance with sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

3. Making, assenting to or acquiescing in the making of a false or deceptive entry of a material particular in a record of any person required to maintain records for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

4. Omitting to make or assenting to or acquiescing in the omission of an entry of a material particular in a record of any person required to maintain records for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

5. Wilfully evading or attempting to evade, in any manner, compliance with an obligation under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

Penalty upon conviction

(2) A person convicted of an offence under subsection (1) is liable to either or both of the following penalties in addition to any other penalty assessed under this Act:

1. A fine in an amount that is not less than $1,000 and not more than $10,000.

2. Imprisonment for a term of not more than two years.

General offence

(3) Every person who contravenes, by any act or omission, any other requirement imposed under sections 79, 79.2, 79.3 and 79.4 is guilty of an offence and, on conviction, is liable, where no other penalty is provided for the offence, to a fine of not less than $50 and not more than $5,000.

Limitation period

(4) A proceeding to prosecute an offence provided for in this section must be commenced within six years after the date on which the matter of the offence arose.

Payment of fines

(5) Fines imposed on conviction of an offence provided for in this section are payable to the Finance Minister on behalf of the Crown in right of Ontario.

Commencement

5. (1) Subject to subsection (2), this Schedule comes into force on the day the *Fair Hydro Act, 2017* receives Royal Assent.

(2) Section 2 comes into force on a day to be named by proclamation of the Lieutenant Governor.

Fair Hydro Act, 2017

COMPENDIUM

The proposed Bill, the *Fair Hydro Act, 2017*, if enacted, would enact the *Ontario Fair Hydro Plan Act, 2017* and amend various Acts according to the provisions of Schedules 1 and 2 set out in greater detail below.

Schedule 1
Ontario Fair Hydro Plan Act, 2017

Schedule 1 enacts the *Ontario Fair Hydro Plan Act, 2017*. The Act establishes a framework under which the costs and benefits associated with the "clean energy initiative" are to be allocated among present and future consumers of electricity. The "clean energy initiative" describes the policies of the Government of Ontario related to fostering the development of a clean, modern and reliable electricity system.

Part I of the Act sets out the purposes of the Act and includes protections and assurances related to investor interests.

Under Part II of the Act, the Ontario Energy Board is required to determine reduced electricity rates that would achieve a 25% reduction in monthly invoice amounts from July 1, 2017 to April 30, 2018 for a hypothetical "regulated rate consumer" who meets prescribed criteria. The methodology to be applied by the Ontario Energy Board to determine electricity rates after April 30, 2018 would be prescribed by regulations.

Part III of the Act requires "specified consumers" to pay an amount in respect of the "clean energy adjustment". The clean energy adjustment is determined by the Financial Services Manager in accordance with rules set out in the Act and the regulations. Part III also specifies the roles and responsibilities of electricity vendors and the Independent Electricity System Operator ("IESO") with respect to the collection and remittance of amounts in respect of the clean energy adjustment.

Part IV of the Act requires the Minister of Energy to calculate a "fair allocation amount" by taking specified steps in accordance with principles and assumptions set out in the Act. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among specified consumers.

Also under Part IV, Ontario Power Generation Inc. is appointed as the Financial Services Manager. The Financial Services Manager is required to prepare a written "Financing Plan" to evaluate whether potential funding obligations should be incurred to acquire and

finance investment assets (under Part V). Constraints are placed on incurring funding obligations that would result in amounts becoming payable in respect of the clean energy adjustment from July 1, 2017 to April 30, 2021. In accordance with the Financing Plan, the Financial Services Manager may establish financing entities that may incur funding obligations.

Part V of the Act requires the IESO to determine the "IESO deferral" in accordance with the regulations and to establish and maintain a variance account in which it records the IESO deferral for each month. The balance in the variance account becomes a "regulatory asset", which the IESO has the right to recover from specified consumers through rates set by the Ontario Energy Board. The IESO is authorized to transfer a specified portion of the regulatory asset to a financing entity. The transfer results in the financing entity acquiring a corresponding "investment interest". The Act sets out various rules respecting the validity and priority of such a transfer.

In Part VI, the Act provides various rules in respect of the "investment asset" created by the transfer under Part V of a specified portion of the regulatory asset. Part VI provides that the investment asset constitutes a current and irrevocable property right and interest, consisting collectively of various specified rights and interests of investment interest owners. The Act also includes rules respecting the validity and priority of transfers of investment interests and the granting of a security interest in an investment interest by an investment interest owner.

Part VII deals with various administrative and miscellaneous matters, including regulation-making authority of the Lieutenant Governor in Council.

Part VIII includes consequential amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1999* to address various matters relating to the enactment of the new Act.

Schedule 2
Amendments to the Ontario Energy Board Act, 1998

Schedule 2 amends the *Ontario Energy Board Act, 1998*.

Section 79 of the Act is amended so that the rate protection provided to certain classes of rural or remote rate protected (RRRP) consumers may be funded out of money appropriated by the Legislature, rather than by consumers. Consumers would still be required to fund the remaining portion of RRRP not funded through appropriations.

Section 79.2 of the Act, which governs the Ontario Electricity Support Program (OESP), is repealed and replaced on a date to be named by proclamation of the LGIC. Once s.79.2 is proclaimed, the program would be continued, but will be funded out of money

appropriated by the Legislature after the variance account maintained by the IESO is exhausted, rather than by consumers. There are provisions relating to the sharing, use and disclosure of information relating to the administration of the OESP.

New provisions are created in the Act to establish programs to provide rate protection to certain distribution rate-protected residential consumers and a delivery credit to on-reserve consumers.

The Schedule also contains various amendments of a technical and administrative nature to support the implementation and oversight of these programs including provisions related to auditing, record-keeping, inspections and inquiries, offences and penalties.

The Schedule contains regulation-making authority in order to specify the details required to implement the various government-funded.

Ministry of the Attorney General

Legal Services Branch

Ministry of Energy
Ministry of Economic Development and Growth
Ministry of Research, Innovation and Science
Ministry of Infrastructure
Accessibility Directorate of Ontario

56 Wellesley Street West
18th Floor,
Toronto, ON
M7A 2E7

Telephone: (416) 325-1841
Fax: (416) 326-1021

Ministère du Procureur général

Direction des services juridiques

Ministère de l'Énergie
Ministère du Développement économique et de la Croissance
Ministère de la Recherche, de l'Innovation et des Sciences
Ministère de l'Infrastructure
Direction générale de l'accessibilité pour l'Ontario

56, rue Wellesley Ouest
18e étage,
Toronto, ON
M7A 2E7

Téléphone: (416) 325-1841
Télécopieur: (416) 326-1021

PRIVILEGED AND CONFIDENTIAL

Memorandum To: The Honourable Glen Murray
Chair of the Legislation and Regulations Committee

From: Carolyn Calwell
Director, Legal Services Branch

Date: May 5, 2017

Re: Ontario's Fair Hydro Plan
An Act to enact the Ontario Fair Hydro Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

I have examined the draft of the above-referenced item being submitted to Legislation and Regulations Committee on May 10, 2017 and have compared that draft with the policy approved by Cabinet on March 1, 2017.

As a result of this comparison, I am able to advise you that the draft corresponds to the approved policy with the exception of the variances identified on the attached chart.

_____
Carolyn Calwell
Director

Ontario's Fair Hydro Plan
An Act to enact the Ontario Fair Hydro Act, 2017
and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

Minute Item	Approved Policy/Policy Sought to be Approved	Proposed Variance	Degree of Variance	Rationale/Commentary
1.A	Total projected bill increases will be kept in line with Consumer Price Index (CPI) **until the end of 2021.**	Bill increases will be prescribed by regulation for the period May 1, 2018 **to June 30, 2021**.	Low	June 30, 2021 aligns with public communications that rate increases will be held to inflation over the next four years. This regulation making authority would enable the government to keep bill increases in line with CPI.
1.A	Cap bill increases due to repayments at around 10% of the total bill.	Bill increases will not be capped.	High	Consultation with stakeholders and external advisors revealed that a legislated cap would undermine investors' certainty in recovering their investment. However, the debt rating will be impaired if modelling suggests that rates could increase more than 10%, providing a cap in practical terms.

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – March 1, 2017	**Tracking to: Fast Track** LRC at Cabinet – March 10, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan Legislation

I. DECISION BEFORE THE BOARD

Receive a report back on Ontario Fair Hydro Plan implementation, supporting implementation decisions and recommending the proposed Ontario Fair Hydro Plan Act to proceed to LRC and Cabinet for approval.

II. RECOMMENDATIONS:

• Receive a report Ontario Fair Hydro Plan implementation: o Proposed legislation ▪ Note key aspects of proposed legislation ▪ Recommend proposed legislation o Approve up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program to fully recover costs for the public education campaign.	*Board Judgement*
• Direct the Ministry to return to TB/MBC with regulations support implementation prior to going to LRC. • Note outstanding report back requirements, • Direct in-year reporting through quarterly reporting and PRRT planning process on spending to date versus funding allocation for Electricity social programs and Global Adjustment Refinancing	

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Affordability Fund	0.0	0.0	0.0
	Global Adjustment Refinancing*^	0.0	0.0	0.0
	Electricity social programs*	499.0	753.0	829.0
	Ontario Rebate for Electricity Consumers	939.0	882.0	882.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

* Subject to enacting proposed Ontario Fair Hydro Plan legislation.
^ As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget, linked to proposed legislation

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017 the Ministry received TB/MBC approval for additional rate mitigation actions that support up to a 25% electricity bill reduction (including the 8% reduction announced in 2016 for an average household in 2017. The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017. This submission deals with three key elements of the OFHP:

- Refinancing Portion of Global Adjustment (GA) to partially defer RPP eligible ratepayer GA costs (Implementing a non-fiscal impact approach over government funding).
- Expanding, enhancing ratepayer funded electricity social programs and shifting them to being government funded (OESP, RRRP), along with a new government funded On-Reserve First Nations Delivery Credit.
- Expansion of Industrial Conservation Initiative (ICI).

The Ministry was directed to report back to the Board with proposed legislation supporting OFHP implementation, including the following specific direction regarding a non-fiscal mechanism (approach) to refinancing a portion of Global Adjustment costs (Appendix C provides the March 1, 2017 minute):

- Formal accounting opinions from OPG and IESO auditors.
- Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
- Report on the multi-year profile of GA smoothing, identifying specific assumptions.
- Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
- Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

Direction was also given to report back with final details for electricity support programs, as well as programs' effectiveness, efficiency, and sustainability.

The current submission does not address all report back requirements. The proposed legislation would establish the legislative framework, to be followed by further program related details being set by regulations at a later date (Ministry is targeting June 2017).

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two Schedules (Appendix D provides details of each part):

- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment partial refinancing)
- Schedule 2: Legislative amendments for electricity social programs

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment (GA) Refinancing)

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

The Ministry indicates under OFHP, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017 (This includes the 8% Ontario Rebate for Electricity Consumers). In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Reflecting March 2017 approvals (See Appendix C for March 2017 TB/MBC minute), proposed legislation for GA Refinancing is designed to establish a non-fiscal impact mechanism. Minuting indicated proceeding with GA Refinancing requires completed legal, accounting and financing risk assessments.

The proposed approach to GA Refinancing is complex. Appendix D provides proposed legislative details.

- At a high level, the proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future.

    - July 1, 2017, to April 30, 2018, reduces, on average, after-tax electricity costs for "specified consumers" by 25% (inclusive of the 8% rebate and shifting of support program to be government funded).
    - May 1, 2018, to June 30, 2021, electricity rates will be prescribed by regulation with the intention to keep increases in line with the Consumer Price Index (CPI).
    - July 1, 2021, to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs.
    - Through the bill and amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998, expands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to provide for appropriate oversight, put in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the refinanced GA costs.

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG, through a special purpose vehicle (OPG Trust) is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Schedule 2: Legislative amendments for electricity social programs

Electricity social programs becoming government funded under OFHP target residential electricity customers disproportionately affected by increased electricity costs.

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The bill amends the *Ontario Energy Board Act, 1998* for various electricity social programs:

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001. The bill enables the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial appropriations, rather than from electricity.

Appropriated funds would be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the government funding provided.

Distribution Rate Protection (Broadened RRRP)

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

The proposed legislation would enable a broader government funded Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge for consumption on or after July 1, 2017.

If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The legislation contains retroactive application of the provisions to offset any potential lapses in implementation and ensure that consumers receive the benefit following the July 1st effective date through to the final effective date of October 1st, 2017.

On-Reserve First Nations Delivery Credit

The proposed bill would enable the provision of a government funded on-reserve First Nations Delivery Credit (FNDC), which would eliminate the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The program is premised around the findings in an OEB Report submitted to the Ministry on December 29, 2016 providing advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers.

Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program to being government funded, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid

by all Ontario consumers on May 1, 2017. On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will come into effect on May 1, 2017.

The proposed bill would move the recently expanded Ontario Electricity Support Program (OESP) to government funding, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program (ODSP) and Ontario Works (OW) to potentially allow for automatic enrolment procedures to be established.

The Ministry indicates the proposed legislative amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

Expansion of Industrial Conservation Initiative (ICI)

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and “1114”) in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

The Ministry is also undertaking targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants.

- The extent of the impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

Financials

Electricity Social Programs:

March 1, 2017 TB/MBC approvals supporting OFHP included full year projected costs. The 2017 Ontario Budget included refined projected costs shifting expanded/enhanced electricity social programs from ratepayers to being government funded starting in 2017-18, lowering the total amount from $665M to $499M to reflect rollout timing not full year costs. The table below shows expense amounts currently in the PRRT multi-year fiscal plan related to these support programs for the most vulnerable consumers.

Government Funded Social Programs ($million)	2017-18	2018-19	2019-20	2020-22
Rural or Remote Rate Protection (RRRP)	344	472	484	497
Ontario Electricity Support Program	140	261	325	375
On-Reserve First Nations Delivery Credit	15	20	20	20
Total	**499**	**753**	**829**	**892**

GA Refinancing:

The 2017 Budget also includes an investment operating asset of $1.1B related to the Province's equity injection to OPG, enabling the OPG Trust to regularly purchase IESO's regulatory asset through 2017-18. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. The Province's net debt will remain unchanged as the equity investment in OPG would offset the additional Provincial borrowing.

Projected annual amounts of GA deferrals (i.e., the regulatory asset) are shown below and are not part of the province's multi-year fiscal plan (2017 Budget(Assumed to be funded from electricity ratepayers udner the proposed legisation). Appendix E provides analysis of financial models.

($million)	2017-18	2018-19	2019-20	2020-22
GA Refinancing - Residential Bills lowered by 25%	2,534	2,668	2,942	3,420
Interest Portion (5% annually, compounded monthly)	32	162	298	449

Under GA refinancing, ratepayers will incur interest costs and will be added to the GA payments ratepayers make.

- OPG intends to use a Special Purpose Vehicle (OPG Trust) to purchase the "right to collect" assets from the IESO in return for cash. OPG Trust will be structured to finance 51% of its funding requirements through the capital market with the remaining 49% being provided by OPG as subordinated debt. The 49% subordinated debt from OPG will be financed though debt from the capital markets (about 5%) and through equity injections from the Province (44%).

- The proposed legislation does not compel the OPG Trust to purchase 100% of the regulatory asset created by IESO at any given time. IESO have noted that it may need to cover clean energy costs if for some reason the OPG Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. On behalf of IESO, the Ministry is requesting a credit facility for IESO, up to about $3B, and notes the use of this credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO. Appendix F provides more information.

Financial, Accounting, Legal Risk Assessments:

In the March 1, 2017 TB/MBC Minute, refinancing the Global Adjustment to partially defer RPP eligible ratepayer GA costs, was subject to completed legal, accounting and financing risk assessments. Appendix G provides more details from the Ministry.

Financial

The Ministry indicates it has prepared legislation and is working on developing regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure

that the full value of any investment is recoverable.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year.

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

The Ministry indicates the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost.

The Ministry also acknowledges given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term, and the rate of inflation.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The Ministry indicates the following:

- Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations, satisfying accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

KPMG:

- The proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements.
- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.
- The regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG/E&Y:

- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.
- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-

making, funding and ongoing operation.

- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.
- Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.
- Judges can be expected to take a careful look at the government's evidence in support of the re-allocation of Global Adjustment.
- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.
- The provincial assurance provision - Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes. The proposed legislation focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers.
- The provincial guarantee provisions are intended to backstop the provincial assurance provision Legal risk to the province will be assessed as the agreements are negotiated and drafted.
    - The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.
- Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry indicates it retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements.

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. The Ministry indicates Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social,

health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

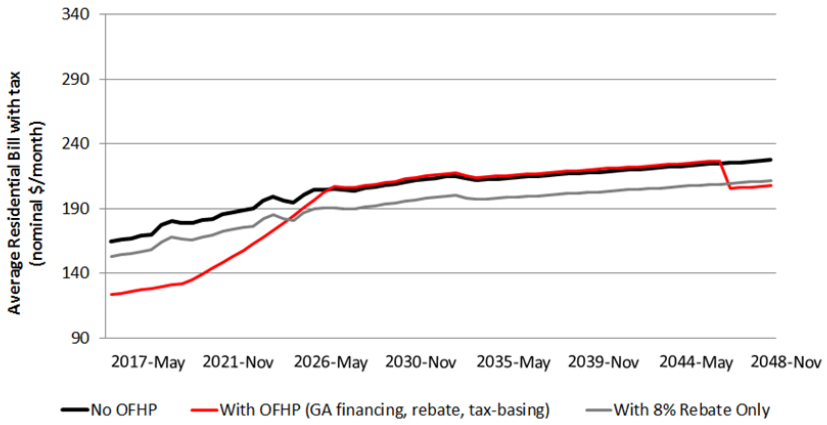
The Ministry's signed submission included external opinions and assessments for Ontario Power Generation (Accounting), KPMG Letter to the Independent Electricity System Operator (Accounting Opinion), Ernst &Young (as auditors) letter to OPG concurring with OPG's description of OPG accounting considerations of OFHP.

TBS staff note external opinions and assessments are supportive of the Ministry's intended plan for implementing Ontario's Fair Hydro Plan, noting the opinions and assessments must be revisited once key implementation details are finalised (e.g. draft legislation, regulations, special purpose vehicle documents, terms of conditions within various other agreements etc). Future reassessments and other factors such as Ontario electricity demand, interest rates in the medium to long-term, and the rate of inflation may contribute to fiscal plan implications emerging over time.

TBS staff also note, while submission details and related discussions have not indicated a non-fiscal mechanism cannot be established, the complexity of the transaction and the time frame involved suggest it is not reasonable, at present, to support a claim of no impact on the province's fiscal plan as the Ontario Fair Hydro Plan is implemented (Appendix H includes a strategic level risk assessment prepared by TBS staff). .

Ultimately, GA Refinancing being a sustainable strategy assumes electricity consumers' willingness to accept later to bear the extra costs of deferring electricity price hikes.

- The following graphic from the Ministry indicates the multi-year profile of GA Refinancing:



The chart above shows the expected multi-year profile under GA Refinancing for each Regulated Price Plan (RPP) period. In the first year, residential bills are projected to be 25 per cent lower as result of the OFHP. In the early years, bills increases are held to the rate of inflation – assumed to be 2% per year in the chart above. From July 1, 2021 onwards, prices increase at a higher rate compared to the first four years on the OFHP.

In the medium to longer term, residential bills exceed what they would have been but for the OFHP. However, in any given year, a typical residential bill under the OFHP cannot exceed what it would have been without OFHP by more than 10 per cent.

Media Procurement Request

The Ministry is requesting approval up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program to fully recover costs for the public education campaign.

The Ministry indicates spending about $1M on media planning and buying for radio and digital media. The Ministry is forecasting $2.5M in 2017-18 (Q clarifying the remaining $1M).

Name of analyst:	James Strang With input from CO, COE, OPCD and OFA	**Phone number:**	416-327-2071
Date:	May 8, 2017	**Log number:**	
Branch / Division:	GGPR, PEMD, COE, OPCD/Treasury Board Secretariat Ontario Financing Authority/ Ministry of Finance		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

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

Receive the report back on proposed legislation supporting implementation of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

i) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

a) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
b) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
c) Shift from electricity consumer funding to funding out of voted appropriations for Ontario Electricity Support Program, and for majority of costs for existing RRRP.
d) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

a) Establishing the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
b) Requirement for future consumers to pay the clean energy adjustment that backs financings
c) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
d) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
e) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights
f) Sets out that security interests can be granted in investment interests in the investment asset

ii) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

iii) Note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments.

iv) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC.

In this regard,

a) Direct the Ministry to include a report on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates
b) Direct the Ministry to report back with final program details for 2017-18 for GA Refinancing and Social Programs, including fiscal plan implications.

Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the broadened program now government funded
- Report on and assessment of impacts of consolidation of LDCs
- Assessment of distribution rates and implications for the program

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

- Identify eligibility criteria, and refinements being made.
- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

…Placeholder for media procurement minute…

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX D: PROPOSED FAIR HYDRO ACT OVERVIEW

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two schedules:

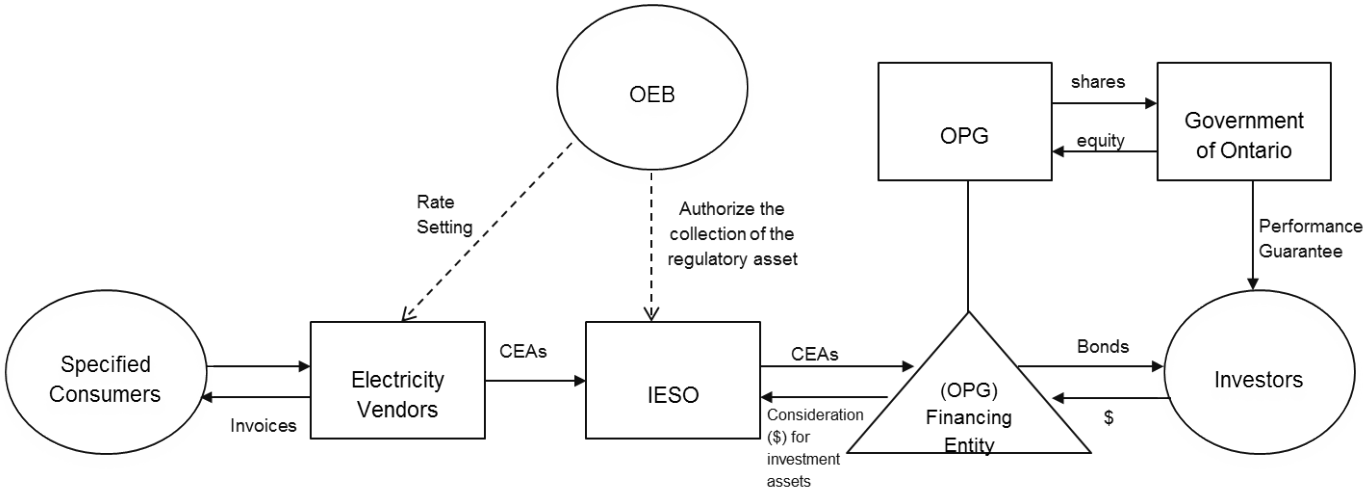
- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Dealing with Global Adjustment (GA) refinancing).
- Schedule 2: Legislative amendments for electricity social programs (See Appendix D1)

The Ministry has provided the following overview of the proposed legislation:

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (GA refinancing).

Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system (Clean Energy Initiative) creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations. The diagram below outlines how the refinancing of GA would be implemented.



Note: CEAs are "clean energy adjustments"

Clean Energy Costs and Benefits:

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (the Global Adjustment provisions) which relate to contracts for:
  - Renewable energy generation or capacity
  - Conservation and demand management, including shortage
  - Energy efficiency
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*
  - Other such costs to be included in "clean energy costs" may be prescribed

- These are the costs to be distributed fairly among the specified consumers through the "fair allocation amount".

Fair Allocation Adjustment:

- Part II establishes that the rate that will be payable by "specified RPP consumers" from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the "comparison rate". The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.
- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).
- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.
- The Minister sets the fair allocation amount.

    - The establishment of the "fair allocation amount" is required to,
        - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods"; and
        - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).
    - The "fair allocation amount" is to have regard to:
        - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the "specified consumers" (in the applicable "reference periods");
        - Reasonable assumptions regarding the time value of money, the number of consumers in the "reference period"; and
        - Expected electricity consumption for the reference period.

Regulatory Asset and Investment Asset:

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets.
- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a "regulatory asset". In simple terms, the regulatory asset is IESO's right to recover the revenues that it has deferred collecting.
- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities. OPG financing entities are not required to purchase the regulatory asset.
- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".
- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

Issuance and Payment of Debt:

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.
- The financings will be backed primarily by the "clean energy adjustments" payable by specified consumers. The "clean energy adjustments" will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the "fair allocation amounts" ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).
- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity's related funding obligations.
- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario's undertakings not to adversely affect the program through subsequent legislation.

Financing Plan:

- The Financing Plan is prepared by the Financial Services Manager (OPG).
- The Financing Plan is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.
- There are rules that apply to the Financing Plan:
  - It must align with the "estimated finance amount" that will become due and payable during a "reference period";
  - It must take into account the "fair allocation" and any "fair adjustment";
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancing, redemption opportunities and liquidity, and similar assumptions).
- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.
- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

Who Does What?

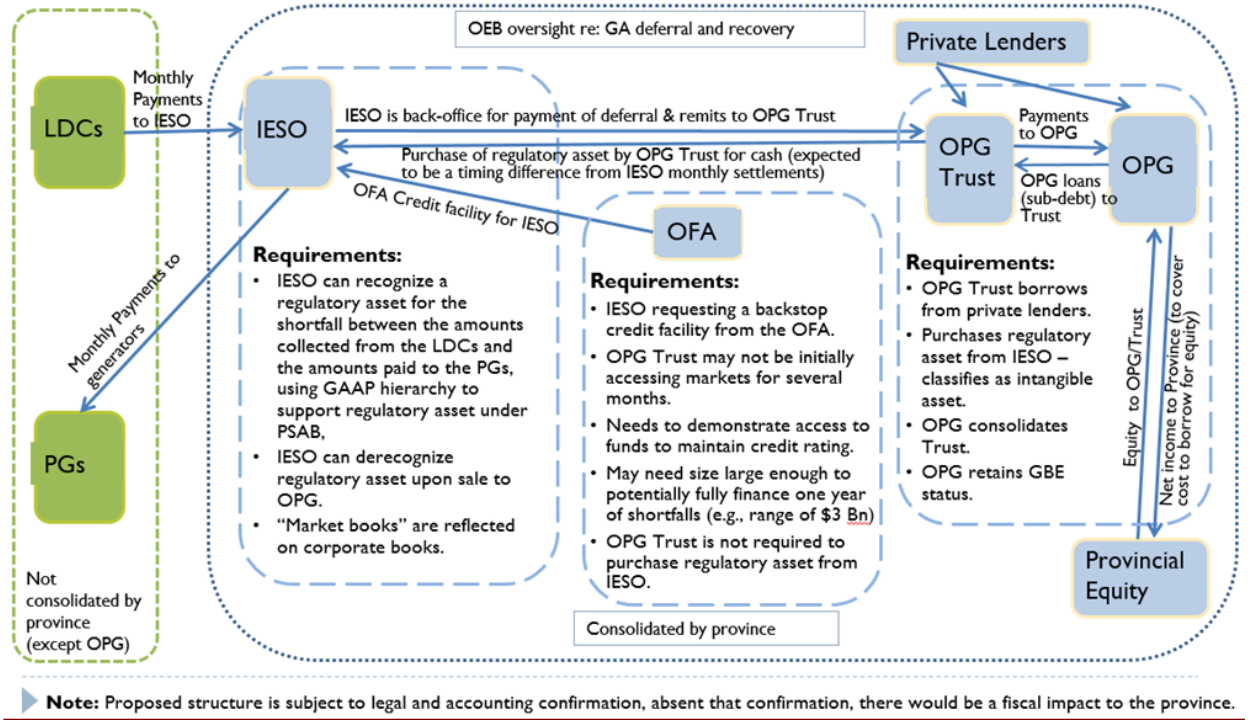
- Minister of Energy – Determine the "fair allocation amount" applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.
- Ontario Power Generation (OPG) – As financial services manager, OPG will be responsible for the following under the Act:
  - Prepare and implement Financing Plan.
  - Establish and administer the financing entities.
  - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.

- Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

- Independent Electricity System Operator (IESO):
  - Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.
  - Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.
  - Coordinates the collection of "clean energy adjustments" from Electricity Distributors.
  - Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.
  - Fund initial interest costs and expenses during the first 4 years.

- Local Distribution Companies (LDCs):
  - Obligation to invoice specified consumers.
  - Collect, as agent of the investment interest owners, "clean energy adjustments" from specified consumers.
  - Hold money received for clean energy adjustments in trust until remittance to the IESO.

- Ontario Energy Board:
  - Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).
  - Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).
  - Review the administrative costs of OPG in connection with the administration of the program.



Schedule 2: Legislative amendments for electricity social programs moving to being government funded

As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:

- Enhancing and providing government funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates
- Enhancing and providing government funding for the Ontario Electricity Support Program (OESP)
- Creating a new First Nation On-Reserve Delivery Credit and providing for government funding

Overview of RRRP and Broadened Distribution Rate Protection:

- Section 79 of the Ontario Energy Board Act would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution cost.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program:

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.
- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.
- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.

- Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
- This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit:

- Energy is proposing legislative amendments that would establish a First Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.
- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

APPENDIX E: ANALYSIS OF FINANCIAL MODELS AND RISKS (UNDER DEVELOPMENT)

Treasury Board Secretariat received two models related to global adjustment refinancing.

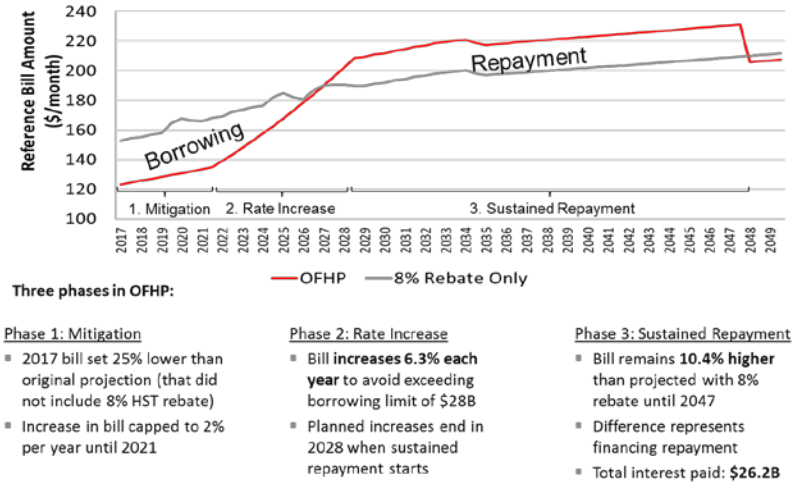
- The model the Ministry of Energy developed and used to support the March 2017 submission
- The financial model that was developed by the Ontario Power Generation (OPG) that provides details regarding the financing of the proposed structure

TBS staff noted the models received are based on high level aggregates and do not allow for running different scenarios that would allow TBS to determine the financial impact of potential changes in variables. In discussions with the Ministry of Energy and OPG, it has been agreed that these scenarios must be developed – both to help creation of a risk-based outlook for the province, as well as to respond to questions that will inevitably arise from the credit rating agencies.

- For example, the current model is based on a static interest rate of 5%. While this assumption is accurate within the current historically low interest rate environment, should interest rates increase above 5% after 2020, residential bills would also significantly increase during the repayment phase of the plan. For instance, if the interest rates increase from 5% to 7% (historical 30 year average) between 2020 and 2024, financing costs would increase by $11.2B (for a total of $37B), requiring much higher price increases in the out-years. Under this scenario, the increases required from 2022 to 2029 would be 7.3% annually (compared to 6.3% per year increases required under the base case) and the bill would remain 12.5% higher (compared to 10.4% in the base case).

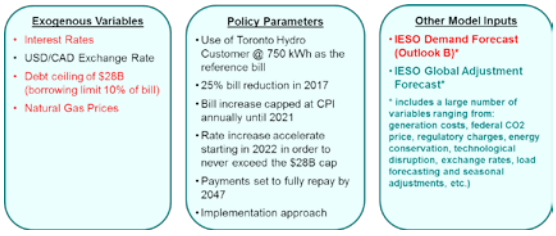
The OFHP can be thought of as having three phases:

The model is a high level and aggregate model, which is build on other independent forecasts (e.g. IESO demand forecast). There are a large number of assumptions built into the model explicitly and implicitly (as a large number of assumptions are embedded into the other forecasts that are used as inputs into this model).



Analysis is currently underway to better understand intergenerational costs and benefits and the impact of GA smoothing on recovery charges that would be allowed under the current Eurig compliance rules.

Depending on the legal determination, if the annual increases in bills or the commodity prices will be subject to caps, additional borrowing/provincial funding may be required.



With the shift of electricity social programs costs moving to being funded by government appropriations (Including the 8% rebate, total costs are forecast to be $1.4B in 2017-18), cost forecasting models/assumptions should also under go sensitivity analysis to inform future funding requests.

APPENDIX F: PROVIDING A CREDIT FACILITY TO IESO

After IESO's review of the proposed legislation, it has indicated to the Ministry and the Ontario Financing Authority (OFA)/MOF that IESO may need to cover clean energy costs if for some reason the Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. IESO noted that the proposed legislation does not compel the Trust to purchase 100% of the regulatory asset at anytime. Also, the establishment of the regulatory asset and purchase by the Trust is expected to take three to six months to implement following the introduction of enabling legislation.

The OFA currently provides a $975 million credit facility to the IESO for other purposes, it is proposed that the OFA provide a new credit facility to the IESO, in an amount of up to about $3 billion.

The use of this new credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO.

Approvals Required for OFA Financing

OFA indicates the recommended TB/MBC minute should note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An order-in-council will be sought to allow the OFA to be able to provide the new credit facility to the IESO, for an amount to be determined as per the requirements of the Fair Hydro Plan.

The following approvals are required by the OFA to accommodate the request to provide financing to the IESO:

1) An Order-in-Council is required for the Minister of Finance to lend to the OFA.
2) A Directive from Minister of Finance is required for the OFA to on-lend to the IESO.
3) An executed credit agreement between the OFA and the IESO.

1. Order-in-Council (OIC)

An OIC is required to authorize the Minister of Finance to lend to the OFA. Ministry of Finance Legal Services Branch would need to be engaged to facilitate the request.

- The existing $975 million credit facility was covered under OIC 675/97 which authorized the Minister of Finance to lend a revolving $2.16 billion to the OFA. This OIC was originally obtained in 1997.

It is understood that upon drafting the OIC (by MOF Legal), the OIC would need final approval from Lieutenant Governor in Council LGIC as required under section 22(1) of the *Capital Investment Plan Act*, 1993.

- The OIC would go through Deputy Minister of Finance, Minister of Finance, Chair of Cabinet for briefing/sign-offs and finally to the LGIC for approval.

To draft the OIC, the following details will be required:

i. Dollar Value of Loan from the Minister of Finance to the OFA
ii. Maturity Date of the Loan
iii. Interest Rate of the Loan

The following are recommended to accommodate IESO's need for financing:

i. Dollar Value of Loan:
   $3 billion, as per request. The OIC would provide the maximum limit of any loan to IESO and it may be advisable to add a cushion and provide an OIC for $3.5 billion.

ii. Maturity Date of the Loan:
OIC maturing March 31, 2048 would provide approximately 30-year term to match the Fair Hydro Plan. It may be advisable to add a cushion and set a maturity date to March 31, 2053 (cushion of 5-years).

iii. Interest Rate of the Loan
Interest rates on the loans from the Minister of Finance to the OFA have typically been a 1) Ontario 90-day t-bill rates, 2) flow-through of the rates charged to the third-party by the OFA and/or 3) the rate charged to the third-party by the OFA less 25bps.

OFA recommends to keep this unchanged to provide consistency with past OICs but also to provide flexibility in the rates that could potentially be charged to IESO, to be determined by the Minister of Finance, by way of the Minister's Directive.

2. Minister's Directive

Once the Minister of Finance has the authority under an OIC, a Minister's Directive can authorize the OFA to lend to IESO. The Directive can outline specific terms and conditions as needed.

3. Executed Credit Agreement

With a Minister's Directive approved, the OFA and IESO can work to execute a credit agreement, subject to any terms and conditions of the Directive and any policy considerations.

APPENDIX G: FINANCIAL, LEGAL, ACCOUNTING RISK ASSESSMENTS

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.
- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.
- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and
- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.
- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG’s capital structure:

- OPG would require monthly “equity injections” from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;
- Funds from the Province would flow from the Ontario Financing Authority (OFA); and
- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.
- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset ”OPG Share Purchase” and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG’s business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy’s concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual ratepayers. Note: The reverse is also true in regards to decreasing demand.
- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted. **A statutory cause of action** may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation.The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

APPENDIX H: OVERVIEW OF RISKS

Prepared by TBS staff, the following chart provides an overview of strategic (versus operational) risks to inform the approval/decision making process regarding the proposed legislation. Each part, GA Partial Refinancing & Electricity social programs, is a separate table.

Global Adjustment Partial Refinancing:

Objective: Provide immediate ratepayer relief by capping rate increases at Consumer Price Index (CPI) for four years and refinancing GA costs over a longer period of time. Develop and implement a financing structure that increases provincial borrowing, but has no impact on annual provincial surplus/deficit.

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA smoothing being allocated to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there would be a negative impact on the province's fiscal plan of $2.5B in 2017-18 and rising. • Rating agencies and investors in Province's debt may view all of the borrowing as an obligation of the Province, which could put pressure on the Province's credit rating and overall borrowing capacity. • Proposed structure may result in negative response from Ontario Auditor General (OAG) due to previous concerns regarding recognition of rate regulated assets and liabilities. The OAG may take this into account when the provincial books are audited. • Initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to justify structure of financial model and be utilized in discussions with the OAG.

Risk	Level of Risk	Risk Response
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.
A legal determination that the Province is spreading the costs of GA financing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Medium **Risk Impact:** High **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and close monitoring of costs and changes in variables built into model. • Analyze the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Moderate **Time Scale:** 12 to 24 months **Rationale** • The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the government to offset a part of the scheduled increases. • Risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.	Risk can be avoided by: • Province providing a potential guarantee for the cost of borrowing – however, would redirect risk back to the Province and negate benefits of proposed financing structure. Risk can be mitigated by: • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • Proposed legislation to enable GA refinancing has been draft with input from third-party financers. Provides a 'narrow' provincial guarantee and ensuring that debt holders have the right of action against a future government to recover the amount outstanding including interest, fees, expenses and any damages.

Electricity social programs (Enhancing Electricity Support & Conservation Programs):

Objective: Shift funding of existing and new electricity support programs (RRRP, OESP, Affordability Fund, First Nations Credit) from rate to tax base.

Risk	Level of Risk	Risk Response
Uncertainty in forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated fiscal impacts for the Province.	**Risk Likelihood:** Possible **Risk Impact:** Major **Timescale:** 12 to 24 months **Rationale:** • The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate. • Fiscal projection is highly dependent on factors which can fluctuate from year to year, including: o electricity usage; o distributions costs; and o consumer consumption patterns that may change due to extreme weather or other factors. • Fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. o Enhanced RRRP may create disincentives from the eligible LDCs towards productivity and performance improvements and/or cause ineligible LDC's to drive up distribution costs to gain access to program.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models.

From:	John Kim
To:	Ronald Kwan
Cc:	Bruno Amara; Shajee Kathirgamanathan
Subject:	FW: DRAFT RAN Ontario Fair Hydro Plan
Date:	Monday, May 08, 2017 11:11:02 AM
Attachments:	OFHP - TB Submission.msg Fw OFHP - LRC Submission.msg 3 RAN Ontario Fair Hydro Plan Proposed Leg v3.doc

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Fyi, just in….looks like it was received yesterday.

From: Fung, Felix (TBS) [mailto:Felix.Fung@ontario.ca]
Sent: Monday, May 08, 2017 11:09 AM
To: Judy George-Harris (MGS) <Judy.George-Harris@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Violetta Goralski (MAG) <Violetta.Goralski@ontario.ca>; Helder Marcos (MCSS) <Helder.Marcos@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: DRAFT RAN Ontario Fair Hydro Plan

Hi everyone,

In advance of our 11:45 am meeting with Karen - please find attached our latest draft TB/MBC assessment note for the OFHP along with the TB submission and LRC submission received from Energy.

Thanks,
Felix

From: Schlaepfer, Martin (ENERGY) [Martin.Schlaepfer@ontario.ca]
To: Felix Fung (MOF) [Felix.Fung@ontario.ca]; James Strang (MOF) [James.Strang@ontario.ca]
CC: Pratima Gounden (ENERGY) [Pratima.Gounden@ontario.ca]
Subject: OFHP - TB Submission
Date: Sunday, May 07, 2017 13:58:47
Attachment 1: OFHP TB sub - 20170418_May7__clean.docx
Attachment 2: IESO Final Draft.pdf
Attachment 3: OPG - EY Letter on Fair Hydro Act May 5_FINAL.PDF
Attachment 4: GA Consolidated Memo_May 2_FINAL.PDF

Hi Felix and James,

Please find attached the final TB submission for the Ontario Fair Hydro Plan item. Also attached are the materials for the appendix.

This is Minister signed and hard copies will be delivered first thing on Monday morning.

Thanks,

Martin

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

May 9, 2017

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MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on following:

    i. Implementation of Global Adjustment (GA) Refinancing;

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program and First Nations On-Reserve Delivery Credit); and

    iii. Expansion of Industrial Conservation Initiative (ICI).

2) APPROVE the Ministry funding a media buy procurement with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record.

3) NOTE the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

4) NOTE the Ministry of Energy will return to TB/MBC to request a transfer of funds to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to fully recover the costs for the public education campaign.

5) APPROVE the creation of a new transfer payment line entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-01, Electricity Price Mitigation, with a $1,000 placeholder, to support future rate mitigation initiatives.

Note: The Independent Electricity System Operator (IESO) is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current lines of credit with the OFA and OEFC.

2.0 PURPOSE OF REQUEST

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower bills by 25 per cent for a typical residential consumer, starting in the summer of 2017. Up to half a million small businesses and farms are also expected to benefit. Any rate increases for residential consumers over four years would be held to the rate of inflation. Note: These measures include the 8 per cent rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

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As part of the OFHP approval process, TB/MBC requested that the Ministry "report back" before legislation to enable OFHP was introduced on the following items:

1) GA Refinancing;

2) Social Programs; and

3) ICI Expansion.

In addition to the report back, the Ministry is also requesting the creation of a new transfer payment line, "Price Mitigation Support Initiatives" in Vote 2905-01. The purpose for this is to provide the Ministry an appropriate transfer payment line to support future activities and initiatives around electricity price mitigation for Ontarians.

There is no fiscal impact associated with this request. All new funding placed into the transfer payment lines will be offset by services dollars previously approved within the Ministry's multi-year allocation.

In February 2017, the Ministry reported back to TB/MBC on the details related to the establishment of the new Affordability Fund announced in the OFHP. In April 2017, the Affordability Fund Trust was established. It is expected that electricity distributors will be able to begin applying to the Affordability Fund Trust in Summer 2017.

The Ministry has developed proposed legislation to implement key components of OFHP by summer 2017, and address financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations to enable implementation of OFHP.

1. GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

<u>Proposal</u>

On March 2, 2017, as part of OFHP, it was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and

future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. For example, by recognizing that generation assets are expected to continue to provide residual benefit to future ratepayers, beyond the term of current contracts, future ratepayers are expected to be able to utilize these assets and reduce the need to finance the development of new generation assets.

Under this proposal, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017. In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed proposed legislation to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations;

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY);

- Launched a third party research project to assist with implementation of GA refinancing; and

- Developed comprehensive risk-based costing, including forecast models and sensitivity tests on key assumptions.

Proposed legislation to enable GA refinancing is planned for a May 2017 introduction.

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2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The proposed legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

Proposal

The Government is proposing to introduce legislation and regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.

The legislative proposal enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers.

- R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province.

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Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

Proposed legislation will enable tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

Proposed legislation enables the establishment of a maximum monthly base distribution charge for those prescribed customers. If the proposed legislation is passed, the mechanism to set this charge will be established in regulation.

On-Reserve First Nations Delivery Credit

On July 12, 2016, the Province and First Nations in Ontario announced an agreement-in-principle for the Province to sell to First Nations for their collective benefit, shares of Hydro One Limited.

The Province would sell up to approximately 15 million shares (2.5 per cent of total current outstanding Hydro One common shares), depending on the level of First Nation participation, to a new collective investment fund owned by First Nations.

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The proposal is premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program proposal involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The resulting First Nations Delivery Credit is a reflection of First Nation leadership on this issue and an example of the Political Accord coming to life.

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Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program from the rate base to the tax base, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid by all Ontario consumers on May 1, 2017 ($0.0011 per kilowatt-hour of power consumed). On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will also come into effect on May 1, 2017.

The amendments to the *Ontario Energy Board Act, 1998* pertaining to OESP will move the program funding from the rate-base and transfer it to the tax-base, and enable alignment of the OESP with social assistance programs delivered by the Ministry of Community and Social Services.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB sets amount that LDCs charge for RRRP to all customers. Once the regulatory mechanism is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. Change to the funding structure of the program does not require any additional implementation risks or efforts.

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Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers would be prescribed in regulation, if the legislation is passed. Additionally, the Ontario Energy Board would be empowered by regulation to determine the rate at which affected LDCs would be harmonized.

The efforts required to implement the program will fall upon the impacted LDCs who will need to adjust their billing systems in order to carry out the program.

On-Reserve First Nation Delivery Credit

A new regulation will need to be passed to set out the program particulars including eligibility for the program.

The LDCs will need to enter into communication plans in order to work with local First Nations Band Councils and to increase awareness of the delivery credit to all eligible consumers.

There are transitional provisions for both the enhanced rate protection and First Nations Delivery Credit that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.

Ontario Electricity Support Program

A legislative amendment to the *Ontario Energy Board Act, 1998* will allow funding to shift from the rate base to the tax base. The amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

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3. ICI Expansion:

Ontario is committed to providing competitive electricity rates for energy intensive consumers in the manufacturing sector while also promoting electricity conservation.

In January 2011, the Industrial Conservation Initiative (ICI) was announced to help large industrial electricity power users better manage their electricity costs while reducing electricity consumption during peak periods.

ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. Reducing peak demand increases the reliability of the electricity system, reduces greenhouse gas (GHG) emissions and helps defer the need to procure new resources. There are currently about 300 participating consumers who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Proposal

On March 2, 2017, as part of OFHP), the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

- As of January 1, 2017, the regulatory amendments came into effect to make ICI available to electricity consumers with an average monthly peak demand greater than 1 MW. The lowering of the ICI threshold to 1MW and removal of sector restrictions was announced in the 2016 Speech from the Throne.

Implementation

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

- Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

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In addition, the Ministry has retained the Ontario Chambers of Commerce (OCC) and the Canadian Manufacturing and Exporting (CME) to undertake targeted stakeholder outreach on ICI and other cost saving energy programs/measures available to the commercial and industrial sectors in Ontario.

3.0 KEY CONTEXT

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would reduce the electricity bills of residential consumers by 25 per cent on average starting in summer 2017. In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and bend the future cost curve of electricity (see Background for details).

On April 20, 2017, the OEB announced new Regulated Price Plan (RPP) rates effective May 1, 2017 that include a portion of the bill reduction proposed under OFHP and the shifting of the funding of the OESP to provincial revenues. The full reduction from OFHP is expected to be addressed through a July 1st RPP rate adjustment.

The Ministry's report back to TB/MBC focuses on the following OFHP initiatives:

1) GA Refinancing:

As part of OFHP, it was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

- Today's electricity consumers have been responsible for the costs of investments in developing the clean, modern and reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. There is an opportunity to recognize the long-term benefit of these generation assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

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To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed proposed legislation to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations;

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY);

- Launched a third party research project to assist with implementation of GA refinancing; and

- Developed comprehensive risk-based costing, including forecast models and sensitivity tests on key assumptions.

Financing, Accounting and Legal Risk Considerations / Mitigations

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager

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(OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.

- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.

- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

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- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and

- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

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These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG's capital structure:

- OPG would require monthly "equity injections" from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;

- Funds from the Province would flow from the Ontario Financing Authority (OFA); and

- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.

- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG's business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy's concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual

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ratepayers. Note: The reverse is also true in regards to decreasing demand.

- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

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IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".

- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust,

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additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.

- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.

- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-

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year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).

- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.

- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be

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imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and

- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted.

A statutory cause of action may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

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2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The proposed legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

If passed, the government proposes to identify Hydro One R2 customers, as having their RRRP funded through appropriated funds.

Distribution Rate Protection

New Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, would be established through proposed legislative amendments under the *Fair Hydro Act, 2017,* and the creation of consequential regulations. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhance protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

Eligible on-reserve customers will receive a 100% delivery credit or the elimination of their monthly service charge on their electricity bills. The eligibility requirements will be prescribed under regulation.

There are 11 LDCs identified by OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One,

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Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 customers may be eligible.

Ontario Electricity Support Program (OESP)

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by a rebate directly on bills. The OESP is currently funded by the rate base.

OESP credits vary by income level and family size, and there are two credit scales that include:

- The basic program credit ranges from $30/month to $50/month.
- An enhanced credit that ranges from $45/month to $75/month for consumers that are either Indigenous, use electric heat or use certain electrically intensive medical devices.

Ontario's Fair Hydro Plan (OFHP) committed to move the program from the rate base to the tax base, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

The proposed legislative changes will address the move to the tax base, and regulatory changes approved by Cabinet on April 10, 2017 will enable the expansion of the OESP effective May 1, 2017. Discussions are ongoing with the OEB and MCSS on aligning OESP delivery with other social assistance programs.

<u>Roles and Responsibilities</u>

Rural or Remote Rate Protection

The roles and responsibilities of the Board remain the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The Board would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would once again need to appropriate money from the legislature to cover the costs of administering the program.

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On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers. In addition, ENERGY would need to work with LDCs, Chiefs of Ontario and Band Councils to ensure the program is delivered to all eligible consumers.

Ontario Electricity Support Program

The OEB will continue to the deliver the OESP under the current legislative framework until the variance account is depleted. When legislative changes to shift the program from the rate base to the tax base are proclaimed, the OEB will continue to administer the program, but certain decision making responsibilities and oversights will shift to the Minister of Energy.

MCSS will begin supporting OESP uptake by helping social assistance clients to apply to the OESP. Legislative and regulatory changes will enable this work.

The IESO will continue to manage payments to utilities, unit sub-meter providers, and the OEB in relation to OESP credit delivery and program administration costs. When legislative changes are proclaimed, IESO will begin reporting costs to the Ministry to support forecasting and audit.

3) ICI Expansion:

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and “1114”) in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

In addition, the Ministry has retained the OCC and the CME to undertake targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants. **Note:** The extent of the impact will depend on the uptake in the newly

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expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

4.0 BACKGROUND

Decarbonizing and Modernize Ontario's Energy System

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

The Ministry of Energy has taken a number of actions to lower electricity costs for all consumers by:

- Deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices; and

- Increasing cost effectiveness and improving efficiency by adopting new electricity market approaches (e.g., no new NUG contracting and demand response).

Following the 2016 Speech from the Throne, several actions were announced to further reduce electricity costs:

- As of January 1, 2017, Ontario is rebating an amount equal to the provincial portion of the HST to reduce eligible residential, small business and farm electricity bills by 8 per cent.

- Expanded support to eligible rural consumers by updating Rural or Remote Rate Protection (RRRP) with the additional relief, decreasing total electricity bills by an average of $45 each month when combined with the 8 per cent rebate.

- Expanding the Industrial Conservation Initiative (ICI) – up to one-third savings for participants.

- Suspending the LRP II and the Energy from Waste Standard Offer Program (EFWSOP) – up to $3.8 billion in savings.

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- Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – average annual savings of $15 million.

Ontario's Fair Hydro Plan

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP). The OFHP includes the following:

- Refinancing the GA over a longer period for Regulated Price Plan (RPP) eligible consumers, including residential consumers and most small businesses and farms.

- Shifting cost recovery for Rural or Remote Rate Protection (RRRP) and Ontario Electricity Support Program (OESP) from electricity bills to the tax base, lowering the regulatory charges paid by ratepayers. Consumers of all sizes would benefit from this change.

- Helping vulnerable electricity consumers by enhancing electricity support programs, including:

  - Broadening RRRP to provide delivery charge relief for the customers of the local distribution companies (LDCs) with the highest delivery charges. We currently support approximately 350,000 Ontarians living in rural or remote areas through RRRP. The enhancement would extend relief to approximately 800,000 households in total.

  - Expanding the OESP, which provides relief directly on the bills of low-income consumers who have applied and meet the eligibility criteria. The expansion would increase OESP credits by 50 per cent and allow more Ontarians to benefit from the program.

  - Establishing a new Affordability Fund, which would provide financial support to lower-income Ontarians who are not eligible for the Home Assistance Program to make home energy efficiency improvements, helping to manage their energy costs.

  - Establishing a Delivery Credit to eliminate delivery charges for all First Nations people living on reserve.

- Expanding the Industrial Conservation Initiative (ICI), which allows large consumers to reduce their electricity bills by up to one-third by reducing their consumption during peak hours. The expansion will allow manufacturers and greenhouses between 500 kW and 1 MW to

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participate, in addition to the consumers over 1 MW that are already eligible.

- OFHP also committed to reducing system costs by improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

Legislation to Enable the Refinancing of Global Adjustment

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the Ministry has developed proposed legislation (and is working on supporting regulations) that outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;
- A detailed Preamble, Purpose and Definitions;
- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;
- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the Global Adjustment.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the proposed legislation.

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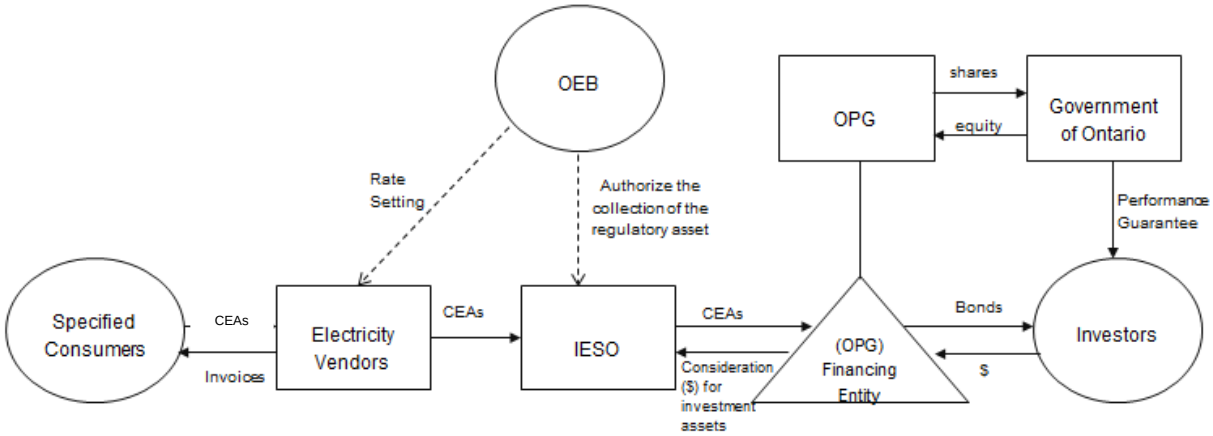
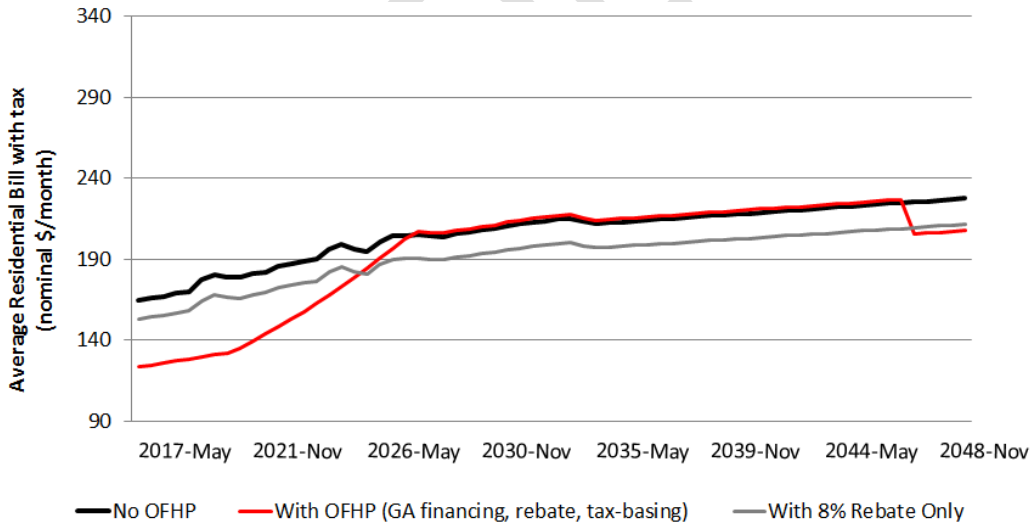
GA Refinancing Implementation Model – Overview

The diagram below outlines how the refinancing of GA would be implemented:



Note: CEAs are “clean energy adjustments”.

Multi-Year Profile of GA Refinancing / Assumptions



The chart above shows the expected multi-year profile under GA Refinancing for each Regulated Price Plan (RPP) period. In the first year, residential bills are projected to be 25 per cent lower as result of the OFHP. In the early years, bills increases are held to the rate of inflation – assumed to be 2% per year in the chart above. From July 1, 2021 onwards, prices increase at a higher rate compared to the first four years on the OFHP.

In the medium to longer term, residential bills exceed what they would have been but for the OFHP. However, in any given year, a typical residential bill under the OFHP cannot exceed what it would have been without OFHP by more than 10 per cent.

OPG's Financing Structure / Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected during four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a "Regulatory Asset".

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an "Investment Asset".

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG's capital structure:

- OPG would require monthly "equity injections" from the Province;

- Funds from the Province would flow from the Ontario Financing Authority (OFA); and

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- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.

Global Adjustment – Overview

The Global Adjustment (GA) accounts for the fixed costs, including capital costs, of running Ontario's generation fleet, as well as the cost of conservation programs. GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.

It is via GA that much of the costs of investments in developing a clean, modern and reliable electricity system with a diverse supply mix are recovered.

The vast majority of GA costs now stem from greenhouse gas (GHG) emissions-free renewable and nuclear generation facilities, as well as natural gas plants that were constructed to improve system reliability and replace coal-fired capacity. Generators in Ontario received contracted or regulated rates, which are typically designed to recover capital, financing and fixed operations costs. The GA recovers these fixed costs of running the province's generation fleet, as well as the cost of conservation programs.

The majority of the province's electricity generators are under 20-year contracts and account for under 50% of the GA. Some of these generators will continue to provide value to the electricity system beyond their contract lives (i.e., beyond 20 years). Similarly, conservation costs are recovered annually on an 'as incurred basis' through GA while conservation initiatives can reasonably be expected to provide benefits to the electricity system over many years.

The Ministry is proposing in legislation to recognize the long-term benefit of specific assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs. The proposed legislation outlines how costs would be fairly allocated among eligible consumers over time.

OEB's Regulated Price Plan (RPP) – Overview

On April 20, 2017, the OEB announced new Regulated Price Plan (RPP) rates effective May 1, 2017 that include a portion of the bill reduction proposed under OFHP and the shifting of the funding of the Ontario Electricity Support Program (OESP) to provincial revenues. The full reduction from OFHP is expected to be addressed through a July 1st RPP rate adjustment.

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Social Program

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 335,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.
- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.9 million.
- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.
- These customers still have high distribution costs and are often faced with significantly higher than average bills.

The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Energy is proposing legislative amendments that will broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

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- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the existing RRRP program costs and the proposed enhancements from the electricity rate base to the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

Ontario Electricity Support Program (OESP)

The OESP launched on January 1, 2016. By the end of March 2017:

- Almost 192,000 have been enrolled in the program, which is approximately 1/3 of all potentially eligible low-income customers in Ontario.

- Over $60 million in credits have been provided to vulnerable consumers.

- 172 intake agencies have been mobilized to assist low income consumers to apply for the OESP.

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Industrial Conservation Initiative (ICI)

Ontario is committed to providing competitive electricity rates for energy intensive consumers in the manufacturing sector while also promoting electricity conservation.

In January 2011, ICI was announced to help large industrial power users better manage their electricity costs while reducing electricity consumption during peak periods. ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. Reducing peak demand increases the reliability of the electricity system, reduces greenhouse gas (GHG) emissions and helps defer the need to procure new resources. There are now about 300 participating consumers who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Currently, ICI is available to electricity consumers who have an average monthly peak demand greater than 1 MW (i.e., Class A). Smaller electricity consumers – known as “Class B” consumers – are charged GA based on their total consumption regardless of when it occurs.

ICI provides a strong incentive for participating consumers to reduce their consumption during peak hours to reduce their cost. Note: ICI is administered by the Independently Electricity System Operator (IESO) and Local Distribution Companies (LDCs).

As of January 1, 2017, the regulatory amendments came into effect to make ICI available to electricity consumers with an average monthly peak demand greater than 1 MW. The lowering of the ICI threshold to 1MW and removal of sector restrictions was announced in the 2016 Speech From the Throne.

On March 2, 2017, as part of Ontario’s Fair Hydro Plan (OFHP), the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

- Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and CDM programs and/or OCCSDC programs and pilots.

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5.0 TIMING

As part of OFHP, the government announced that eligible electricity consumers would see the reduction to their electricity bills in the summer of 2017 (i.e., July).

On April 20, 2017, OEB announced that it has adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing. The Ministry anticipates that the OEB will set an interim rate adjustment following the passage of the legislation to enable GA Refinancing that would account for the full impact (i.e., 25 per cent).

The Ministry is planning to introduce legislation in early May 2017 and develop supporting regulations in early summer 2017 to enable GA Refinancing. Note: The OPG will require legislation and regulations to be in place to support its discussions with rating agencies and third-party financing.

The timeline for all of the social programs, with the exception of the OESP, is identical as the program implementation for the regulations that follow to be passed in unison for July 1, 2017.

Some of Ontario's Fair Hydro Plan commitments for the OESP came into effect on May 1, 2017 (e.g., removal of the OESP charge from customer bills; expanding credit amounts and program eligibility). Remaining changes associated with moving the program from the rate-base to the tax-base will be proclaimed at a later date when the OESP variance account is depleted. Additional regulatory amendments needed to implement this legislative change will come into effect on the same date.

As part of the OFHP, the government also announced the expansion of ICI to enable greater participation from the manufacturing sectors in Ontario.

The April 2017 ICI amendments enabled new electricity consumer's time to opt in to the expanded program ahead of the next ICI billing period (i.e., July 1, 2017). Note: Under ICI, as set out in Ontario Regulation 429/04, eligible electricity consumers must opt in to the ICI program on or before June 15 of each calendar each year.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

As it relates to the "equity injection", these changes are expected to have no impact on the Provincial net debt position as the Province's increased investment in OPG will be offset by the incremental borrowing to fund the

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equity injections. The Province has assumed incremental income from OPG arising from interest income on the subordinated debt which OPG will lend to the OPG Special Purpose Vehicle (SPV)/Trust. This offsets forecast increases in Provincial interest on debt expenses associated with equity injections.

Proposed legislation to enable GA refinancing has been drafted to mitigate financing, accounting and legal risks. In addition, IESO and OPG have sought independent advice and confirmation with respect to financing, accounting and legal matters.

Note: There would be a significant impact on provincial net debt and the fiscal plan if the legal, financing and accounting conditions change.

2) Social Programs:

As approved in the TB/MBC submission of Mach 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection	344,000,000
Ontario Electricity Support Program	140,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The IESO manages a variance account for the OESP, which holds the difference between the amount of OESP charge collected from the rate base, and the amount of OESP paid out in the form of credits. The amount in the variance account is about $109 million as of March 1, 2017. These funds will be used to fund the OESP program until the variance account is depleted, at which point the transfer payment line will be used to finance the program costs. Due to the potential range in costs of the OESP, which will depend on program uptake and any costs associated with supporting increased participation, the set allocation is required despite the variance account.

ENERGY will report back as part of PRRT with an update on out-year projections following analysis on rate applications before the Ontario Energy Board.

3) ICI Expansion:

Since ICI is funded through the electricity rate-based and not the provincial tax-base, ICI expansion will have no direct financial impact for the Province.

With respect to rate-base impacts, expanding ICI to consumers in the manufacturing and greenhouse sectors (i.e., between 500 kW and 1 MW) is

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expected to result in a modest increase on electricity bills for non-ICI participants starting in July 2017. For example, preliminary analysis estimates that the increase on a typical residential bill would by up to 0.66% or just over $1/month based on a 2016 bill of about $158.

Note: The extent of the non-ICI participant impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting in July 2017.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16 and April 19, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, 2017 to discuss implementation.
Future Industrial Conservation Initiative (ICI) Participants	• On March 9, 2017, the Ministry posted an ICI expansion proposal for comment on the Regulatory Registry for stakeholder comment. The Ministry has received 7 comments. • The Ministry is also working with the IESO, OCC and the CME regarding targeted outreach in relation to the ICI expansion.

8.0 RISK ASSESSMENT AND MITIGATION

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line.
Managing Interest Cost Risks	M	H	• Proposed legislation has been drafted with input from third-party financers (i.e., dealers). • OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%).
Provincial Guarantee is Triggered	L	H	• The proposed legislation sets out that the province would provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also establishes assurances that the Province would: - Through the Minister of Finance as provided by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and - Not hinder the charging and remittance of the under-collection of GA refinancing (i.e., through a provincial undertaking and guarantee).
IESO Failure to Establish a Regulatory Asset	L	H	• Under the proposed legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to do create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• Proposed legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • The degree of constitutional risk is in direct proportion to the extent the government is not able to show a

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date.
Social Program Cost Estimating	M	M	• OESP costs will depend on uptake of the program, which will be impacted by the 50% increase in credits, enhanced eligibility, and work with MCSS on aligning OESP delivery with their social assistance programs. • Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operatory (IESO) to ensure access to data for regular forecasting • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.
3) Industrial Conservation Initiative (ICI) Expansion			
Perceived Fairness Between Electricity Consumer Classes	M	L	• The expansion of the ICI program include electricity consumers in the manufacturing and greenhouse sectors with average monthly peak demand greater than 500 kW and less than 1 MW will impact those consumers that remain outside the program (i.e., Class B and RPP electricity consumers). • Increases to electricity bills will occur for non-ICI participants to ensure full cost recovery in the electricity system. Note: the extent of the impact on other non-ICI participants would depend on the uptake in the newly expanded ICI, but is expected to be modest. • Restricting eligibility to the manufacturing and greenhouse sector helps to ensure that the expanded ICI is focused on those consumers which are most impacted by GA costs and associated economic competitiveness pressures from neighbouring jurisdictions.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the proposed legislation is model on a those used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

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The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

The ICI program is unique to Ontario and the proposed expansion would not directly impact on other jurisdictions.

10.0 PERFORMANCE MEASURES

The proposed legislation sets parameters within which refinancing of GA can proceed. These parameters include the initial percentage reduction in eligible electricity rates, the number of years that rates will increase at a rate equivalent to CPI and the length of time within which the recovery of funds must take place (i.e., by 2047). In addition, OPG's existing financial reporting process provides an additional framework for monitoring and reporting of OPG's role in OFHP.

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. The Ministry will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing.

With respect to ICI, the Ministry regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting in July 2017.

11.0 COMMUNICATIONS

ENERGY has developed a comprehensive, two-phase media campaign to increase awareness of Ontario's existing rate mitigation measures and new proposed electricity initiatives under Ontario's Fair Hydro Plan OFHP):

- Phase I – Launched on March 13, 2017 and included radio and digital media in English and French. This was followed by multi-cultural extensions on radio in 19 languages. Phase I of the media campaign is complete.

- Phase II – Is expected to launch early Summer 2017 and will include television, radio, print, digital and social media advertising support.

ENERGY received TB/MBC approval on February 6, 2017 for an exemption from the competitive acquisition requirement under the *Procurement Directive on*

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Advertising, Public and Media Relations, and Creative Communications Services for the development of the electricity cost reduction public education campaign. Through this, ENERGY acquired the services of Rain43, an Agency of Record under Advertising Review Board's corporate vendor of record arrangement for advertising, public and media relations, and communication services, to develop this public education campaign with an estimates maximum value of $1,500,000.

As of July 20, 2015, PHD Canada is the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In 2016-17, through Phase I, ENERGY has spent approximately $1,000,000 on media planning and buying for radio and digital media. The cost of media space for television is substantially higher than radio; as such, ENERGY is forecasting to spend an additional $2,500,000 in 2017-18.

This campaign is integral for demonstrating Ontario's commitment to lower energy costs for ratepayers through the new proposed electricity initiatives. This campaign could also open the Ministry to increased scrutiny as critics may conclude savings are too little or too late to help those suffering from what the media has deemed energy poverty. Public perception may be unchanged as emotional triggers to rising electricity prices and the constant stream of negative news by the media could overpower the campaign.

The Ministry has assessed the risks, and deems the benefits for running this campaign outweigh any risks of not doing so. ENERGY anticipates reaction from electricity consumers is to be generally positive with an awareness that changes to the electricity system have led to a reliable, cleaner system that is now more affordable.

In addition, the communications for GA refinancing, delivery electricity social programs and ICI expansion will be referenced in ongoing announcements related to Ontario's Fair Hydro Plan (OFHP) broadly, and as necessary targeted communications for specific stakeholder group can be developed.

For example, the Ministry has retained the OCC and the CME to undertake targeted stakeholder outreach on ICI and other cost saving energy programs/measures available to the commercial and industrial sectors in Ontario.

The Ministry will ensure that the social programs are communicated effectively to stakeholders and specific target audiences. The Ministry will leverage its agencies and its relationship with LDCs to ensure eligible consumers are aware of the programs.

Chiefs of Ontario (COO) will be a vital partner in communicating the benefits of the First Nations Delivery Credit.

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The Ministry also believes there is opportunity for consultation on the design of the electricity bill, with a goal to refresh the regulatory framework to improve the value of the bill to the consumer across all LDCs. The Ministry proposes to convene with LDCs in July, once they've had sufficient time to implement the OFHP initiatives and prescribed messaging.

Changes of this nature will require more in-depth consultation with LDCs, as well as broader regulatory amendments to simplify the requirements, necessitating a longer period to implement. This refresh would also include opportunities to communicate OFHP savings in a more personalized and comprehensive manner. For example, each customer could receive a "personalized" message indicating how much they saved as a result of the plan.

Based on this feedback, the Ministry would aim to introduce regulatory amendments to simplify bill presentment and introduce dynamic OFHP messaging in the Fall 2017.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on following:

    i. Implementation of Global Adjustment (GA) Refinancing;

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program and First Nations On-Reserve Delivery Credit); and

    iii. Expansion of Industrial Conservation Initiative (ICI).

2) APPROVE the Ministry funding a media buy procurement with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record.

3) NOTE the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

4) NOTE the Ministry of Energy will return to TB/MBC to request a transfer of funds to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to fully recover the costs for the public education campaign.

5) APPROVE the creation of a new transfer payment line entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-01, Electricity Price Mitigation, with a $1,000 placeholder, to support future rate mitigation initiatives.

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Appendix:

- KPMG Opinion
- E&Y Opinion (including OPG Management Memo)

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FINAL DRAFT

KPMG Letter to the Independent Electricity System Operator

An Accounting Opinion on the Application of PSAS to the Consolidation of a Trust and to the Recognition and Derecognition of a Variance Account in Relation to the Proposed *Ontario Fair Hydro Plan Act, 2017*

This letter has been prepared in draft form and will be updated upon receipt of the adopted legislation (including the amendments of the Electricity Act and the OEB Act) and finalized financial structure (including the bylaws and regulations of the OPG Trust) and other relevant agreements necessary for us to provide our final opinion, of which legislation and other relevant agreements are expected to be enacted/ finalized on or before September 30, 2017.

NOTICE OF NON RELIANCE

This Notice is regarding the accompanying Letter to provide an accounting opinion on the application of Public Sector Accounting Standards to the consolidation of a trust and to the recognition and derecognition of a variance account in relation to the proposed *Ontario Fair Hydro Plan Act, 2017* (the "**Letter**") prepared by KPMG LLP for the Independent Electricity System Operator ("Client").

The following terms apply to any review of the Letter and should you not agree to these terms, please do not review the Letter and delete copy of the same.

The Letter was prepared in connection with certain services we provided to the Client and should not be used for any other purpose or regarded as suitable for use by any person or persons other than the Client

No one other than the Client is authorized by KPMG to rely upon any information or views expressed in the Letter. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as the Letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

KPMG in no way accepts any duty of care to you or any other person or accepts any agreement or other arrangement of a contractually binding nature between our firm and such parties.

KPMG neither warrants nor represents that the Letter is accurate, complete, sufficient or appropriate for any purpose contemplated by you or any other person or body. You shall have no right to disclose the Letter to any other party, unless disclosure is required by law or to fulfill a professional obligation required under applicable professional standards.

Yours very truly,

KPMG LLP

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
Suite 4600
333 Bay Street
Toronto ON
M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
www.kpmg.ca

May 4, 2017

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120 Adelaide Street West
Suite 1600
Toronto, ON
M5H 1T1

The Board of Directors

Dear Sirs,

We have been engaged to provide you with an accounting opinion on the application of Public Sector Accounting Standards to the consolidation of a trust and to the recognition and derecognition of a variance account in relation to the proposed *Ontario Fair Hydro Plan Act, 2017* ("the proposed Act") (Appendix A, Version 6, to this letter). This letter is being issued to the Independent Electricity System Operator ("IESO" or the "Company") in connection with its evaluation of the consolidation requirements and the accounting for the variance account under Canadian Public Sector Accounting Standards ("PSAS"). Our engagement has been conducted in accordance with generally accepted standards in Canada for such engagements.

The ultimate responsibility for the decision on the appropriate application of PSAS for the specific issues described below rests with management of the Company as preparers of the financial statements.

The adoption of the proposed Act (including the subsequent amendments of the Electricity Act, 1998 ("the Electricity Act") and the Ontario Energy Board ("OEB" or the "Board") Act ("the OEB Act")), and the finalization of the financing structure (including the bylaws and regulations of the OPG Trust) and other agreements will take several weeks. Accordingly, our judgment on the appropriate application of PSAS for the specific matters described below is based on the facts, circumstances and assumptions provided to us. The finalization of the legislation, regulations, financing structure and other agreements may impact the comments and conclusions set out herein. Our comments and conclusions are based on the proposed Act and related matters as they exist at the date of this letter.

The following three issues are addressed in this letter:

Issue #1: Can the IESO recognize a regulatory asset related to the variance account created by the proposed Act?

Issue #2: Is the trust to be established by Ontario Power Generation (the "OPG Trust") controlled by the IESO according to the guidance issued under PSAS 1300 *Government Reporting Entity* and therefore subject to consolidation by IESO?

Issue #3: What is the accounting treatment for derecognition of the regulatory asset by the IESO upon transfer of the variance account to the OPG Trust?

Background for issue #1

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party) are as follows:

1. The IESO's legal status is a not-for-profit, non-taxable, corporation established pursuant to Part II of the Electricity Act. Management of the IESO has determined that the Company is an Other Governmental Organization and accordingly prepares its financial statements in accordance with PSAS.

2. IESO is rate regulated by the OEB in accordance with the Electricity Act and the OEB Act.

3. *Extract from the 2016 IESO financial statements, note 3 New Accounting Policies,* audited by KPMG *"*As of January 1, 2016, the IESO changed its accounting policy regarding the recognition of assets and liabilities subject to rate regulation. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model. This change has been applied retroactively and has increased amounts previously unrecorded for regulatory assets and decreased amounts previously reported for accumulated deficit."

4. *Extract from the 2016 IESO financial statements, note 2(d) Summary of Significant Accounting Policies, Regulatory assets and liabilities.* "As a rate-regulated entity, the IESO, in appropriate circumstances establishes regulated assets or liabilities and thereby defers the impact on the statement of operations of certain expenses or revenues because they are probable to be collected or refunded to market participants through future billings. The IESO applies guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, *Regulated Operations ("ASC 980")*, in this policy."

5. *Extract from Section 78(3.3) of the OEB Act:* In approving or fixing rates under subsection (3.1),

   (a) the Board shall forecast the cost of electricity to be consumed by the consumers to whom the rates apply, taking into consideration the adjustments required under section 25.33 of the Electricity Act, 1998 and shall ensure that the rates reflect these costs; and

   (b) the Board shall take into account balances in the IESO's variance accounts established under section 25.33 of the Electricity Act, 1998 and shall make adjustments with a view to eliminating those balances within 12 months or such shorter time periods as the Minister may direct.

6. Currently, IESO recognizes two regulatory assets for unrecovered smart metering expenses and unrecovered PSAB transition items as permitted by rates approved by the OEB. In addition, in accordance with section 25.33 of the Electricity Act, IESO also recognizes variance accounts (eg. OESP, RPP and RRRP variance accounts) to record all amounts payable or receivable by it in connection with the amounts paid to generators, the Ontario Electricity Financial Corporation ("OEFC"), distributors and to entities with whom the IESO has a procurement contract.

7. The Electricity Act, OEB Act and other regulations will be amended to reflect the following *extracts of the proposed Act:*

   Section 1xx Definitions, Transfer of regulatory asset

   (3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 22xx (3):

1. A reduction in the balance in the variance account.
2. The adjustment of the regulatory asset.
3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Section 20.1xx Variance account to be established

(1) IESO shall establish and maintain a variance account for the purposes of this section.

(2) IESO shall record the following in the variance account:

1. The amount of the IESO funding shortfall for each month.
2. All payments received by IESO resulting from the exercise of the right of recovery under section 21xx and any transfer under section 22xx.
3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences after May 1, 2017 and before the day this section comes into force.

(3) Subject to the correction of any obvious error by IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

(4) No change made by IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 22x, affect the rights of the investment interest owner acquired under the transfer.

Section 21xx Regulatory asset established

(1) Effective May 1, 2017, the IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

(2) Subject to subsection (3), the Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.

(3) IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

(4) The Board's powers under subsection (3) shall be exercised in accordance with the regulations.

Section 30.1xx Board's Authority

(2) Despite anything to the contrary in the OEB Act, the Board may exercise any of its responsibilities under this Act without a hearing.

8. It is expected that the funding shortfall recorded by the IESO in the variance account (the regulatory asset) will be transferred to an investment asset owner (ie a trust to be established by OPG) on a monthly basis and cash collected within a short period of time. The total IESO funding shortfall for the period from May 1, 2017 to April 30, 2047 is estimated at $28 billion plus interest.

Appropriate Accounting Principle for issue #1

ASC 980 Regulated Operations

– For general-purpose financial reporting, an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract. [980-10-05-6]

- Unless an accounting order indicates the way a cost will be handled for rate-making purposes, it causes no economic effects that would justify deviation from the GAAP applicable to business entities in general. The mere issuance of an accounting order not tied to rate treatment does not change an entity's economic resources or obligations. In other words, the economic effect of regulatory decisions—not the mere existence of regulation—is the pervasive factor that determines the application of GAAP. [980-10-05-8]
- The guidance in the Regulated Operations Topic applies to general-purpose external financial statements of an entity that has regulated operations that meet all of the following criteria:
  (a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
  (b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products. This criterion is intended to be applied to the substance of the regulation, rather than its form.
  (c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. [980-10-15-2]
- A cost arising from cash paid out or obligation to pay for an acquired asset or service, a loss from any cause that has been sustained and has been or must be paid for. [980-10-20] Glossary
- Failure of an entity's operations to continue to meet the criteria in paragraph 980-10-15-2 can result from different causes. Examples include the following:
  (a) Deregulation.
  (b) A change in the regulator's approach to setting rates from cost-based rate-making to another form of regulation.
  (c) Increasing competition that limits the entity's ability to sell utility services or products at rates that will recover costs (as used in paragraph 980-10-15-2).
  (d) Regulatory actions resulting from resistance to rate increases that limit the entity's ability to sell utility services or products at rates that will recover costs if the entity is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts. [980-20-15-2]
- Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
  (a) It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
  (b) Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date. [980-340-25-1]

- Rate actions of a regulator can reduce or eliminate the value of an asset. If a regulator excludes all or part of a cost from allowable costs, the carrying amount of any asset recognized pursuant to paragraph 980-340-25-1 shall be reduced to the extent of the excluded cost. Whether other assets have been impaired shall be judged the same as for entities in general and the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 shall apply. [980-340-35-1]
- If at any time an entity's incurred cost no longer meets the criteria for the capitalization of an incurred cost (see paragraph 980-340-25-1), that cost shall be charged to earnings. [980-340-40-1]
- In some cases, a regulator may approve rates that are intended to recover an incurred cost over an extended period without a return on the unrecovered cost during the recovery period. [980-340-55-2]
- The regulator's action provides reasonable assurance of the existence of an asset (see paragraph 980-340-25-1). Accordingly, the regulated entity would capitalize the cost and amortize it over the period during which it will be allowed for rate-making purposes. That cost would not be recorded at discounted present value. An exception to this general rule is provided for costs of abandoned plants. [980-340-55-3]

Issue #1: Can the IESO recognize a regulatory asset related to the variance account created by the proposed Act?

As noted above, as of January 1, 2016, the IESO changed its accounting policy to recognize the economic impacts of rate regulation and now applies guidance from US GAAP Topic 980, *Regulated Operations,* as PSAS does not have any specific guidance for entities with rate-regulated activities.

IESO concluded that it met the requirements of PS2120.02, which allows them to reflect the impacts of rate regulation, as it is considered that the change of accounting policy in its 2016 financial statements resulted in a more appropriate presentation of transactions in its financial statements. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The regulatory framework in Ontario relating to the generation and sale of electricity will be significantly impacted by the proposed Act. Currently, a substantial amount of the energy purchased from the generators is collected by IESO from the local distribution companies through the customer billing, with the remaining being recovered through variance accounts over a period of 12 months maximum. As mentioned above, the effect of the proposed Act is to defer the collection of a total estimated amount of $28 billion (plus interest) of energy purchased from the generators over a period of 30 years. The proposed Act will not permit IESO to collect the funding shortfall before May 1, 2021 and the recovery process will be established through regulations. Such a long-term deferred recovery plan requires IESO to consider whether the uncollected energy costs qualify for deferral as a regulatory asset and whether it continues to meet the criteria that allow IESO to use the guidance for regulated operations of Topic 980. These two accounting issues are analyzed in the two tables below.

Criteria for the recognition of regulatory assets

ASC 980-340-25-1 states that rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

Criteria	Comment	Evaluation
(a) It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. (b) Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. *(emphasis added)* If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.	The proposed Act states that, • *A recording of the balance in the variance account is determinative of the balance as of the time of the recording.* • *Effective May 1, 2017, IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.* • *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.* • *The IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.* Based on the proposed Act, IESO has the right to recover the balance recorded in the variance account. As a result, it is clear that IESO will be able to recover the amount previously incurred rather than to provide for expected levels of similar future costs.	Met

Criteria for the adoption and continued use of ASC 980 guidance

Deferred recovery plans are plans adopted by regulators or legislations in response to significant increases in costs (e.g. purchased power costs). These plans typically provide for rates to remain fixed or increase moderately with a variance account mechanism to capture costs in excess of the level allowed in current rates. A regulated utility subject to such plans is required to consider whether it continues to meet the criteria that allow it to use the guidance for regulated operations of Topic 980, especially criteria ASC 980-10-15-2 (b).

The proposed plan for the recovery of purchase power costs over a 30 year period is considered a deferred recovery plan as the rates for the first four years will remain fixed and subsequently the rates will increase moderately with a variance account to capture energy costs in excess of the level allowed in current rates. The following is an analysis of the ASC 980-10-15-2 criteria.

Criteria	Comment	Evaluation
(a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party	Currently, IESO recognizes regulatory assets related to smart meters and PSAS transition costs as permitted by rates approved by the OEB and regulatory liabilities related to the variance accounts (eg. OESP, RPP and RRRP variance accounts) established under section 25.33 of the Electricity Act related to the procurement of energy.	Met

Criteria	Comment	Evaluation
regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.	It is important to note that both Hydro One and OPG are classified as government business enterprises and are reporting under IFRS in their consolidated financial statements, are consolidated by the modified equity method into the province's books, are regulated by the OEB, and their respective regulatory assets and liabilities are reported in the province's books.	

(b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products.	Currently, the rates approved by the OEB are designed to recover the IESO's costs of providing the regulated services and the pass-through related to the energy purchased from the generators.
	
	As mentioned above, a regulated utility subject to a deferred recovery plan is required to consider whether it continues to meet the criteria ASC 980-10-15-2 (b).
	
	This criterion requires a cause-and-effect relationship between a reporting entity's costs and its revenue. In addition, the timing of cost recovery and the related frequency of ratemaking is important. A reporting entity should consider its rate case experience, including the design of its rates and timing of recovery, when determining whether this criterion is met. These factors are analyzed below.
	
	Frequency of rate case
	
	- Currently, IESO is subject to OEB's annual reviews
	- Although the recovery of purchase energy costs will be frozen at the approved rate on May 1, 2017 for the first four years, the IESO will be granted a right to recover after May 1, 2021 the funding shortfall recorded in the variance account during the four-year period.
	  - *A recording of the balance in the variance account of the balance is determinative of the balance, as of the time of the recording. (We note that this confirms that there will be no prudence review by the OEB)*
	  - *Right to recover the balance recorded in the variance account.*
	  - *Obligation on the part of the OEB to dispose the variance account in accordance with the regulation.*
	- Subsequent to May 1, 2021, the OEB will be required to determine and set rates payable by specified consumers to allow for IESO to recover the balance
		Met

Criteria	Comment	Evaluation
	recorded in the variance account. - *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.* - *Despite anything to the contrary in the OEB Act, the Board may exercise any of its responsibilities under this Act without a hearing.* *Rates are designed to recover incurred costs* - There is a cause-and-effect relationship between the purchase energy costs and revenue, as IESO will be allowed to recover the costs incurred. - *A recording in the variance account of the balance in the variance account is determinative of the balance as of the time of recording (We note that this confirms that there will be no prudence review).* - *Right to recover the balance recorded in the variance account.* - *Obligation on the part of the OEB to ensure IESO will recover the balance recorded in the variance account.* *Periods of alternative ratemaking (e.g., rate freezes)* Evaluation of the second criterion requires additional judgment if the regulated utility is subject to any form of ratemaking that introduces uncertainty about the cause-and-effect relationship between costs and rates. A rate freeze period is defined as a fixed rate that is charged to customers during a period of time (more than two years) and the utilities are exposed to increases in operating and energy costs with no ability to recover the variances. This is not the case as IESO will be granted the right to recover fully the funding shortfall recorded in the variance account, including the first four-year period. - *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.*	

Criteria	Comment	Evaluation
	Costs uncertainty As the IESO will be granted the right to fully recover the funding shortfall recorded in the variance account, there is no uncertainty about the recovery of the costs. *Disallowances of costs* The OEB has never disallowed the recovery of any material costs incurred by IESO. More importantly, as the IESO will be granted by legislation the right to fully recover the funding shortfall recorded in the variance account, there is no risk of the potential disallowance of the purchase power costs. Based on the analysis of the above factors, there are no indications that this criterion would not be met. The above factors establish that there will be a direct cause-and-effect relationship between IESO's costs and its future collection.	
(c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs."	The remaining criterion is whether limitations, including considering demand levels at the approved rates, on the extent of recovery of the regulatory asset could prevent the IESO from recognizing a regulatory asset for the entire balance in the recovery right granted to the IESO. The proposed Act notes that: - *Effective May 1, 2017, the IESO's right to recover the balance in the variance account is subject to the following:* o *The Board shall, from time to time, determine and set rates payable by specified customers to allow for IESO to recover the balance recorded in the variance account.* o *IESO shall not be entitled to collect the variance account from specified consumers before May 1, 2021.* Although the process, especially the timing of the recovery of the regulatory asset has not been established yet by the OEB, the wording and intent of the proposed legislation is clear that it is intended by law to be recoverable over the period of 30 years. Further, given the nature and extent of customer demand for the power generated and distributed in Ontario, both at this time and projected in the future, it is reasonable to conclude that there will be sufficient demand to recover the regulatory asset. As with the other criteria, this will	Met

Criteria	Comment	Evaluation
	need to be continually evaluated throughout the recovery period.	

Management conclusion:

IESO management has concluded that the IESO can recognize a regulatory asset related to the variance account created by the proposed Act based on the foregoing analysis.

The variance account created by the proposed Act is subject to rate regulation by the OEB and the variance account will be established with the right to collect funds against the variance amount in the future. In these circumstances, the IESO is able to establish a regulated asset. The IESO financial statements are prepared in accordance with Canadian public sector accounting standards. Although PSAB does not provide specific guidance on rate regulated accounting, it does under PS 1150 *Generally Accepted Accounting Principles* allow for guidance to be followed from other accounting frameworks. IESO has applied guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, Regulated Operations in its accounting policies.

Our conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that the variance account created by the proposed Act will meet the criteria for the recognition of a regulatory asset stated in ASC 980-340-25-1. Furthermore, we have also considered the criteria stated in ASC 980-10-15-2 and believe that IESO should be allowed to continue to use the guidance for regulated operations of Topic 980.

Background for issue #2

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party), in addition to those described in the background for issue #1, are as follows:

1. The IESO currently has the right to collect the global adjustment ("GA") monthly from ratepayers through provisions in the Electricity Act. It is proposed that collection of a certain portion of the monthly GA be deferred in a regulatory asset for collection in the future, and that the right to recover the deferred GA from ratepayers be used as the basis for structured financing/ securitization.
2. In connection with the proposed Act, it is proposed that a trust to be created as a financial vehicle by OPG in connection with the deferred GA. The OPG Trust will finance the deferral of the GA by purchasing the regulatory asset from the IESO for the principal amount of the GA being deferred.
3. The OPG Trust is expected to finance these purchases from the IESO through a combination of senior secured financing raised in the capital markets, and subordinated financing from OPG (the funding for which will mostly be from equity injections from the OEFC/Province of Ontario).
4. OPG will be appointed as the Financial Services Manager and will be given the responsibility to direct the activities of the OPG Trust, through a services agreement and/or through the Trust's constating documents.

Appropriate Accounting Principle for issue #2

PS1300 *Government Reporting Entity*:

PSAS refer to government or government organizations. For the purpose of this analysis, the PSAS guidance below relating to government or government organizations should be read and understood as being the IESO (emphasis added).

- The government reporting entity should comprise government components and those organizations that are controlled by the government. [PS 1300.07]
- Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities. [PS 1300.08] (emphasis added).
- Whether a government controls an organization is a question of fact that must be determined by reference to the definition of control established in paragraph PS 1300.08 and the particular circumstances of each case. The determination of the fact that control exists will require the application of professional judgment. Government achieves its objectives through a wide range of organizations which individually will fall somewhere along a continuum. At one end of the continuum, it will be clear that an organization does not have the power to act independently and is controlled by the government. At the other end, the organization will have the power to act independently and, while government will have a level of influence on the organization, it will be clear that it does not have control. Along the continuum, consideration needs to be given to the nature of the relationship between the government and the organization in order to determine whether control exists. This Section provides guidance intended to assist in this assessment. [PS 1300.10]
- In applying this guidance, it is necessary to determine the substance of the relationship between the government and the organization. The true nature of certain relationships may not be completely reflected by their legal form. All relevant aspects and implications of the relationship would be considered in determining whether or not the government controls the organization. Where various aspects of the relationship are designed, in effect, to achieve an overall objective, they would be viewed as a whole. [PS 1300.11]
- Financial and operating policies are principles and practices that determine how an organization conducts its activities. The ability to govern these policies is an important element of government control because it establishes the fundamental basis for the conduct of the organization's operations and the achievement of its mission and mandate. [PS 1300.13]
- There are a variety of ways to govern the financial and operating policies of an organization. For example:
  (a) a government may establish an organization's fundamental purpose and eliminate or significantly limit the ability of the organization to make future decisions by predetermining the financial and operating policies of the organization;
  (b) a government may direct the financial and operating policies of an organization on an ongoing basis; or
  (c) a government may veto, overrule or modify the financial and operating policies established by an organization. [PS 1300.14]
- A government does not need to manage an organization's activities on a day-to-day basis to control the organization. It is the government's existing authority to determine the policies governing those activities that is important. [PS 1300.15]

– For the purposes of this Section, it is assumed that where the government has the power to govern the financial and operating policies of an organization, it expects to derive a financial or non-financial benefit. The government may also be exposed to the risk of loss. [PS 1300.16]

Issue #2: Is the trust to be established by Ontario Power Generation (the "OPG Trust") controlled by the IESO according to the guidance issued under PSAS 1300 *Government Reporting Entity* and, therefore, subject to consolidation by IESO?

Under PSAS, IESO is required to consolidate all entities that are considered to be part of its reporting entity, applying the guidance provided in *Section PS 1300 Government Reporting Entity.* Under PS 1300, IESO must consolidate all entities it "controls".

In determining whether or not the OPG Trust should be consolidated by IESO, it must first be determined whether or not the IESO exercises control as a consequence of power to govern the financial and operating policies of the OPG Trust resulting in expected benefits to the IESO or the risk of loss from the activities of the OPG Trust.

PS 1300.17 indicates that "whether a government controls an organization is a question of fact that requires the application of professional judgment based on the definition of control in this Section and the substance of the relationship in each case." Under PS 1300.08 control is defined as "the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities". Therefore, the determination of whether IESO will consolidate the OPG Trust will be based on an assessment of whether IESO is considered to control the OPG Trust based on the indicia of control set out in PS 1300. The assessment of the IESO's control of the OPG Trust is made based on the proposed Act, facts and nature of the relationship between the IESO and the OPG Trust and based on facts and assumptions provided by IESO. PS 1300.18 and .19 set out 11 potential indicia of control. Several of these indicia have been categorized as more persuasive of a finding of control (see the first four indicators in the table below). For each indicator that applies, the degree of government influence would determine its importance as evidence of control. Finally, the indicia are considered both collectively and individually.

A detailed analysis of the 11 Indicators of control is provided in the following table.

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
Primary (more persuasive) indicators (PS 1300.18):		
Government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization	- The proposed Act states: - *OPG is appointed as the Financial Services Manager for the purposes of this Act. (Section 13xx)* - *The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners. (Section 14xx (1))* - *Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees to recover, the costs of doing anything the*	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?

	Financial Services Manager is required or permitted to do under this or any other Act; and any other type of expenditure, the recovery of which is permitted by the regulations. (Section 14xx (3))
	- The Electricity Act, 1998 (EA) will be amended as follows:
	  - *In addition to the objects mentioned in subsection (1), the objects of OPG include exercising the powers and rights and performing the duties and obligations assigned to it under the Ontario Fair Hydro Plan Act, 2017 and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services." (Section 53.1 (1.1))*
	  - *"OPG may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects." (Section 53.1 (1.2))*
	- OPG will establish a trust to manage the collection of the regulatory asset and related financing and administrative expenses. The Board of Trustees of the OPG Trust will be the governing body of the Trust and will be appointed by OPG. OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees.
	- The IESO will not have any rights in respect of the appointment or replacement of the Board of Trustees of the OPG Trust.	

Government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses	- Section 23xx of the proposed Act states:
	  - *A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.*
	  - *Without limiting subsection (1), any transfer agreement that states an intention of the parties for*
		No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
	IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest. - *At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.* - Based on the proposed Act, *upon transfer by IESO of a portion of the regulatory asset to the OPG Trust, the investment asset resulting from the transfer is immediately vested in the OPG Trust, free and clear of any adverse claim.* (Section 24xx (1.1)) - Therefore, upon transfer of the regulatory asset to the OPG Trust, IESO will no longer have access/ability to direct the regulatory asset nor have the ongoing responsibility for losses. - The credit risk related to the collection of the investment asset is borne by the OPG Trust.	
Government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization	- IESO will not have any ownership in the OPG Trust and will not have the power to govern the financial and operating policies of the OPG Trust.	No
Government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations	- IESO will not have the power to dissolve the organization.	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
Other indicators that may provide evidence of control exist when government has the power to (PS 1300.18):		
Provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members	- OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees of the OPG Trust. - IESO will not provide input in the appointment of members of the Board of Trustees.	No
Appoint or remove the CEO or other key personnel	- OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees of the OPG Trust and other key personnel.	No
Establish or amend the mission or mandate of the organization	- The Trust will be established by OPG and the mandate of the Trust will be set based on the proposed Act.	No

Approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis	- The proposed Act states:
	  - *OPG is appointed as the Financial Services Manager for the purposes of this Act. (Section 13xx)*
	  - *"The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of refinancing a funding obligation." (Section 16 (1))*
	- OPG is the Financial Services Manager, not IESO.
	- IESO is not involved in the preparation or approval of the business plans or budget of the OPG Trust.
		No

Establish borrowing or investment limits or restrict the organization's investments	- Section 17 of the proposed Act states: - *The Financial Services Manager shall ensure that funding obligations incurred for the purposes*	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
	of this Act are incurred in a manner that is consistent with the applicable Financing Plan. - OPG not IESO, is responsible for ensuring that the borrowings of the OPG Trust meet the above conditions.	
Restrict the revenue-generating capacity of the organization, notably the sources of revenue	- N/A	No
Establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources	- As mentioned above, OPG will be granted by legislation the power to establish or amend the policies of the OPG Trust and the ability to appoint and remove all members of the Board of Trustees.	No

Management Conclusion:

IESO management has concluded that the OPG Trust to be established would not be controlled by the IESO and therefore is not subject to consolidation by the IESO.

Based on the foregoing analysis of the 11 indicators of control as defined in Section PS 1300 *Government Reporting Entity,* considered both individually and collectively there is no evidence of control by the IESO in respect of the OPG Trust. The IESO will not have the power to govern the Trust, nor have ongoing access to Trust's assets. The IESO will also not have any voting shares or future rights to the Trust nor the power to dissolve the Trust. Without control, the Trust is not subject to consolidation within the IESO financial statements.

Our Conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that based on the Proposed Act, none of the four primary (more persuasive) indicators of control are considered to be met, and none of the seven other indicators of control are considered to be met. Accordingly, we concur that the IESO does not control the OPG Trust under the proposed Act and hence would not consolidate the OPG Trust.

The adoption of the proposed Act (including the subsequent amendments of the Electricity Act and the OEB Act) and the finalization of the financing structure (including the bylaws and regulations of the OPG Trust) and other agreements will take several weeks. Accordingly, our judgment on the appropriate application of PSAS to the conclusion on control may change subject to further analysis of any changes to the terms of the proposed Act or review of the final regulations, financing structure and other agreements.

Background for issue #3

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party), in addition to those described in the background for issues #1 and 2, are as follows:

1. The total IESO funding shortfall for the period from May 1, 2017 to April 30, 2047 is estimated at $28 billion plus interest and will be recorded by the IESO in a variance account recognized as a regulatory asset.
2. The IESO does not currently have the financial capability to finance the regulatory asset and will transfer the variance account to an investment asset owner (i.e. OPG Trust) on a monthly basis.
3. The IESO will obtain a written legal opinion as to the validity and enforceability of the transfer and sale of the regulatory asset.
4. Based on an assessment of control performed under the issue #2, IESO will not consolidate the OPG Trust. We understand that an assessment of control under International Financial Reporting Standards ("IFRS") has been performed by OPG and they have concluded that the OPG Trust will be consolidated by OPG; we note that the financial reporting framework used by OPG in preparing its financial statements for consolidation into the Province's books is IFRS.
5. The Electricity Act, OEB Act and other regulations will be amended to reflect the following *extracts from the proposed Act:*

   Section 11xx IESO to receive amounts

   (2) The IESO shall, as an agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the regulations and the market rules made under section 32 of the *Electricity Act, 1998*.

   (4) All amounts received by the IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment interest owner, be received and held in trust by the IESO for the investment interest owners.

   (5) The IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the accounts referred to in subsection (2), to or for the benefit of the investment interest owners in accordance with the regulations.

   Section 12xx Pro rating of payments

   (3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

   Section 22xx Transfer of regulatory asset

   (1) The IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

   (2) An agreement between the IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to the IESO in an amount equal to the amount of the specified portion.

(3) Upon receipt by the IESO of the payment by the financing entity,

(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) the IESO shall retain no further right, title or interest in the investment interest.

Section 23xx Validity of transfer

(1) A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.

(3) At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

Section 25xx Investment asset established

(1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that are imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, IESO and other prescribed parties.

Section 26xx Transfer of investment interest

(2) An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Section 28xx Investment interest owner may grant security interest

(1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

(3) All provisions of the Personal Property Security Act shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

6. The terms of the transfer agreement between the IESO and the OPG Trust that will be signed and executed upon transfer of the regulatory assets will be in compliance with the dispositions of the proposed Act.

Appropriate Accounting Principle for issue #3

The Derecognition Section of ASC 980-20-40 provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation. [ASC 980-20-40]

Failure of an entity's operations to continue to meet the criteria in paragraph 980-10-15-2 can result from different causes. Examples include the following:

(e) Deregulation.

(f) A change in the regulator's approach to setting rates from cost-based rate-making to another form of regulation.

(g) Increasing competition that limits the entity's ability to sell utility services or products at rates that will recover costs (as used in paragraph 980-10-15-2).

(h) Regulatory actions resulting from resistance to rate increases that limit the entity's ability to sell utility services or products at rates that will recover costs if the entity is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts. [ASC 980-20-15-2]

PS1000 *Financial statement concepts*:

- This Section is to be used by preparers and auditors of financial statements in exercising their professional judgment as to the application of generally accepted accounting principles and in establishing accounting policies in areas in which accounting principles are developing. [PS1000.03]
- Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness. [PS1000.24]
- An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph [PS3210.04]. Thus, for example, an item does not qualify as an asset of a government if the item involves:
  (a) no future economic benefit;
  (b) future economic benefit, but the government cannot obtain it; or
  (c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred. [PS1000.37]

PS3210 *Assets*:

- Assets are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. [PS3210.03]
- Assets have three essential characteristics:
  (a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.
  (b) The public sector entity can control the economic resource and access to the future economic benefits.
  (c) The transaction or event giving rise to the public sector entity's control has already occurred. [PS3210.04]
- Control of an economic resource and of access to the future economic benefits are essential characteristics of an asset, whereas possession or ownership is not. [PS3210.22]

PS3430 *Restructuring transactions* [1]

- Individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date. [PS3430.21]
- When a transferor continues to be involved in the individual assets and/or liabilities it transferred to a recipient subsequent to the restructuring date, it would assess the nature and extent of its continued involvement against the definitions of assets and liabilities and applicable recognition criteria to evaluate whether:
  (a) derecognition of the asset and liability transferred would be appropriate; and
  (b) its continued involvement gives rise to a new asset or new liability that needs to be recognized. [PS3430.24]
- A new asset or new liability may arise from a restructuring due to a transferor's continued involvement in the individual assets and liabilities transferred (for example, if it agrees to guarantee repayment of all or a portion of a transferred liability or leases back a portion of a transferred asset). As the new asset or new liability is not transferred, together with related program or operating responsibilities, they are not part of the restructuring transaction. They would be accounted for in accordance with individual Sections of the PSA Handbook by both the transferors and recipients. [PS3430.25]

1 This Section applies to fiscal years beginning on or after April 1, 2018. […] Earlier adoption is permitted."

Issue #3: What is the accounting treatment for derecognition of the regulatory asset by the IESO upon transfer of the variance account to the OPG Trust?

Although ASC 980-20-40 states that

> *"Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation."*

Subtopic 980-20 relates to discontinuation of rate-regulated accounting when an entity no longer meets the criteria in paragraph 980-10-15-2. ASC 980-20-15-2 provides examples of when an entity no longer meets the criteria, including deregulation and change of the form of regulation. Thus, ASC 980 does not provide clear guidance for the derecognition of a regulatory asset other than in connection with the discontinuation of rate-regulated accounting.

The above guidance in ASC 980-20-40 provides general principles for the derecognition of assets.

It should also be noted that PSASs provide limited guidance on derecognition of non-financial assets and liabilities. Section 3430 *Restructuring transactions,* which is applicable for fiscal years on or after April 1, 2018 with early application permitted, has guidance for the derecognition of assets and liabilities.

- Paragraph 21 states that individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date.
- As stated in paragraph 24, when a transferor continues to be involved in the individual assets and/or liabilities it transferred to a recipient subsequent to the restructuring date, it would assess the nature and extent of its continued involvement against the definitions of assets and liabilities and applicable recognition criteria to evaluate whether derecognition of the asset and liability transferred would be appropriate and whether its continued involvement gives rise to a new asset or new liability that needs to be recognized.

Recognizing the proposed transaction is not a restructuring transaction, Section 3430, which has recently been issued by PSAB, provides current evidence of thinking in the application of the general PSAS principles in respect of the recognition and derecognition of assets and liabilities. Accordingly, the analysis as to whether the regulatory asset transferred to the OPG Trust can be derecognized is based on the foregoing guidance.

Criteria for the recognition of an asset

PS3210.03 states that assets are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. More generally, PSAS PS1000.37 suggests that an asset would no longer be recognized when it fails to meet the definition of an asset:

Criteria	Comment	Evaluation
Assets (PS3210.04/ PS1000.36): Assets have three essential characteristics: (a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows,	Based on the guidance, the regulatory asset does not qualify as an asset of IESO if it cannot obtain the future economic benefits. Upon transfer of the regulatory asset, IESO will have no further rights or obligations in connection with the asset transferred. - *IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.* - *Upon receipt by IESO of the payment by the financing entity, IESO shall retain no further right, title or interest in the corresponding investment interest.*	Not Met

Criteria	Comment	Evaluation
or to reduce cash outflows. (b) The public sector entity can control the economic resource and access to the future economic benefits. (c) The transaction or event giving rise to the public sector entity's control has already occurred. *Financial statement concepts (PS1000.37):* An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph [see above]. Thus, for example, an item does not qualify as an asset of a government if the item involves: (a) no future economic benefit (b) future economic benefit, but the government cannot obtain it.	- *A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.* - *Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.* - *At the time a transfer of the regulatory asset is made, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor."* Upon transfer of the regulatory asset, the OPG Trust will have the right to sell the asset to another party or to grant a security interest in favour of any person to secure a funding obligation. - *Upon transfer, the financing entity becomes an investment asset owner and acquires an investment interest."* - *An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.* - *An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.* Based on the proposed Act, it is clear that IESO will have no rights to the benefits associated with the future cash inflows related to the regulatory asset as it will have transferred its right to recover the IESO funding shortfall to the OPG Trust. Further, it is also clear that IESO will have lost control over the regulatory asset once it is transferred to OPG Trust.	

Management conclusion:

IESO management has concluded that the regulatory asset will be derecognized upon transfer of the variance account to the OPG Trust.

The transfer of the variance account transfers the control and the benefits associated with the right to collect funds in the future against the variance amount to the OPG Trust. This will eliminate the IESO asset by the amount of the transfer as the IESO will no longer control an economic resource or have access to future economic benefits for that amount. The funds collected from the transfer will in turn reduce the associated debt held by the IESO, maintaining the IESO's net $ nil balance in the market accounts.

Our conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that the regulatory asset should be derecognized on transfer to the OPG Trust as IESO no longer has rights or future economic benefits associated with the asset.

Other Matters

The ultimate responsibility for the decision on the appropriate application of PSAS for the specific transactions rests with management as preparers of the financial statements. Our judgment on the appropriate application of PSAS for the specific transaction is based solely on the facts, circumstances and assumptions provided to us as described above. Should these facts and circumstances differ, our conclusion may change.

This letter has been prepared in draft form and will be updated upon receipt of the adopted legislation (including the amendments of the Electricity Act and the OEB Act) and finalized financial structure (including the bylaws and regulations of the OPG Trust) and other relevant agreements necessary for us to provide our final opinion, of which legislation and other relevant agreements are expected to be enacted/ finalized on or before June 30, 2017. This letter will not be updated as a consequence of pronouncements by the Public Sector Accounting Board, or any other authoritative bodies, that occur subsequent to the date of this letter.

This letter is intended solely for the information and use of the Board of Directors and management of the Company, and is not intended to be and should not be used, quoted, relied upon by, or otherwise referred to by anyone other than these specified parties or for any other purpose.

No one other than the Board of Directors and management of the Company is authorized by KPMG to rely upon any information or views expressed herein**.** KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

per Michel Picard
Partner
(416) 777 8414
mpicard@kpmg.ca

Appendix A:

Draft of the Ontario Fair Hydro Plan Act, 2017

Version 6

This confidential draft document is provided for discussion purposes only. It should not be construed as representing the position adopted by the Government of Ontario on any of the topics included or not included in this document. The notes included in this document are intended only to help facilitate a discussion of the topics to which they relate. Any potential legislation is subject to the approval of the Ontario Legislature.

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A proposal to create Legislation.

Ontario Fair Hydro Plan Act, 2017, if enacted

A proposal to create Legislation.

Ontario Fair Hydro Plan Act, 2017, if enacted

EXPLANATORY NOTE TO BE ADDED BY LEGISLATIVE COUNSEL TO ANY FINAL BILL PRIOR TO INTRODUCTION.

Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects.[1] These commitments can only be achieved if costs are shared fairly among consumers, today and in the future.

Electricity rates have risen for two key reasons. First, decades of under-investment in the electricity system resulted in the need to invest more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable. Second, the decision to eliminate Ontario's use of coal and produce clean, renewable power has created additional costs.

The actions taken to achieve a clean, modern and reliable electricity system have resulted in significant costs to residential consumers. The burden of financing these system improvements and funding key programs has unfairly fallen almost entirely on the shoulders of those consumers.

The Government of Ontario is committed to ensuring that the costs of financing these investments and the associated charges to consumers are allocated fairly among present and future generations.

Recognizing that the electricity infrastructure that has been built and the policy decisions that have been made will create benefits for years to come, costs should be allocated fairly over time, so that residential consumers in the future pay their fair share for the benefits that they receive from the investments already made.

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[1] FLS: please see the preamble of the *Green Energy Act, 2009.*

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PART I
GENERAL

Interpretation
Definitions

1xx. (1) In this Act,

"Board" means the Ontario Energy Board; ("French")

"clean energy adjustment" means the amount determined under section 10xx and payable by specified consumers; ("French")

"clean energy benefits" means the value of the benefits determined to be derived by or accruing to specified consumers as a result of the clean energy initiative, including as a result of clean energy costs; ("French")

"clean energy costs" means the value of the costs allocated to specified consumers as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

(a) the amounts to be paid or reflected by IESO in adjustments made under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts or amounts for,

(i) renewable energy generation or capacity,

(ii) conservation and demand management,

(iii) energy storage,

(iv) energy efficiency,

(v) natural gas generation and capacity, excluding contracts relating to amounts payable by IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed,

(b) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(c) such other costs or estimated costs as may be prescribed; ("French")

"clean energy initiative" means the policies of the Government of Ontario related to,

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(a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,

(b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

(c) promoting conservation, demand management and energy efficiency, and

(d) investing in energy infrastructure to ensure a clean, modern and reliable system; ("French")

"electricity vendor"[2] means,

(a) a licensed distributor,

(b) a licensed retailer,

(c) IESO in circumstances where it directly invoices a specified consumer for electricity used in Ontario, or

(d) such other person as may be prescribed; ("French")

"fair allocation amount" means an amount calculated under section 15xx; ("French")

"finance amount" means the finance amount determined in accordance with the regulations; ("French")

"financing entity" means an entity established or caused to be established as described in subsection 17xx (3); ("French")

"Financial Services Manager" means the Financial Services Manager appointed under section 13xx; ("French")

"Financing Plan" means a plan prepared under section 16xx; ("French")

"funding obligation" means a payment obligation incurred by or on behalf of an investment interest owner to fund its ownership of an investment interest or a payment obligation that meets such other criteria as may be prescribed; ("French")

[2] FLS - this is similar to the definition of "electricity vendor" in the Ontario Rebate for Electricity Consumers Act, 2016

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"funding rebate" means a payment obligation incurred by IESO as part of the transfer of the regulatory asset; ("French")

"IESO" means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; ("SIERE")

"IESO deferral" means the amount determined under section 20xx; ("French")

"investment asset" means the rights and interests described in section 25xx; ("French")

"investment interest owner" means a financing entity that has acquired and holds an investment interest; ("French")

"investment interest" means,

(a) an ownership interest in the investment asset, and

(b) in circumstances where the ownership interest is transferred, the rights and benefits specified in the agreement under which the interest is transferred; ("French")

"licensed distributor" means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system within the meaning of the *Electricity Act, 1998*; ("French")

"licensed retailer" means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; ("French")

"Minister" means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; ("ministre")

"Ontario Power Generation Inc." means the corporation incorporated as Ontario Power Generation Inc. under the *Business Corporations Act* on December 1, 1998; ("Ontario Power Generation Inc.")

"prescribed" means prescribed by the regulations; ("prescrit")

"reference period" means,

(a) the period beginning on July 1, 2017 and ending on October 31, 2017, and

(b) during the period beginning on November 1, 2017 and ending on April 30, 2047 or ending on such later day as may be prescribed,

(i) every six-month period following the period mentioned in clause (a); or

(ii) any period shorter than six months, as may be prescribed; ("French")

"refinancing" means, subject to the regulations, the incurrence of debt in connection with a redemption, repayment or repurchase of a funding obligation; ("French")

"regulation" means a regulation made under this Act; ("règlement")

"regulatory asset" means the right and interest established under section 21xx; ("French")

"specified consumer" means,

(a) a person who has an account with an electricity vendor for the supply of electricity in Ontario and meets the criteria set out in subsection (2); or

(b) such other person as may be prescribed; ("French")

"transfer" includes, when used in relation to an investment interest, the assignment, conveyance, disposition or sale of the investment interest; ("French")

"true up amount" means a true up amount determined in accordance with the regulations; ("French")

"unit sub-metering" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("activités liées aux compteurs divisionnaires d'unité")

"unit sub-meter provider" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("fournisseur de compteurs divisionnaires d'unité")

"variance account" means the variance account established by IESO under subsection 20.1xx (1). ("French")

Specified consumer

(2) For the purposes of clause (a) of the definition of "specified consumer" in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of 50 kilowatts or less, or such other amount as may be prescribed.

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2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.

3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or has had the obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.

4. The person's account with the electricity vendor relates to,

    i. a dwelling,

    ii. a property within the meaning of the *Condominium Act, 1998*,

    iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or

    iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.

5. The person satisfies such criteria as may be prescribed.

Transfer of regulatory asset

(3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 22xx (3):

1. A reduction in the balance in the variance account.

2. The adjustment of the regulatory asset.

3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Effect of invalidity, etc.[3]

2xx. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if one or more provisions are held to be invalid, the intention of the

[3] FLS: this is from the *Climate Change Mitigation and Low-carbon Economy Act, 2016*

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Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect the validity or enforceability of a funding obligation incurred before the day that the provision is held to be invalid or ceases to be in effect, or any rights or obligations associated with the funding obligation.

Purpose

3xx. (1) The purposes of this Act are,[4]

(a) to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers;

(b) to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province; and

(c) to align clean energy costs with clean energy benefits, in order to provide fairness for specified consumers.

Crown bound

4xx. This Act binds the Crown.

Protection and assurances

Prohibition

5xx. (1) No action or omission by the Board, the Minister or the Crown shall be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.

Agreements

(2) The Minister and the Minister of Finance may together, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding the performance of IESO or electricity vendors under this Act or similar transactions.

Guarantee, indemnification

(3) The Lieutenant Governor in Council may by order,

[4] FLS: Please see the *Electricity Act, 1998* for much of the wording proposed in this section.

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(a) authorize the Minister and the Minister of Finance, acting together on behalf of the Province,

(i) to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and

(ii) to determine terms and conditions of the guarantee or indemnity and the maximum liability for the guarantee or indemnity;

(b) specify terms and conditions that must be included in any guarantee or indemnity given by the Minister and the Minister of Finance; and

(c) specify a maximum liability for the guarantee or indemnity.

PART II
FAIR ADJUSTMENT

Definitions

6xx. In this Part,

"regulated rate consumer" means a specified consumer who meets the following criteria:

1. The consumer is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1998* for the purposes of subsection 79.16 (1) of that Act.

2. The consumer would, if the consumer were not subject to this Act, be invoiced the rate determined by the Board under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*. ("French")

Regulated rate consumer, first adjustments

6.1xx (1) Despite any order under subsection 78 (3.1) of the *Ontario Energy Board Act, 1998* and despite section 79.16 of that Act, the electricity rates payable by regulated rate consumers for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would achieve the following outcome: a fictional regulated rate consumer who meets the prescribed criteria would be charged an invoice amount that is 25 per cent less than the invoice amount that would have been charged to that consumer under the comparison rates described in subsection (2).

Comparison rates

(2) The comparison rates are the rates that would have been effective May 1, 2017 if they had been determined by the Board solely using the method prescribed by the

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regulations made under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*, without taking into account any forecasted impact of any other provisions of this Act.

Invoice amounts

(3) Each invoice amount mentioned in subsection (1) shall be determined in accordance with the regulations.

Other specified consumers, first adjustment

6.2xx (1) For the period beginning on July 1, 2017 and ending on April 30, 2018, the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* shall, with respect to specified consumers who are not regulated rate consumers, be further adjusted by electricity vendors in accordance with the determinations of the Board under subsection (2).

Board to make determinations

(2) The Board shall, in accordance with the regulations, determine the adjustments to be made by electricity vendors.

Same, regulations

(3) The regulations may specify different adjustments to be made in respect of prescribed classes of specified consumers who are not regulated rate consumers.

Determinations by Board

6.3xx The Board shall make the determinations mentioned in sections 6.1xx and 6.2xx no later than fifteen business days after the day this section receives Royal Assent and, regardless of whether the Board makes the determinations before or after July 1, 2017, the determinations shall be effective as of July 1, 2017.

Implementation by electricity vendors

6.4xx (1) As soon as possible after the Board makes determinations under section 6.3xx, each electricity vendor shall, in respect of electricity used on or after July 1, 2017, ensure that its invoices reflect the determinations of the Board.

Same

(2) The electricity vendor shall ensure that, if any of its specified consumers have been invoiced in a manner that does not reflect the determinations of the Board under section 6.3xx, the specified consumer receives the difference between the amounts shown on the invoice and the amounts reflecting the Board's determinations, provided as a lump sum credit on the first invoice issued after the electricity vendor has adapted its invoices or by such other means as may be prescribed.

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Subsequent adjustments

7xx. (1) Despite clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998* and subject to subsection (2), the Lieutenant Governor in Council may prescribe the methodology to be applied by the Board after April 30, 2018 for the purpose of determining,

(a) electricity rates for specified consumers; or

(b) adjustments to be applied by electricity vendors to the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* in respect of prescribed classes of specified consumers.

Limitation

(2) Any prescribed methodology to be applied in respect of a period after June 30, 2021 shall have regard to the following:

1. The fair allocation amount in respect of the period.

2. Any clean energy adjustments payable in respect of the period.

3. Such other matters as may be prescribed.

Sub-metering

7.1xx (1) This section applies if a specified consumer provides to another person electricity in respect of which a determination of the Board referred to in section 6.3xx or section 7xx applies.

Same

(2) If an invoice for the electricity is issued to the person by the specified consumer or a unit sub-meter provider providing unit sub-metering for the specified consumer, the amount payable for the electricity by the person who is liable to pay the invoice shall be determined in accordance with the regulations.

PART III
CLEAN ENERGY ADJUSTMENT

Specified consumers to pay

8xx. (1) Upon receipt of an invoice from an electricity vendor that includes an amount in respect of the clean energy adjustment, a specified consumer shall pay the amount to the electricity vendor, as agent of the investment interest owners.

Same

(2) For greater certainty, subsection (1) applies regardless of,

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(a) whether the clean energy adjustment was determined in a manner that was inconsistent with this Act; and

(b) whether the amount payable in respect of the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan, including in a manner that failed to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Terms

(3) The payment shall be made in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Indebtedness of specified consumer

(4) An unpaid amount that is required to be paid by a specified consumer under this section constitutes indebtedness of the specified consumer to each investment interest owner to the extent of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer.

Unit sub-metering

(6) A specified consumer who provides electricity through sub-metering may collect amounts in respect of the clean energy adjustment payable under this section in accordance with the regulations.

Irrevocability of amount

9xx. (1) An amount in respect of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness resulting from the clean energy adjustment and is irrevocable upon invoicing the consumer and may not be set off or by passed.

Exception

(2) Subsection (1) does not apply to the extent that the invoice reflects a clerical, typographical or calculation-related error.

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Determination of clean energy adjustment
Financial Services Manager to determine

10xx. (1) The Financial Services Manager shall determine the clean energy adjustment payable by all specified consumers in respect of each month in a reference period by taking the following steps:

1. Calculate the sum of the following:

    i. The estimated finance amount in respect of the reference period.

    ii. The true up amount in respect of the reference period.

2. Divide the sum calculated under paragraph 1 by the number of months in the reference period.

Regulations re true up amount

(3) The Lieutenant Governor in Council shall, in making regulations with respect to the determination of the true up amount, have regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the finance amount when it is due.

2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

    i. differences between the estimated and actual finance amount for the applicable reference period,

    ii. differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and

    ii. variations in billings due to variations in electricity consumption.

Financial Services Manager to notify Board

(4) The Financial Services Manager shall, in accordance with the regulations, notify the Board of the clean energy adjustment in respect of a reference period and such other information related to the determination of the clean energy adjustment as may be prescribed.

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Board to determine rates

(5) Without changing the clean energy adjustment, the Board shall, in accordance with the regulations, determine the rate at which specified consumers are invoiced to recover the clean energy adjustment in respect of the reference period.

IESO to receive amounts

11xx. (2) IESO shall, as an agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the regulations and the market rules made under section 32 of the *Electricity Act, 1998*.

Account

(3) All of the following amounts received by IESO shall, until paid to or for the benefit of the investment interest owners in accordance with subsection (5), be deposited promptly into an account established for the purposes of receiving those amounts:

1. Amounts described in subsection 11xx (2).

2. Payments made by specified consumers directly to IESO as electricity vendor under subsection 8xx (1).

3. Proceeds of amounts described in paragraphs 1 and 2.

Same, held in trust

(4) All amounts received by IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment interest owners, be received and held in trust by IESO for the investment interest owners.

IESO to remit

(5) IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the accounts referred to in subsection (2), to or for the benefit of the investment interest owners in accordance with the regulations.

Electricity vendor to invoice specified consumers

12xx. (1) Each electricity vendor shall issue an invoice to each of its specified consumers for the amount payable by the consumer in respect of the clean energy adjustment, as determined by applying the rate set by the Board under subsection 10xx (5) and in accordance with the regulations.

Electricity vendor to report

(1.1) Each electricity vendor shall, in accordance with the regulations, promptly report to IESO the total amount invoiced to its specified consumers in respect of the clean

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energy adjustment, the amount collected and such other information as may be prescribed.

Electricity vendor to collect

(2) Each electricity vendor shall, as agent of the investment interest owners, collect amounts in respect of the clean energy adjustment from specified consumers in accordance with the regulations.

Pro rating of payments

(3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

Held in trust

(4) Payments received by an electricity vendor from or on behalf of specified consumers in respect of the clean energy adjustment and all proceeds of the payments shall, until paid to or for the benefit of the investment interest owners in accordance with subsection (5), be received by and held by each electricity vendor in trust for the benefit of the investment interest owners.

Remittance to IESO

(5) Each electricity vendor shall remit amounts in respect of the clean energy adjustment to IESO for the benefit of the investment interest owners in accordance with the regulations.

PART IV
IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

13xx. Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act.

Duties and powers

14xx. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

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Same

(2) The administration of the investment asset may include providing information to IESO in respect of obligations under Part III and such other activities as may be prescribed.

Fees, etc.

(3) Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees in relation to such matters as may be prescribed in accordance with the regulations.

Same, Board approval

(4) Before establishing fees under subsection (3), the Financial Services Manager shall submit them to the Board for approval in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Minister to calculate fair allocation amount

15xx. (1) Subject to subsections (2) and (3), before the first funding obligation is incurred, the Minister shall calculate a fair allocation amount in respect of each reference period, applying such method as the Minister considers appropriate and in accordance with the following steps:

1. Determine the estimated clean energy costs and estimated clean energy benefits allocated to specified consumers in respect of the reference period.

2. Determine the estimated reduction in the amounts payable by specified consumers as a result of rates determined under Part II in respect of all previous reference periods, including the estimated reduction in clean energy costs described in clause (a) of the definition of "clean energy costs" in subsection 1 (1) that would otherwise have been payable by specified consumers in the absence of this Act.

3. Determine the amount, if any, by which the determination under paragraph 1 exceeds the determination under paragraph 2.

4. Calculate the sum of the amount determined under paragraph 3 and such other amounts as may be prescribed.

Principles

(2) In calculating the fair allocation amount, the Minister shall have regard to the following principles:

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1. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among the specified consumers in respect of each reference period.

2. Calculations should be made having regard to the need to align each fair allocation amount with the estimated finance amount payable during the reference period.

3. Estimated clean energy costs allocated to specified consumers in respect of a reference period should be allocated in proportion to the estimated clean energy benefits attributed to the specified consumers in respect of the reference period.

4. Such other principles as may be prescribed.

Assumptions

(3) In calculating the fair allocation amount, the Minister shall make such assumptions as the Minister considers to be reasonable regarding the following:

1. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.

2. The expected number of specified consumers in respect of each reference period.

3. The expected electricity consumption rates in respect of each reference period.

4. Such other assumptions as may be prescribed.

Minister to provide amount to Financial Services Manager

(4) The Minister shall provide the fair allocation amount in respect of each reference period to the Financial Services Manager.

Recalculation

(5) A calculation of the fair allocation amount under this Part may be changed by such person as may be prescribed in accordance with such requirements as may be prescribed.

Same

(6) No change under subsection (5) shall affect any clean energy adjustment that has already been determined under section 10xx or any funding obligations that have already been incurred before the change.

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Information

(7) The Minister, IESO, the Financial Services Manager, the Board and electricity vendors shall provide such information as may be prescribed in accordance with the regulations for the purposes of facilitating a change to a calculation of the fair allocation amount.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

16xx. (1) The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of a refinancing.

Plan to be provided to Minister

(1.1) The Financial Services Manager shall provide the Financing Plan to the Minister.

Principles

(2) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Funding obligations should be incurred such that, along with any funding obligations already incurred, the estimated finance amount that would, subject to any refinancing, become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period, in each case after reducing the fair allocation amount to reflect determinations of the Board under Part II in respect of the reference period.

2. Incurrences should be implemented in a manner that, in the opinion of the Financial Services Manager, is reasonable, cost effective and that reflects prevailing market terms and conditions.

3. Reasonable assumptions should be made regarding such matters as may be prescribed.

Limitation

(4) In respect of each reference period from May 1, 2017 to April 30, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment in respect of the reference period unless,

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(a) the amounts are payable in respect of a reference period in respect of which the Board has not made any determinations under Part II; or

(b) if the Board has made a determination under Part II in respect of the reference period, the funding obligations incurred would not result in amounts payable in respect of the clean energy adjustment during the reference period in an amount that exceeds the limit determined in accordance with the regulations.

Other reports

(3.1) The Financial Services Manager shall submit to the Minister such reports and information as the Minister may require from time to time and shall, if required by the Minister to do so, examine, report and advise on any question relating to the Financing Plan.

Amendments to plan

(6) The Financial Services Manager may amend the Financing Plan at any time.

Same

(7) In the event that the Financing Plan is amended, any reference in this section to the Financing Plan is deemed to be a reference to the plan as amended.

Implementation of Financing Plan

17xx. (1) The Financial Services Manager shall ensure that funding obligations incurred for the purposes of this Act are incurred in a manner that is consistent with the applicable Financing Plan.

Financing entities

(3) In accordance with the Financing Plan, the Financial Services Manager may establish or cause to be established one or more financing entities that may incur funding obligations.

Prohibition

(3.1) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, Ontario Power Generation Inc., the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation or other agreement.

Effect of amendment to fair allocation amount

(4) Each funding obligation incurred and each transfer made by a financing entity is deemed to be consistent with the Financing Plan and to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

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Same

(2) For greater certainty, subsection (4) applies despite the failure of the Financial Services Manager to comply with subsection (1).

PART V
THE REGULATORY ASSET

IESO deferral

20xx. (1) The IESO deferral for each month, commencing May 1, 2017, shall be determined by IESO in accordance with the regulations.

Same, retrospective amounts

(1.1) For greater certainty, the regulations may provide for the IESO deferral to include an amount that was incurred by IESO on or after May 1, 2017 and before the day this Act comes into force.

Electricity vendors to provide information

(2) Electricity vendors shall provide to IESO such information as IESO may reasonably request for the purposes of determining the IESO deferral under subsection (1) and such further information as may be prescribed.

Same

(3) IESO may rely on information provided by electricity vendors for the purposes of the determination under subsection (1).

Variance account to be established, maintained

20.1xx (1) IESO shall establish and maintain a variance account for the purposes of this section.

Recording in variance account

(2) IESO shall record the following in the variance account:

1. The IESO deferral for each month.

2. All payments received by IESO resulting from the exercise of the right of recovery under section 21xx and any transfer under section 22xx.

3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences on or after May 1, 2017 and before the day this section comes into force.

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Recording determinative

(3) Subject to the correction of any obvious error by IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

Rights of investment interest owner

(4) No change made by IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 22x, affect the rights acquired by the investment interest owner under the transfer.

Regulatory asset established

21xx. (1) Effective May 1, 2017, IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

Board to set rates

(2) Subject to subsection (3), the Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.

Limitation

(3) IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

Same, limitations

(4) The Board's powers under subsection (3) shall be exercised in accordance with the regulations.

Transfer of regulatory asset

22xx. (1) IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

Agreement

(2) An agreement between IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to IESO in an amount equal to the amount of the specified portion.

Effect of payment

(3) Upon receipt by IESO of the payment by the financing entity,

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(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) IESO shall retain no further right, title or interest in the corresponding investment interest.

Validity of transfer

23xx. (1) A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

Same

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.

Deemed perfection, etc.

(3) At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI
THE INVESTMENT ASSET

Effect of transfer

24xx. (1) The transfer of a specified portion of the regulatory asset under section 22x creates an investment asset or, if it is not the first transfer, adds to the investment asset.

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Same

(1.1) Upon transfer of a specified portion of the regulatory asset under section 22xx to a financing entity, the investment asset resulting from the transfer is immediately vested in the financing entity, free and clear of any adverse claim.

Investment asset established

25xx. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that are imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, IESO and other prescribed parties.

3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.

4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge and invoice for the clean energy adjustment.

5. The right to enforce the duties and obligations under this Act of each electricity vendor and IESO to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by any electricity vendor to recover payment of the clean energy adjustment.

6. All rights of any kind related to any of the other property rights or interests that comprise the investment interest, including any rights to receive funding rebates.

7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether it is invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

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Not affected by failure to impose etc. clean energy adjustment

(1.1) An investment interest is not affected by any failure to impose, attribute, invoice, accrue or collect amounts in respect of the clean energy adjustment.

No set off, etc.

(2) The investment asset shall not be set off,

(a) by a consumer, an electricity vendor, IESO, an agent of the investment interest owners or an owner in the Province of a distribution system within the meaning of the *Electricity Act, 1998*;

(b) in connection with any default of a person mentioned in clause (a); or

(c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(3) The rights of the investment interest owners to collect and enforce their rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with Part III of this Act.

Collective action required

(4) If one investment interest owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment interest owner collectively and in coordination with all other investment interest owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment interest owners as a collective in accordance with its terms.

Transfer of investment interest

26xx. An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

27xx. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the transferee a valid property right and interest in, to and under the applicable investment interest acquired in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment interest owner's right, title and interest in, to and under an

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investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected as described in the *Personal Property Security Act*, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer, and the property rights and interests acquired by the investment interest owner shall have priority over any liens in favour of such other persons.

Investment interest owner may grant security interest

28xx. (1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment interest owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may

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subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any account of any electricity vendor, an agent of an electricity vendor or other person who may have commingled such revenues or other proceeds with other funds.

Notice required

(7) The secured party shall be entitled to exercise the rights of an investment interest owner only after the secured party has given notice of the enforcement of its security interest to IESO.

Definition

(8) For the purposes of this section, a security interest is perfected when it is perfected as described in the *Personal Property Security Act*.

PART VII
MISCELLANEOUS

Appointment of agent, invoicing or collection

29xx. If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Not Crown agent

30xx. For greater certainty, a person appointed under section 29xx is not an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Board's authority

30.1xx (1) Each electricity vendor, IESO and the Financial Services Manager shall maintain such accounts and provide such information to the Board as the Board may require for the purposes of carrying out its responsibilities under this Act, in the form and manner and within the time required by the Board.

No hearing required

(2) Despite anything to the contrary in the *Ontario Energy Board Act, 1998*, the Board may exercise any of its responsibilities under this Act without a hearing.

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Sequestration

31xx. (1) A court in the Province may, upon application by an investment interest owner or a secured party, order the sequestration and payment of amounts in respect of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment interest owner or secured party by any person or entity authorized to collect amounts in respect of the clean energy adjustment, including defaults on any required remittance of amounts in respect of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Choice of law

32xx. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to a transfer under this Act or the creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section 5XX shall be the laws of the Province.

Conflict

33xx. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

34xx. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required to be taken under the Financing Plan or in relation to the determination of the fair allocation amount.

Liability

35xx. (1) No action or other civil proceeding shall be commenced against any employee of the Province or Ontario Power Generation Inc. for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under this Act, the regulations under this Act or for any alleged neglect or default in the exercise or performance in good faith of such a power or duty.

Same

(2) Nothing in subsection (1) shall be read as limiting the effect of subsection 19 (1) of the *Electricity Act, 1998* or subsection 11 (1) of the *Ontario Energy Board Act, 1998*.

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Same

(3) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act*, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.

References in marketing materials and offering documents

36xx. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under section 5xx unless the prescribed requirements, if any, are satisfied.

Regulations

38xx. (1) The Lieutenant Governor in Council may make regulations in respect of the following matters:

1. [5]Governing anything that is required or permitted to be prescribed or that is required or permitted to be done by, or in accordance with, the regulations or as authorized, specified or provided in the regulations.

2. Defining, for the purposes of a regulation, words and expressions used in this Act that are not defined in the Act.

3. Prescribing types of payment obligations that constitute funding obligations.

4. Governing the determination of classes of specified consumers, which may include determination based on the manner in which rates are determined for different classes of specified consumers.

5. Governing the determination of the finance amount and the true-up amount and how those amounts are to be applied to the clean energy adjustment.

6. Governing the inclusion of information under this Act on or with invoices, which may include requiring notice to be provided by electricity vendors to specified consumers and other prescribed persons regarding the adjustments, including providing for different requirements in different circumstances and for different classes of specified consumers.

7. Governing the inclusion of information about the clean energy adjustment and any other matters provided for under this Act on or with invoices issued to specified consumers, including the form that the information must take and the

[5] FLS - see s. 78 (1) of the Climate Change Mitigation and Low-carbon Economy Act, 2016 - paras. 1 and 2.

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form of the invoices and the form of any notice to be provided to the specified consumer under this Act[6];

8. Governing the manner by which invoices or notices provided for under this Act are to be provided to specified consumers and other prescribed persons.

9. Governing the Financial Services Manager's power to establish and charge fees, including the ability to recover costs and expenditures and to earn a return.

9.1 Providing for a right of compensation for investment interest owners affected by a breach of section 25xx and the manner in which such a right may be enforced under this Act.

10. Prescribing the time within which any action required by this Act may be required to be done.

11. Providing for such other matters as the Lieutenant Governor in Council considers advisable to carry out the purpose of this Act.

Limitation

(2) Despite subsection (1) or any other Act, no regulation under this Act shall have the effect of reducing, impairing, postponing or terminating the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or impairing or postponing the invoicing, collection, remittance or recovery of the clean energy adjustment.

PART VIII[7]
AMENDMENTS TO OTHER ACTS

ELECTRICITY ACT, 1998

200x. (1) Subsection 6 (1) of the *Electricity Act, 1998* would be amended by adding the following clauses:

(q.0.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,

[6] FLS - see *OEBA s.79.17 and 88(1)(z.11) and (z.12)*

[7] FLS: These amendments are drawn from previous drafting contained in gov2016.146.e05 (which was drafted as amendments to the EA, 1998).

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(i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*;

(ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities;

(iii) engaging in activities related to the transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,

(A) incurring liabilities in relation to the regulatory asset,

(B) transferring the regulatory asset under section 22x for consideration, and

(C) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

200.1xx (1) Subsection 25.33 (1) of the Act would be amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*;

(1.1) Subsection 25.33 (2) of the Act would be amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*;

(2) Subsection 25.33 (3) of the Act would be amended by adding the following paragraph:

4. A consumer who is a specified consumer within the meaning of the *Ontario Fair Hydro Plan Act, 2017* or such other consumer as may be prescribed.

(3) Clause 25.33 (4) (b) of the Act would be amended by adding "or as may be required by a regulation made under this Act or the *Ontario Fair Hydro Plan Act, 2017*" at the end.

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(4) Subsection 25.33 (5) of the Act would be amended by adding "or under the *Ontario Fair Hydro Plan Act, 2017*" at the end

201x. Section 53.1 of the Act would be amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

53.1 (1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

Deemed assets, non-subsidiary

(1.3) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is not a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of the financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries shall not form part of the assets and liabilities of the financing entity.

Deemed assets, subsidiary

(1.4) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of that financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries; and,

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries shall not form part of the assets and liabilities of that financing entity.

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Definition, financing entity

(1.5) For the purposes of this section, "financing entity" has the same meaning as in the *Fair Hydro Plan Act, 2017.*

AMENDMENTS TO ONTARIO ENERGY BOARD ACT, 1998

205x. Subsection 70 (2.1) of the Act would be amended by adding the following paragraph:

4. The licensee is required to comply with the *Ontario Fair Hydro Plan Act, 2017*.

205.1x Section 70 of the Act would be amended by adding the following subsection:

(2.3) Every licence issued to a unit sub-meter provider is deemed to contain the condition that the unit sub-meter provider is required to comply with the *Ontario Fair Hydro Plan Act, 2017* and the regulations made under it.

206x. Section 78.1 of the Act would be amended by adding the following subsection:

Same, limitation re Ontario Power Generation Inc.

(3) The determination of a payment to Ontario Power Generation Inc. under this section shall not include any consideration of amounts related to activities of Ontario Power Generation Inc. carried out in relation to the *Ontario Fair Hydro Plan Act, 2017*.

Same

(3.1) The amounts referred to in subsection (3) include, without limitation, the following:

1. Amounts related to the appointment of Ontario Power Generation Inc. as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

2. Amounts related to the charging of fees for performing duties as the Financial Services Manager.

3. Amounts related to exercising the powers and performing the duties of the Financial Services Manager.

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4. Amounts related to the consolidation of the assets and liabilities for accounting purposes of any special purpose financing entities established under and for the purposes of that Act.

207xx. Subsection 79.16 (3) of the Act would be repealed.

PART IX
COMMENCEMENT AND SHORT TITLE

Short Title - this proposal for legislation would, if approved by the Legislature, have a short title to be determined by Government.

Timing – this proposal for legislation would, if approved by the Legislature, come into force on a date to be established by Government.

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Ernst & Young
222 Bay Street
P.O. Box 251
Toronto ON
M5K 1J7

Tel: +1 416 943 2615
Fax: +1 416 943 3767
ey.com

The Special Committee of the Board of Directors
Ontario Power Generation Inc. (the "Company")
700 University Avenue
Toronto, ON M5G 1X6

May 5 2017

Dear Sirs/Madames:

This letter is being issued to the Special Committee to assist them in their evaluation of management's analysis of the application of International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB")) to the specific transaction described in the Company's memorandum entitled *OPG Accounting Considerations of Ontario Fair Hydro* dated May 2 2017, herein referred to as "the Management Memorandum". We are issuing this letter in our role as auditors of the Company for the year ending December 31, 2017. As the Province consolidates OPG on an IFRS basis, this letter pertains solely to management's IFRS analysis as contained in the Management Memorandum.

We have read the Management Memorandum and we agree with management's analysis therein, subject to all of the assumptions and limitations identified therein. Specifically, we concur that the existing in draft legislation, along with the yet undrafted Regulation and special purpose vehicle (TRUST) documents, and various other agreements assuming they include the required criteria that Management has identified as outstanding in its Appendix A, would be sufficient to support consolidation of the TRUST with OPG Inc.

Additionally, we specifically refer you to the section entitled "Conclusion" in the Management Memorandum, which indicates that their analysis is based on draft legislation as well as their assumptions regarding the terms and conditions of certain contractual arrangements and other documentary evidence that is not yet drafted. Therefore, the Management Memorandum will be required to be updated to reflect the final contents of the legislation and other relevant contractual arrangements and documentary evidence. We will review the updated Management Memorandum once it is available, and update you on our viewpoints once our review of such updated Management Memorandum is completed.

The scope of this letter and any views expressed herein are limited to the transactions, facts, circumstances and assumptions provided to us by management or the Company as described in the Management Memorandum. If such facts, circumstances or assumptions differ, our conclusions may change.

We have not performed an audit or a review of the Management Memorandum. Additionally, we have not performed an audit as of any date or for any period subsequent to December 31, 2016.

The ultimate responsibility for the proper accounting treatment under IFRS and US GAAP rests with the Company.

We have not been asked for, nor do we express, an opinion on the tax consequences of the transactions described herein.

The accounting for such transactions could be affected by actions of the International Accounting Standards Board, the IFRS Interpretations Committee, the Ontario Securities Commission, or other regulatory bodies. Any such actions occurring prior to the finalization of the 2017 IFRS consolidated financial information will be required to be analyzed by management, and such analysis will be reviewed by us in the context of the audit procedures we will perform on the consolidated IFRS financial information for the year ending December 31, 2017.

Our work does not include the provision of legal advice and we make no representations regarding questions of legal interpretation of any possible structure or strategy. We make no representation regarding the sufficiency of our work for any purpose.

This report is intended solely for the information and use of the Special Committee, Board of Directors and management. We understand that a copy of this letter may be provided to the Province of Ontario, the Independent Electricity System Operator, and/or the Ontario Energy Board. It is not intended to be, and should not be, used by anyone other than these specified parties.

This analysis, or portions thereof, should not be referred to or distributed to any other person or entity, other than those noted in the paragraph directly above. It is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document.

Yours sincerely

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Tracy E Brennan
Partner
416-943-2615

May 2, 2017

OPG ACCOUNTING CONSIDERATIONS OF ONTARIO FAIR HYDRO PLAN

Purpose:

The purpose of this document is to summarize the preliminary views of Ontario Power Generation (OPG) on the ability for OPG to consolidate the Financing Entity Trust associated with the Ontario Fair Hydro Plan.

This memo is assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. Note that this assessment is preliminary pending the finalization of the Legislation, the Trust indentures, Regulations, financing structure and other detailed terms, and all related documentary evidence. This assessment will be updated once final documentation is available.

Background:

On March 2, 2017, the Province of Ontario (the Province) announced Ontario's Fair Hydro Plan (the Plan) aimed at reducing electricity bills by 25 percent on average for all residential consumers in the province. As part of the Plan, the Province has proposed financing a portion of the Global Adjustment costs over a longer time period for Regulated Price Plan eligible customers (e.g., residential, farm, small businesses).

On April 13th, the Province requested that OPG consider administering the financing associated with the Plan, because of OPG's participation in the market, regulatory knowledge and the potential ability to consolidate the related financing activities. To undertake this financing, OPG will establish a Financing Entity Trust (the Trust) to finance and administer the Global Adjustment costs through a mixture of external financing and an equity injection from the Ontario Financing Authority. It is expected that OPG will control the Trust for accounting purposes and that its financial position and results will be consolidated within OPG's consolidated financial statements.

Assumptions made to perform accounting analysis which are not yet addressed in Legislation – it is expected that these matters will be addressed in Regulations, Trust documents, and various other agreements:

- The Regulation must require interest, carrying and administrative costs to be paid to the Trust in cash on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs.
- The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.
- The Minister of Energy will have the ability to replace the Financial Services Manger (OPG) if there is a failure to perform. There will be a bifurcation of roles where the Province could not remove OPG as manager/administrator with respect to the existing debt placed by the Trust, but could remove OPG's responsibility/right to prepare the Financing Plan going forward. The ability for the Minister of Energy to remove OPG as the Financial Services Manager should not impact the recoverability of existing intangible assets.

- The calculation of the Fair Allocation Amount will be performed by the Minister of Energy.
- OPG has the ability to appoint and remove the Trustee (or Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust.
- Neither the OEB nor any other party can discretionally reduce the management fee or performance fee except due to a calculation error.
- The margin on the interest rates associated with Tranche B and Tranche C which will be recovered from the ratepayers will be reflective of the risk profile of the debt and the associated market terms.
- The indemnification provided to the Trust by the Minister of Finance on behalf of the Province as described in *Part I – General - Section 5.3 Guarantee, indemnification Protection and assurances* will be subject to terms and conditions in a separate Provincial support agreement. The guarantee is expected to be in place only in the event of a Payment Guarantee Event, such as if the Legislative Assembly of Ontario repeals the Fair Hydro Act or amends the Act in a way that adversely impacts the ability of the Trust to fully recover an intangible asset in order to pay the obligations of the Trust.
- The approval by the Ontario Energy Board of the Financial Services Manager (i.e. OPG's) fees as described in *Part IV – Implementation - Section 14.4 Same, Board Approval* will not allow them to change or limit the management fee structure, but only ensure that it is prudent by ensuring it is calculated in accordance with the Regulations.
- In the event that a different Financial Services Manager is appointed by the Minister of Energy, the IESO is required to continue to make cash payments for interest to the Trust for the existing debt. Principal repayments on existing debt will continue to be repaid by ratepayers to the Trust in accordance with the terms of the issued debt.
- All other items as indicated in *Appendix A.*

Accounting Analysis:

In order to meet the accounting definition of 'control', accounting guidance must be considered. There are no bright lines to determine whether OPG has exposure, or rights, to variable returns from its involvement with the Trust, or whether it has the ability to affect the returns of the Trust through its power over the Trust. Rather, all facts and circumstances are considered when assessing whether an entity has control over another entity.

In order to consolidate the Trust, OPG must be able to demonstrate that it controls the Trust.

Control

An investor controls an investee if and only if the investor has all the following:

a) *power over the investee;*
b) *exposure, or rights, to variable returns from its involvement with the investee; and*
c) *the ability to use its power over the investee to affect the amount of the investor's returns.* [IFRS 10, paragraph 7]

Purpose and design of the investee
When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities. [IFRS 10, paragraph B5]

Criteria	Analysis
Purpose and design of the Trust	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
Relevant activities of the Trust and how decisions are made about those activities	Relevant activities: The relevant activities of the Trust are: • To evaluate and make decisions on financing alternatives, duration, and the strategy to minimize financing costs. • To effectively manage funding obtained through the capital markets and be able to make or lose any spread from financing • To provide funding to the IESO in return for an interest in a future cash flow stream • To obtain funding through the capital markets and other vehicles available to OPG to be able to provide the IESO funding. • To make capital and funding decisions required to meet the Fair Allocation Plan objectives as set out in Legislation • To finance the requirements associated with the short-fall amount • To raise debt, pay bond debt holders, and determine capacity for the Trust to raise additional financing Financing Plan (Legislation: Part IV – Implementation) • OPG's plan for managing the assets of the Trust will be dictated through a 'Financing Plan'. • The Financial Services Manager (i.e. the Trust) shall provide the Financing Plan to the Minister. The Financing Plan is expected to follow Principles as stipulated in the Legislation which indicate that the assumptions must be reasonable and that the Trust has the power to determine what is reasonable and cost-effective. The Trust makes all the decisions in determining the relevant activities as listed above. • OPG can amend the Financing Plan at any time without the approval of the Minister. Fair Allocation Amount (Legislation: Part IV – Implementation) • The 'Fair Allocation Amount' ("FAA") is the amount of the deferral for the reference period and includes finance amounts. The current Legislation dictates that the Minister of Energy is to calculate the FAA. • This does not impact OPG's relevant activities in the Trust as OPG's variable returns are based on financing decisions which are not dictated by the FAA. OPG can choose to accept or reject the purchase of the intangible asset which is based on the Fair Allocation Amount.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
	<u>Decisions made and voting rights of the Trust:</u> OPG has the ability to appoint and remove the Trustee (and if applicable Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust. **[NOT YET ADDRESSED IN CURRENT LEGISLATION]** *Voting of members:* Except as otherwise stated, all decisions of the members (if applicable) shall be made by the Trustee who will be appointed by OPG. <u>Termination Rights</u> OPG cannot be removed from its role in the Trust. The Province has the right to remove OPG as the 'Financial Services Manager' for failure to perform. This will not impact debt that has already been issued for which OPG is already managing through the Trust or the recoverability of existing intangible assets. It the right is exercised, it serves to reduce or eliminate the scope of new business activities of the Trust but it does not affect OPG's ability to control the Trust. Should a new Financial Services Manager be appointed, a separate assessment would be made as to which party if any would control it.
Assessment	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees. For the reasons noted above, OPG has control over the decisions to be made about the relevant activities.

Power over the investee	
Criteria	**Analysis**
Identify whether OPG's rights give it the current ability to direct the relevant activities of the Trust (Substantive rights)	See above for relevant activities of the Trust.
Assessment	OPG has the ability to direct the relevant activities of the Trust. OPG can amend the Financing Plan at any time, without approval from the Minister. Further, if the Minister of Energy chooses not to continue with OPG's current Financing Plan, OPG can withdraw its Financing Plan, without impacting the existing debt and related intangible assets that is already in the Trust. The Province would just appoint a new party to participate in future securitizations and OPG would continue to manage the debt that already exists in the Trust. If future financing transactions are with a different SPV, a separate consolidation analysis would be prepared at that time as to which party if any would consolidate the SPV.

Exposure or rights to variable returns	
Criteria	**Analysis**
Dividends, other distributions of economic benefits from an investee and changes in the value of the investor's investment in that investee [IFRS 10, paragraph B57(a)]	OPG is expected to realize management fees from its activities with the Trust.
Remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee [IFRS 10, paragraph B57(b)]	**[NOT YET ADDRESSED IN CURRENT LEGISLATION]** OPG has exposure and rights to variable returns from the Trust in the form of the following: • The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns. • OPG, through ownership of the most subordinated debt, is exposed to risk of non-collection. Given that the program is expected to run until 2047, this 30 year time period results in uncertainty about the future collection of OPG's amount at risk. OPG and the OFA (5% out of 44% contribution) would be the last parties to get paid in the event that the program stops running due to a change in Government, if electricity demand is not high enough to allow for collection from ratepayers in a timely manner, etc. The end date of 2047 that is prescribed in the Legislation results in uncertainty toward whether this program will continue and whether OPG will have collected its amount at risk at that time. • In the event that there is a market disruption whereby OPG is not able to obtain debt from the financial markets (e.g. due to a recession), the Province will provide funding in the event that OPG wishes to continue purchasing intangible assets from the IESO. This is considered to be a protective right as it does not impact the relevant activities of the Trust, but is designed to protect both parties and does not give either party more or less power over the Trust. It is designed to allow OPG to keep purchasing intangible assets if it wishes to. • Protective rights are typically held to prohibit fundamental changes in the activities of an investee that the holder does not agree with and usually apply only in exceptional circumstances (i.e., upon a contingent event). This is true for this right as it is only applicable if there is a market disruption and the Trust is not able to obtain financing from external markets. Further, the fundamental activities of the Trust would change if it were not able to obtain financing from external markets.
Returns that are not available to	• OPG will have synergistic benefits from combining operating

Exposure or rights to variable returns	
other interest holders. For example, an investor might use its assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the investor's other assets [IFRS 10, paragraph B57 (c)]	functions with the Trust given its extensive knowledge on the market and current regulatory knowledge.
Assessment	To determine which party is the most 'at risk' in the event that the loans default, expected loss rates were obtained from Moody's and DBRS. Using the *Moody's Investors Service – Loss Given Default for Speculative Grade Companies* dated December 4, 2015, the 4-year Idealized Expected Loss ranges from 0.00% for a triple A rated bond to 0.30% for an A3 rated bond. DBRS Expected Loss Ratings give an indication of the expected loss of a loan portfolio. As per a November 2016 publication, the 10-year expected loss rates range from 0.1% for a AAA rated bond to 1.7% for an A (low) rated bond. Given that OPG's subordinated debt is equal to 5% of the total debt, which is higher than the default rates above, 100% of the risk is with both OPG and the OFA since they are the last parties to get paid should there be any default with the debt. OPG is also exposed to variable returns from the Trust from its performance on decisions made on financing alternatives, duration, and the strategy to minimize financing costs through the variable fee component of the management fee. Therefore, OPG has the exposure to variable returns from the Trust.

Ability to use power to affect returns	
Criteria	**Analysis**
Ability of investor to use its power to affect the investor's returns from its involvement with the investee	OPG needs to have both power over the Trust (i.e. as a Principal, not an agent), exposure or rights to the variable returns from the Trust, and the ability to use its power to affect OPG's returns from its involvement with the Trust OPG has the ability to use its power over the relevant activities of the Trust to affect its returns from its involvement with the Trust through the variable fee component.

Ability to use power to affect returns	
	Further, the Trust's ability to use its power to affect returns is in a manner that is consistent with being a principal. See *Appendix B* for Principal-Agent analysis.
Assessment	OPG has the ability to use its power to affect returns of the Trust.

Conclusion:

Based on the current **[May 1, 2017]** draft of the legislation, the conditions to ensure the ability of OPG to consolidate the operations of the Trust have not fully been reflected. As noted in Appendix A, several conditions must be evident in the Regulations, Trust documents, and various other agreements which are not yet drafted and therefore not yet available for our review and assessment. In OPG's assessment, while no current clause of the Legislation would hamper the ability to effect a consolidation within OPG Inc.'s financial statements, there are several key conditions for consolidation that are currently not present within the Legislation. On the assumption that future Regulations, Trust documents and various other agreements fully capture these operating conditions, and that no new conditions that would conflict with OPG's control of the trust are introduced, OPG believes that consolidation of the Trust is supportable.

APPENDIX A:

Terms necessary for OPG to consolidate the Global Adjustment Trust

Note that these are assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. These are subject to change as subsequent drafts of the Legislation are issued.

Legend:

✓ **- Addressed by the Legislation drafted May 1, 2017**

RT – Not addressed by Legislation and must be addressed in Regulations, Trust Documentation or various other agreements

Ω - Will not be addressed in Legislation/Regulations or Trust but is the intended plan

Issue	No.	Requirements
Directive	1 ✓	The Trust must be undertaken by OPG as a business initiative on its merits. A Shareholder Directive is to be limited to direct OPG to investigate the option of establishing a Trust vehicle to administer, finance and operate the Global Adjustment plan and the operation of that Trust and the control, risk and rewards of that Trust will determine its consolidation into OPG as a business enterprise. ***MET - The Province will not direct OPG to participate in the Fair Hydro Plan. A letter was issued from the Minister of Energy to OPG on April 13th requesting OPG's involvement in the implementation of the Fair Hydro Plan. OPG's Board Chair responded to the Minister on April 18th committing OPG to work with the IESO and OEB to develop a plan. OPG will have the option to prepare, implement and amend a financing plan (in accordance with principles set out in legislation) and propose the adoption of such plan as the 'Financing Plan'. OPG will have the right to withdraw its financing plan at any time.***
Trust	2 **RT**	The Trust should not operate in a predetermined way such that OPG does not have decision-making authority over the Trust's ongoing activities after its formation (i.e. should not operate on 'autopilot'). ***OPG will be the sole unit holder of the Trust. All decisions over the relevant activities of the Trust (as described above) will be made by OPG.***
	3 **RT**	OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the Trust. ***OPG will be the sole unit holder of the Trust. The Province will be involved in the Board of Trustees, but OPG is expected to have the majority vote.***

<table>
<tr><th>Issue</th><th>No.</th><th>Requirements</th></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td>4
RT</td><td>The Province cannot have the right to veto OPG's decisions about the relevant activities of the Trust. OPG must have the power over the relevant activities of the Trust and be compensated. The relevant activities of the Trust include (but are not limited to) the evaluation and decisions on financing alternatives, duration, and the strategy to minimize financing costs. OPG must have the power to establish operating and capital budgets of the Trust.

OPG will have the ability to make decisions about the financing alternatives, duration, and the strategy to minimize financing costs. OPG will have the power to establish operating and capital budgets of the Trust with no veto right by the Province.</td></tr>
<tr><td></td><td>5
RT</td><td>OPG must have the power to determine or change operating and financing policies of the Trust, which will affect the variability of risks and returns.

The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.</td></tr>
<tr><td></td><td>6
Ω</td><td>The Province or its agencies must not directly or indirectly fund (through debt or equity) more than 50% of the following:
a. The Trust
b. The most subordinated debt of the Trust

See below for financing structure.

<table>
<tr><th></th><th>Risk Profile</th><th>Source</th><th>% of Total Fundin Requirement</th></tr>
<tr><td>Tranche A Senior Debt</td><td>the least risky</td><td>Capital Markets</td><td>51%</td></tr>
<tr><td>Tranche B Sub Debt</td><td>In between A&C</td><td>OPG via OEFC</td><td>39%</td></tr>
<tr><td>Tranche C Sub Debt</td><td>the most risky</td><td>OPG via OEFC</td><td>5%</td></tr>
<tr><td></td><td></td><td>OPG via Capital Markets</td><td>5%</td></tr>
</table>
</td></tr>
<tr><td></td><td>7
Ω</td><td>OPG must own at least 50% of the most subordinated debt and must be no less than 5% of the debt of the Trust. Such ownership must be financed entirely by OPG through operating cash flows or external debt, without assistance from Provincial sources.

See chart in Point 6 above.</td></tr>
</table>

Issue	No.	Requirements
	8 **RT**	OPG must have the ability to earn variable returns by exercising its authority, which shall be accomplished as follows: a. The cash flow from the restructured asset shall include interest determined based on a relevant benchmark that is appropriate relative to the restructured asset, plus an appropriate margin consistent with the relevant market and other risks ***The cash flow from the restructured asset will include interest income that is equal to the interest expense (i.e. interest expense is passed back to the ratepayers). The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	✓	b. OPG shall have the authority to determine the financing strategy, which will vary the financing costs with the objective of enabling the Trust to achieve a more favourable return compared to the benchmark for interest on the restructured asset ***OPG will determine the financing strategy through the proposal of its 'Financing Plan'. The 'Financing Plan' will only be required to follow general Parameters and Principles as set forth in the Legislation but funding decisions will be made entirely by OPG. The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	Ω	c. The Trust shall establish classes of liabilities (senior, subordinated and the most subordinated). The classes would allow the Trust to delineate financing of lower risk investment and investment that would bear higher residual risk. The delineation would limit OPG's self-funded investment to a reasonable level in order to allow OPG to remain a self-sustaining entity. ***OPG's portion of the most subordinated debt will be limited to a reasonable level. If it is determined that OPG's portion is not at a reasonable level, OPG has the option to withdraw its Financing Plan.***
	RT	c. OPG shall, through its ownership of the most subordinated liability, be able to capture and retain the pricing difference between cost of financing and benchmark for interest on the restructured asset, or any residual risk of restructured asset. The targeted return of the subordinated liability should be reflective of the underlying risks and compensate holders for active management that would be required.

Issue	No.	Requirements
		OPG will be able to capture the pricing difference between cost of financing and benchmark for interest through the performance fee which is described in point 5) above and the 'Exposure or rights to variable returns' section above.
	Ω	d. OPG should participate in the detailed design of the above and the Trust documentation to ensure that it has substantive power and variability, which will allow OPG's Board of Directors to evaluate the opportunity as a business initiative instead of through a shareholder directive. ***OPG will be involved in the Trust documentation.***
	RT	Defined Forced Majeure for emergency events (e.g. unlikely credit market event or disruption where it is not possible to borrow from the market at a reasonable rate), OFA may provide bridge financing beyond the designated percentage for a defined period. ***This will be structured through a separate indemnification agreement. This is not expected to impact consolidation of the Trust because this is seen as a protective right which is only in affect when a contingency arises and not as a result of the relevant activities of the Trust.***
Legislation	9 ✓	The Legislation must require interest, carrying and administrative costs to be paid to the Trust on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs. ***Under Part III – Clean Energy Adjustment – Section 8.3 Terms, of the Legislation, the expectation is that the Legislation will allow for interest payments to be paid to the Trust on a monthly basis in cash. The Trust will not accrue interest to the current intangible asset balances but this interest amount could form part of future intangible assets that are purchased from the IESO.***
	10 RT	The Legislation must dictate the manner in which the restructured asset would be determined, collected, and the period of collection, so that the determination of the restructured asset will not be subject to the Province's decisions on an ongoing basis, but determined based on a formula. Alternatively, the Legislation may allow for an adjustment to the pre-determined deferral formula based on specific parameters that would limit the adjustment to the restructured asset. Adjustments beyond the specific parameters would require approval by the Board of Trustee. **The Regulations are expected to dictate the 'Fair Allocation Plan' which will be based on high level Principles and Parameters of the Plan, including the attribution methodology. The Legislation or Regulation determines the following principles:** • **25% Reduction (June 1, 2017) where the average bill will**

Issue	No.	Requirements
		reduce by 25% including of HST and social programs noted above • **Inflation Period (November 2017 – April 2022) where bill increases are capped at inflation** • **Straight-line Increase Period (May 2022 – April 2027) where bills increased at a straight-line rate (i.e., 8% per year) which is set so that borrowing will not exceed the Trust's capacity.** • **Amortization Period (May 2027 – April 2047) where debt built up over the previous periods is repaid by ratepayers.** **OPG will determine the manner in which the intangible asset, once purchased from the IESO will be collected and the period of collection.** **The recoverability of the existing intangible assets cannot be impacted by the Province.** **Although the Province may determine the Principles and Parameters around the 'Fair Allocation Plan', it does not impact the activities of the Trust once OPG has purchased the intangible asset.**
	11 **RT**	The Legislation must be written to avoid legal or constitutional challenges and be irrevocable to reduce the cost of borrowing and with a specific formula which determines the deferral amount. **See above.**
	12 **RT**	The spirit of the above terms should be reflected in the Trust Indenture Agreement as well as Legislation, wherever possible. ***Trust Indenture and Regulations still outstanding.***

APPENDIX B:

Link between power and returns: principal-agency situations

The third criterion for having control is that the investor must have the ability to use its power over the investee to affect the amount of the investor's returns. When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether the decision-maker is a principal or an agent to determine whether it has control. This is because if the decision-maker has been delegated rights that give it power, the decision-maker must assess whether those rights give it power for its own benefit, or merely power for the benefit of others. As an agent cannot have control over the investee, it does not consolidate the investee. A principal may have control over the investee, and if so, would consolidate the investee.

A decision maker shall consider the overall relationship between itself, the investee being managed and other parties involved with the investee, in particular all the factors below, in determining whether it is an agent:

a) the scope of its decision-making authority over the investee

   As discussed above, OPG has decision-making authority over the Trust and its relevant activities. The Province has no right to determine what sort of funding decisions OPG should make to fund the intangible assets that they will purchase and OPG can choose not to purchase future intangible asset purchases.
   Terms and Conditions to support this point: 1, 2, 3, 4, 5

b) the rights held by other parties (paragraphs B64–B67).

   There are no substantive removal rights held by the Province for debt that already exists in the Trust.

   Terms and Conditions to support this point: 3, 4, 5

c) the remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs B68–B70).

   See section on 'Exposure or rights to variable returns' above.

   Terms and Conditions to support this point: 6, 7, 8, 9

d) the decision maker's exposure to variability of returns from other interests that it holds in the investee (paragraphs B71 and B72).

   See section on 'Exposure or rights to variable returns' above.

   OPG will receive a 44% equity injection from the Province of Ontario, indirectly through the Ontario Financing Authority. Given that currently, the majority (currently 51%) of the Trust debt will be from External Markets and not the Province, it can be argued that OPG did not receive the majority of its interest in the investee as a contribution or loan from the Province. This shows that OPG is a principal, not a de-facto agent.

   Terms and Conditions to support this point: 6, 7, 8, 9

Conclusion: OPG is not an agent for the Province as the arrangement does not provide for the Province to directly absorb any variability associated with the structure. If the Province decides to intervene at a later date due to evolving market conditions, an assessment would be made at that future date.

Analysis on whether OPG is an agent for ratepayers

OPG is not an agent for the ratepayers because OPG has substantive exposure to risk of loss of its own funds. The ratepayers do not have any of their own funds in any of the subordinated tranches and further, no decision making authority is delegated to the ratepayers relating to the relevant activities of the Trust.

Analysis on whether OPG is an agent for the IESO

OPG is not an agent of the IESO because the IESO faces no continuing risk of loss after sale of the intangible asset to OPG.

From: Hindmarch-Watson, Tim (CAB) [Tim.Hindmarch-Watson2@ontario.ca]
To: Felix Fung (MOF) [Felix.Fung@ontario.ca]; James Strang (MOF) [James.Strang@ontario.ca]
Subject: Fw: OFHP - LRC Submission
Date: Sunday, May 07, 2017 15:35:25
Attachment 1: LRC_MinistryApprovalForm OFHP May 7.doc
Attachment 2: GOV2017.089.e01.docx
Attachment 3: OFHA Compendium FINALv04.docx
Attachment 4: OFHP Variance Memo v03.doc

Fyi

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Sunday, May 7, 2017 2:09 PM
To: Hindmarch-Watson, Tim (CAB)
Cc: Moore, Karen (CAB)
Subject: OFHP - LRC Submission

Hi Tim,

Please find attached the final LRC submission. Also attached are the final legislation, compendium and variance memo.

This is Minister signed and hard copies will be delivered first thing on Monday morning.

Thanks,
Martin

Ontario

LEGISLATION AND REGULATIONS COMMITTEE: MINISTRY APPROVAL FORM

+LRC Tracking #: (DLEG-847)
EVista Tracking #: (SUB—DL-2017-00665)

Ministry of Energy

Ontario Fair Hydro Act, 2017
Legislation

Profile at a Glance

Priority: Key
Public Interest: Very High
Key Stakeholder Interest: High
New Costs/Burdens: Yes for Government, Yes for Stakeholders
New Savings/Opportunities: Yes for Stakeholders; No for Government

Proposed Items for Review

1. New legislation titled the Ontario Fair Hydro Act, 2017

Approvals required prior to LRC

	Committee and date	Cabinet Date
Policy	Cabinet approval received March 1	
TB/MBC	TB/MBC approval received March 9	

Deputy Minister _____ Date _____

Minister _____ Date _____

s. 1 Proposal and Context

- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), intended to lower bills on average by 25% for a typical residential consumer, starting in the summer of 2017. About half a million small businesses and farms are also expected to benefit.

- Any rate increases for residential consumers over four years would be held to the rate of inflation.

- These measures include the 8% rebate introduced in January and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

- The OFHP also announced enhancements to a number of existing programs targeted at more vulnerable electricity consumers, including funding some or all of the costs of these programs from the tax base rather than the electricity ratebase.

- OFHP is part of a significant system restructuring that will address long-standing policy challenges and ensure greater fairness.

- To implement OFHP, the Ministry has prepared the Fair Hydro Act, 2017 in close collaboration with key ministries (i.e., Treasury Board, Finance, Attorney General, Cabinet Office), agencies (i.e., OEB, IESO, OPG) and third party financial advisors and local distribution companies (LDCs).
    - The proposed Fair Hydro Act, 2017 would be an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998 and Electricity Act, 1998.

- The proposed OFHP legislation, supporting regulations and amendments to existing legislation (e.g., Electricity Act and Ontario Energy Board Act) will, if passed, enable implementation of the following key components of the Plan:

    A. Refinancing the Global Adjustment (GA) – The proposed legislation outlines how costs would be fairly allocated among eligible consumers over time.

    B. Helping Vulnerable Electricity Consumers – The proposed legislation broadens the Rural or Remote Rate Protection Program (RRRP) by creating a new distribution rate protection component, expands the Ontario Electricity Support Program (OESP) and establishes a new On-Reserve First Nations Delivery Credit. The legislation also allows for these programs to be funded (partially for RRRP) through the tax-base.

A. GA Refinancing

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in clean energy initiatives are allocated fairly among present and future generations of consumers.

- Refinancing the Global Adjustment (GA) would be achieved through the proposed stand-alone legislation, regulations and amendments to existing legislation and regulations.

- Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the GA. These mechanisms are described below.

B. Social Programs

- The proposed Ontario Fair Hydro Plan would help vulnerable electricity consumers by enhancing electricity support programs and shifting program costs onto the tax-base:
    - Enable Rural or Remote Electricity Rate Protection (RRRP) costs to be funded through provincial revenues;
    - Enhance Rate Protection through creation of new tax-base funded Distribution Rate Protection (DRP);
    - Enable Ontario Electricity Support Program (OESP) costs to be moved to tax base;
    - Create a new First Nation On-Reserve Delivery Credit, funded through provincial revenues

s. 2 Approach and Intended Outcomes

A. GA Refinancing

- The Fair Hydro Act, 2017 attempts to balance several key factors including financeability, accounting requirements and legal considerations.

- Following an extensive consultation process with internal and external experts, the proposed legislation strikes a balance between these three factors by:
    - Supporting financeability through a number of features, including enabling a provincial guarantee and provisions intended to provide certainty to investors in order to reduce borrowing costs and attract a wide investor base;

  - Addressing the necessary accounting requirements through mechanisms to record funding, interest and the transfer of regulatory assets to avoid a fiscal impact to the province; and
  - Mitigating legal risk by developing a methodology that attempts to fairly aligns costs and benefits.

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of clean energy initiatives are allocated fairly among present and future generations of consumers.
  - Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The proposed legislation would outline:
  - Roles and responsibilities for the OEB, IESO, OPG and the Province;
  - A detailed Preamble, Purpose and Definitions;
  - Details with respect to cost allocation, rate reduction methodology, implementation and financing;
  - Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
  - Amendments to other acts.

- The associated amendments to existing legislation and regulations include:
  - Electricity Act, 1998: amendments to provide OPG with the authority to establish a special purpose vehicle (SPV) for the investment asset and Ontario Energy Board Act, 1998: amendments to allow for OEB to set rates recognizing GA refinancing.

Preamble and Purpose

- The preamble of the proposed legislation establishes the rationale for the allocation of "clean energy costs" over time. That is, the development of a clean, modern and reliable electricity system has increased costs for ratepayers.

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of these investments are allocated fairly among present and future generations of consumers.
  - Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the Global Adjustment. Note: These mechanisms are described below.

- The legislation also restricts the OEB, Minister of Energy and the Crown from reducing, impairing or ending Clean Energy Adjustments in the future:
  - The Lieutenant Governor in Council may authorize the Ministers of Finance and Energy to enter into guarantees and indemnities related to the Act.

- The proposed legislation aligns eligibility with the Ontario Rebate for Electricity Consumers Act, 2016.

Fair Adjustment

- Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for a typical residential consumer, and to achieve comparable bill reductions for other eligible consumers, for the period July 1, 2017 to April 30, 2018.
    - Under the legislation, the OEB must determine the amount within 15 business days of the legislation receiving Royal Assent.

- The Fair Adjustment also allows the LGIC to make regulations prescribing electricity rates after April 30, 2018.

Clean Energy Adjustment

- The Clean Energy Adjustment is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period.

- The proposed Act outlines:
    - The process for determining the total Clean Energy Adjustment amount;
    - The obligation on individual ratepayers for the repayment of the amount; and
    - The inability to offset or bypass re-collection of the amount.

Fair Allocation Amount

- The Fair Allocation Amount is a calculation and allocation of clean energy costs and clean energy benefits over time.
    - The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager. Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
    - It is expected that the calculation would lead to decreased rates in the near term with upward pressure on rates in the long term.

- Under the legislation the calculation of the Fair Allocation Amount is guided by the principles and purposes of the Act including the proportional allocation of clean energy costs and benefits.

Financial Services Manager

- The legislation appoints OPG as the Financial Services Manager.

Financing Plan

- The Fair Allocation Amount is a calculation and allocation of clean energy costs and clean energy benefits over time.

  - The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager. Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
  - It is expected that the calculation would lead to decreased rates in the near term with upward pressure on rates in the long term.

- Under the legislation the calculation of the Fair Allocation Amount is guided by the principles and purposes of the Act including the proportional allocation of clean energy costs and benefits.

Regulatory Asset

- IESO will have a funding deferral resulting from the reduction in amounts collected during the first four years.

- The legislation enables IESO to record the under-collection of GA in a variance account, and deems the rights associated with this under-collected amount to be a Regulatory Asset.
  - OEB would determine rates to allow IESO to recover under-collection recorded in its variance account in the event the Regulatory Asset is not sold.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust.

Investment Asset

- The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

  - The legislation establishes property rights for the Investment Asset such as the right to collect principal and interest and financing costs in the form of the clean energy adjustment from eligible consumers.

- The Investment Asset may in turn be sold to other investors or group of investors.

- Through the legislation, the Board, Minister and Crown undertake not to hinder the charging and remittance or collection of clean energy adjustments.
  - The Province, through the Minister of Finance and the Minister of Energy may agree to guarantee performance, any debts and obligations and backstop its undertaking.

Amendments to Other Acts

- The legislation stipulates required amendments to existing legislation such as:
  - The Electricity Act, 1998 – to expand the objects of IESO and OPG to enable them to perform their rights and obligations in the proposed Act

- The Ontario Energy Board Act, 1998 – to address license conditions and the determination of regulated payments.

B. Social Programs

- The proposed legislation provides the authority to implement two new rate mitigation programs and expands upon two existing programs.

- To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

- The proposed legislation is intended to provide rate relief and assistance for:

    - **High Distribution Cost Customers**: Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
    - **Low-Income Customers**: Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
    - **First Nation On-Reserve Customers**: On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

Proposed Changes to the Ontario Energy Board Act, 1998 ("OEBA" or "Act")

- The Ontario Energy Board Act, 1998 would be amended to facilitate the roll out, expansion or change in funding of the following programs.

i. Rural or Remote Rate Protection (RRRP)

- RRRP is an existing program currently funded by ratepayers through the regulatory line of the electricity bill. Currently costs $1.58/month for a 750kWh consumer.
- Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province. For R2 customers the enhanced RRRP, or Distribution Rate Protection (DRP), is provided in addition to the RRRP the customers are already eligible for under the existing RRRP.

- Section 79 would be amended to provide the government the ability to fund a portion of the Rural or Remote Rate Protection Program through the tax base by prescribing certain classes of consumers who will be funded through a legislative appropriation.

- This includes the ability to pass regulations respecting the making of rules for the compensation of distributors with the money appropriated flowing from the legislature through the IESO to the various LDCs who would then provide the rate relief directly on consumers' bills.
- Should the legislation pass, Energy proposes to amend O. Reg 442/04 to enable provincial funding to compensate Hydro One for provision of RRRP to its R2 customers.

ii. Expanded RRRP - Distribution Rate Protection

- While the RRRP helps mitigate some of the higher distribution costs for Hydro One R2 customers, there is an opportunity to provide further relief to consumers in relatively high-distribution cost outlier LDCs. This relief would be financed from the tax base.
- Mitigation would be provided by harmonizing distribution rates for prescribed LDCs, as set by the Ontario Energy Board. The mechanism for determining this rate would be set out in regulation.

- The new section 79.3 of the Act would enable Distribution Rate Protection, which satisfies the commitment to expand RRRP.
  - The section includes the power to pass regulations prescribing LDCs, the classes of consumers or consumers designated as distribution rate protected consumers, the maximum amount of the monthly base distribution charge, limitation periods, and the type of information required by the Board and Ministry to implement and administer the program, including financial transactions.

iii. Ontario Electricity Support Program (OESP)

- Section 79.2 would be repealed and replaced in order to provide the government with the ability to shift funding for the OESP (once existing rate-based pooled funding has been depleted) from the rate base to the tax base, and the ability to share information with MCSS to coordinate OESP and social assistance programs. The Ministry has already completed a regulatory amendment that, effective May 1, 2017:
  - Increases the existing OESP credit scales by an additional 50%; and
  - Expands the categories of OESP credits.
  - Provides for OESP to be funded from the tax-base once the IESO's OESP variance account has been depleted.

- The legislative amendments would provide authority to make regulations to replace existing O. Reg. 314/15 to implement these changes.

- The total fiscal impacts to the province from the newly enhanced OESP will amount to: $140 million in 2017-18, $261 million in 2018-19, $325 million in 2019-20 and $375 million in 2020-21.

- Schedule 2 amends the OESP provisions by prescribing the ability to fund the program from the tax base.
    - The section also provides that the Ontario Energy Board or any other entity prescribed in legislation would be responsible for administering the program.
    - In addition, the licenses of LDCs, the IESO, unit-sub meter providers or electricity retailers are deemed to include anything which is necessary to administer and implement the program as may be set out in regulations or by the Board.
    - The section also requires that the Ontario Energy Board continue funding the program using the amounts previously accumulated in the IESO's OESP variance account which is the difference between funds collected through the regulatory charge and expended on OESP to date, until these amounts are depleted and the program shifts to the tax-base.
    - The section provides for broad regulation making power and includes the provision for the creation of different classes of rate assisted consumers and establishing rules for the calculation of the rate assistance to be provided.
    - New provisions also provide the necessary authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers in the future to support increased participation in the OESP program among social assistance clients.

- Note: the intended approach involves proclaiming s.79.2 into force on a future date to be named by proclamation. This would allow time for the funds accumulated in the IESO's OESP variance account to be more fully expended prior to the repeal and replacement of s.79.2.
    - However, the MCSS data sharing provisions, along with ss. Amendments to s. 79.2.1, the new sections 79.3 and 79.4, would come into force upon Royal Assent.
    - The OESP charge has been removed from electricity bills, however a surplus account has been accumulated which the OEB will continue to use until depleted.

iv. First Nations On-Reserve Delivery Credit

- On June 27, 2016, following discussions on Hydro One shares and rates at COO's All Chiefs Conference, the Minister of Energy issued a letter directing the OEB to prepare a report providing "*advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers*".

- The program is premised around the findings in the OEB report on a First Nations Delivery Rate Assistance. The proposed program features include:
    - Eliminating the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, from the bills of prescribed on-reserve customers. Regulations would then prescribe those on reserve consumers which are eligible for the on reserve credit.

  - Continue to provide eligibility to OESP while not disturbing eligibility for the Low Income Energy Assistance Program (LEAP) currently funded by distributors outside of these amendments to the OEBA; and
  - The program would be carried out by the 11 affected LDCs serving on-reserve consumers identified by the OEB in its report, including; Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution.

- The program is anticipated to have a fiscal impact on Government of $20 million, as estimated by the Ontario Energy Board, to implement.

- The new section 79.4 of the Act would establish the First Nation On-Reserve Delivery Credit. The section provides that for all prescribed consumers, living on-reserve, the entirety of their delivery line items will be removed from their bill as a delivery credit.
  - The program would be entirely funded through the tax base.
  - The section includes the power to make regulations prescribing further program details such as eligibility and funding parameters.

v. Ministry of Finance Accountability Provisions

- The social programs all involve the expenditure of tax money to fund the partial or entire program costs. As a result, the Ministry of Finance and Treasury Board Secretariat require that such money be tracked and accounted for throughout the process.

- Therefore, the OEBA has been amended to include new provisions between ss. 79.5 to 79.11 as follows
  - Section 79.5 – imposes information sharing and auditing requirements for the Ministry of Finance.
  - Section 79.6 – Defines the Finance Minister as the Minister responsible for ss. 79.7 to 79.11.
  - Section 79.7 – mandates record keeping, retention and content requirements.
  - Section 79.8 – enables the Minister of Finance to appoint inspectors who may carry out inquiries
  - Section 79.9 – sets out the regime for the recovery of overpayments
  - Section 79.10 – imposes confidentiality requirements on Ministry staff for the collection of information
  - Section 79.11 – creates offences for false or deceptive statements, fraud and the unlawful destruction of records.

s. 3 **Direction and Urgency**

A. GA Refinancing

- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower bills for residential consumers as well as most small businesses and farms. The initiative was announced as starting in the summer of 2017.

- The legislation for GA refinancing requires the OEB to make further rate adjustments no later than fifteen business days after the legislation receives Royal Assent for Regulated Price Plan (RPP) consumers to achieve the full 25% for a typical residential consumer, and for other eligible consumers to also receive a comparable bill reduction.

- The full reduction from the OFHP is expected to be addressed through a July 1st RPP rate adjustment.

B. Social Programs

- The direction for the creation and implementation of the social programs is found in a variety of sources including the Cabinet Minute, throne speech given on the government's efforts to mitigate the high price of electricity in Ontario, and public commitments made by the Minister and other key government spokespeople.

- The program has been announced to commence as of July 1, 2017. This includes both local announcements and organized speeches and press conferences.

s. 4 Impact Assessment and Costs

A. GA Refinancing

- The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.
    - o The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recovered.
    - o The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year.

- It is still possible that the full value of the Regulatory Asset may not be purchased.

- In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

- In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt.
    - The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line.
    - The Ministry of Energy has received an appropriation for $1.1 billion operating asset to support these injections for the fiscal year 2017/18, and will report back through PRRT for future funding. Based on the final fair allocation amount calculation, the equity injections would be required until the period of recovery begins.
    - The injections will be fiscally neutral for the province as they will be offset with the value of shares purchased from OPG.

- OPG will seek to achieve the highest possible credit rating (AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV/Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

B. Social Programs

i. Social Programs

Government Impact

- As approved in the TB/MBC submission of Mach 1st, 2017 and confirmed in Vote-Item 2905-1, the financial impacts on Government of the social programs for the period July 1 2017- March 31 2018 are anticipated to be as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection	344,000,000
Ontario Electricity Support Program	140,000,000
On-Reserve First Nations Delivery Credit	15,000,000

- ENERGY will report back to TB/MBC in fall 2017-18 with an update on out-year projections following analysis on rate applications before the Ontario Energy Board.

Stakeholder Impact

The Schedule 2 social programs will impact Local Distribution Companies and their consumers.

- For example, the Distribution Rate Protection program would involve 8 LDCs, the First Nations On-Reserve Delivery Credit will involve 11 LDCs and the only impacted LDC from the changes to the legacy RRRP program is Hydro One Networks Inc. (the R2 rate class).
- There may be modest impacts on unit sub-meter providers and retailers, due to the requirement to flow financial assistance through to consumers served such entities.

- The compliance costs for LDCs will involve the expenditure of money to alter their billing systems in order to carry out the program. This includes costs to alter the bill presentment and to include a new line on the bill that highlights the First Nations On-Reserve Delivery Credit.

Agency Impact

- The Ontario Energy Board would have a role in continuing to administer the OESP and in setting the harmonized monthly base distribution charge for the purposes of the Distribution Rate Protection Program.

- The Independent Electricity System Operator would be responsible for for flowing the funds used to reimburse/compensate LDCs for the costs of delivering the social programs from the money appropriated for such purposes from the legislature. This requires the IESO to monitor program specific variance accounts and flow the amounts necessary to compensate LDCs for the costs incurred in carrying out the programs.

- The proposal advances the government's overarching goal of reducing the cost of electricity paid by residential customers, especially those facing the highest costs of delivery.

s. 5 Implementation

A. GA Refinancing

- On April 20, 2017, the Ontario Energy Board (OEB) announced new Regulated Price Plan (RPP) rates effective May 1 that include a portion of the bill reduction proposed under the OFHP.

- These new RPP rates will include 50% of the estimated reduction in GA. This reduction in RPP rates, along with the removal of the OESP charge and the existing 8% rebate, will mean that May bills will be 17% lower than they would otherwise have been for an average consumer (15% lower for the typical Toronto Hydro consumer).

- The legislation for GA refinancing requires the OEB to make further rate adjustments no later than fifteen business days after the legislation receives Royal Assent for

RPP consumers to achieve the full 25% for a typical consumer and for other eligible consumers to receive a comparable bill reduction.

- The full reduction from the OFHP is expected to be addressed through a July 1st RPP rate adjustment.

- Regulations will be required to supplement the framework of the legislation to ensure that the OEB can make the required rate adjustments and to enable the financing contemplated by OPG SPV/Trust.

- The regulations are anticipated to be brought forward in mid and late June.

B. Social Programs

- The social programs would be implemented through subsequent regulations to follow that will expand upon the legislative framework to provide actual program specifications.

- The regulations are anticipated to be brought forward by late June, to allow for a July 1st program implementation.

- The efforts required to implement the programs would primarily fall upon the impacted LDCs who would need to adjust their billing systems in order to carry out the program.
    - For the OESP, the legislation contains transitional retroactive application of the provisions to offset any potential lapses in implementation.
    - The transitional retroactivity powers mitigate the risk of LDCs being unable to actualize the necessary OESP-related changes to their billings systems in time for the July 1st roll out and provides the utilities an extra prescribed time period (anticipated to be in the range of three months) to sort out any billing system alterations.
    - For the high-cost distribution rate protection and the on-reserve credit, there are more limited transitional provisions provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided.

C. Legal Considerations

- In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a “low” risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the “short” term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in

order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

- Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:
    - The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
    - If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
    - By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
    - The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

- The bill provides for provincial assurances, guarantees and a statutory cause of action.

- **The provincial assurance provision** is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

- The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

- In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the

Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

- **The guarantee provisions** are intended to backstop the provincial assurance provision and provide that:
    - the Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - the Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted.

A statutory cause of action may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

s. 6 Delivery and Results Tracking

A. GA Refinancing

- The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister. Such update calculations will be required given uncertainty related to electricity demand, interest rates and actual GA costs.

- The legislation establishes a framework for processes once the ratepayer relief is set. There is limited control once the plan is set, which could represent challenges for electricity planning and rate mitigation in future Long-Term Energy Plans.

- Under the legislation, OPG, as the Financial Services Manager, must prepare a Financing Plan and submit it to the Minister.
    - The Financing Plan sets out the funding obligations and amounts related to the financing of the under-collected GA amounts.

B. Social Programs

- As the social programs are funded through the tax-base, and in keeping with normal practice, Treasury Board Secretariat and the Ministry of Finance require that provisions be included that track the flow of tax money and hold all parties accountable for the proper allocation of tax money (proposed new OEBA s. 79.5-79.11).

- The actual implementation of the programs would be required to be shown on the bill (timelines will be in stated in the regulations). This timeline is in accordance with the feedback provided to the Ministry and the Board by affected LDCs.

s.7 Stakeholder Consultations

A. GA Refinancing

- In the development of the proposed legislation, the Ministry of Energy has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors (lawyers and accountants) and third party financiers (i.e., investment dealers).

- In addition, the Ministry hosted LDC workshop sessions on March 16 and April 19, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation.

B. Social Programs

- The Ministry has consulted with Energy agencies such as the Ontario Energy Board and the Independent Electricity System Operator on their respective roles and responsibilities.

- The Chief of Ontario (COO) have publicly supported the introduction of the First Nations Delivery Credit. ENERGY met with COO on April 26, 2017 to discuss implementation.

- The Ministry held working groups with all affected LDCs:
    - The Ministry received several quantitative data submissions from LDCs to help support the program and to buttress the implementation issues flagged by the utilities.
    - The consultations occurred in person and over teleconference.

- The consultations respecting the RRRP, the DRP and the On-Reserve First Nations Delivery Credit revealed concerns from LDCs over the costs of implementation and the timelines and obstacles to implementing the billing system changes.
- The feedback from the OEB helped to shape the estimates for the program costs of the proposed On-Reserve First Nations Delivery Credit as well as implementation timelines for the aforementioned program.

- Other key Ministries such as the Ministry of Finance and Treasury Board Secretariat were consulted as their will be a role for them to play in overseeing the implementation of the program funding.

s.8 Other Jurisdictions and Harmonization

A. GA Refinancing

- The program would not impact upon any other jurisdiction.
- GA refinancing does not harmonize Ontario rules with other jurisdictions and are not comparable to other Canadian jurisdictions.

B. Social Programs

- The program would not impact upon any other jurisdiction.
- The social programs do not harmonize Ontario rules with other jurisdictions and are not comparable to other Canadian jurisdictions.

s. 9 Communications

A. GA Refinancing

- The communications for GA refinancing will be referenced in ongoing announcements related to OFHP broadly, and as necessary targeted communications for specific stakeholder group can be developed.
- Energy has prepared a Communications Snapshot which summarizes the approach to communications.

B. Social Programs

- Energy has prepared a Communications Snapshot which summarizes the approach to communications.
- In respect of the First Nations On-Reserve Delivery Credit, the LDCs will work in collaboration with the Chiefs of Ontario and the Ministry to promote and advertise the availability of the credit to all eligible on-reserve customers.

s. 10 **Contacts and Appendices**

Contacts

	Name	Phone Number
Ministry Policy/Program	Tim Christie/Sunita Chander	5-6708/5-6594
Ministry Legal	Carolyn Calwell	2-8392
Ministry Communications		
Assistant or Deputy Minister's Office		
Cabinet Office Policy		

Appendices

Appendix A: Variance Memo
Appendix B: Compendium
Appendix C: Draft Legislation

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Fair Hydro Act, 2017

EXPLANATORY NOTE

The Bill enacts a new Act and makes amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*.

SCHEDULE 1
ONTARIO FAIR HYDRO PLAN ACT, 2017

The Schedule enacts the *Ontario Fair Hydro Plan Act, 2017*. The Act establishes a framework under which the costs and benefits associated with the "clean energy initiative" are to be allocated among present and future consumers of electricity. The "clean energy initiative" is defined in Part I as consisting of the policies of the Government of Ontario related to such matters as eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies.

Under Part II, the Ontario Energy Board is required to determine reduced electricity rates and to determine other adjustments to be made for certain classes of consumers in respect of specified periods of time. For example, for the class of consumers referred to as "regulated rate consumers", the electricity rates payable for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would achieve a 25 per cent reduction in certain costs for a hypothetical member of the class who meets prescribed criteria. Details regarding the determinations are prescribed by regulations.

Part III requires certain electricity consumers to pay an amount in respect of the "clean energy adjustment". The clean energy adjustment is determined by the Financial Services Manager in accordance with rules set out in the Act and the regulations. (Section 18 of the Act appoints Ontario Power Generation Inc. as the Financial Services Manager.) Part III also specifies the roles and responsibilities of electricity vendors and the Independent Electricity System Operator ("IESO") with respect to the collection and remittance of amounts in respect of the clean energy adjustment.

Part IV requires the Minister of Energy to calculate a "fair allocation amount" by taking specified steps in accordance with principles and assumptions set out in the Act. For example, the Act provides that the purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among certain consumers. Part IV also requires the Financial Services Manager to prepare a written

plan entitled the “Financing Plan”, which is to be used to evaluate whether potential funding obligations should be incurred. Principles and limitations regarding the preparation and implementation of the plan are provided.

Part V requires the IESO to determine the “IESO deferral” in accordance with the regulations and to establish and maintain a variance account in which it records the IESO deferral each month. A “regulatory asset” is created under section 25; the IESO has the right to recover the balance recorded in the variance account from certain consumers. The IESO is authorized to transfer a specified portion of the regulatory asset to a financing entity; this transfer results in the creation of the investment asset and the acquisition by the transferee of a corresponding “investment interest”. Various rules respecting the validity and priority of such a transfer are set out.

In Part VI, rules in respect of the “investment asset” are provided. Section 29 provides that the investment asset constitutes a current and irrevocable property right and interest, consisting collectively of various specified rights and interests of investment interest owners. Rules respecting the validity and priority of such a transfer and the granting of a security interest by an investment interest owner are included.

Part VII deals with various miscellaneous matters, including regulation-making authority of the Lieutenant Governor in Council.

The *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* are amended to address various matters relating to the enactment of the new Act. For example, the objects of the IESO and Ontario Power Generation Inc. are expanded to address powers and duties under the new Act.

SCHEDULE 2
AMENDMENTS TO THE ONTARIO ENERGY BOARD ACT, 1998

The *Ontario Energy Board Act, 1998* is amended. Among the amendments:

1. Section 79 of the Act is amended so that compensation for the rate protection provided to certain classes of rural or remote consumers may be funded out of money appropriated by the Legislature, rather than by consumers.

2. Section 79.2 of the Act, which governs the Ontario Electricity Support Program, is repealed and replaced. The program is continued, but will be funded out of money appropriated by the Legislature after the variance account maintained by the Independent Electricity System Operator, formerly established under the Plan, is exhausted, rather than by consumers. There are provisions relating to the sharing, use and disclosure of information relating to the administration of the Ontario Electricity Support Program.

3. Programs are established to aid certain distribution rate-protected residential consumers and on-reserve consumers.

4. Various amendments of a technical and administrative nature are made to support the implementation and oversight of these programs including provisions related to auditing, record-keeping, inspections and inquiries, offences and penalties.

Bill **2018**

An Act to enact the Ontario Fair Hydro Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

Her Majesty, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows:

Contents of this Act

1. This Act consists of this section, sections 2 and 3 and the Schedules to this Act.

Commencement

2. (1) Subject to subsections (2) and (3), this Act comes into force on the day it receives Royal Assent.

Schedules

(2) The Schedules to this Act come into force as provided in each Schedule.

Different dates for same Schedule

(3) If a Schedule to this Act provides that any of its provisions are to come into force on a day to be named by proclamation of the Lieutenant Governor, a proclamation may apply to one or more of those provisions, and proclamations may be issued at different times with respect to any of those provisions.

Short title

3. The short title of this Act is the *Fair Hydro Act, 2017*.

SCHEDULE 1
ONTARIO FAIR HYDRO PLAN ACT, 2017

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Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects. These commitments can only be achieved if costs are shared fairly among consumers, today and in the future.

Electricity rates have risen for two key reasons. First, decades of under-investment in the electricity system resulted in the need to invest more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable. Second, the decision to eliminate Ontario's use of coal and produce clean, renewable power has created additional costs.

The actions taken to achieve a clean, modern and reliable electricity system have resulted in significant costs to residential consumers. The burden of financing these system improvements and funding key programs has unfairly fallen almost entirely on the shoulders of those consumers.

The Government of Ontario is committed to ensuring that the costs of financing these investments and the associated charges to consumers are allocated fairly among present and future generations.

Recognizing that the electricity infrastructure that has been built and the policy decisions that have been made will create benefits for years to come, costs should be allocated fairly over time, so that residential consumers in the future pay their fair share for the benefits that they receive from the investments already made.

PART I
GENERAL

Interpretation

Definitions

1. (1) In this Act,

"Board" means the Ontario Energy Board; ("Commission")

"clean energy adjustment" means the amount determined under section 15 and payable by specified consumers; ("ajustement pour l'énergie propre")

"clean energy benefits" means the value of the benefits determined to be derived by or accruing to specified consumers as a result of the clean energy initiative, including as a result of clean energy costs; ("avantages de l'énergie propre")

"clean energy costs" means the value of the costs allocated to specified consumers as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

(a) the amounts to be paid or reflected by the IESO in adjustments made under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts or amounts for,

(i) renewable energy generation or capacity,

(ii) conservation and demand management,

(iii) energy storage,

(iv) energy efficiency,

(v) natural gas generation and capacity, excluding contracts relating to amounts payable by the IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed,

(b) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(c) such other costs or estimated costs as may be prescribed; ("coûts de l'énergie propre")

"clean energy initiative" means the policies of the Government of Ontario related to,

(a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,

(b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

(c) promoting conservation, demand management and energy efficiency, and

(d) investing in energy infrastructure to ensure a clean, modern and reliable system; (“initiative pour l’énergie propre”)

“electricity vendor” means,

(a) a licensed distributor,

(b) a licensed retailer,

(c) the IESO in circumstances where it directly invoices a specified consumer for electricity used in Ontario, or

(d) such other person as may be prescribed; (“vendeur d’électricité”)

“fair allocation amount” means an amount calculated under section 20; (“French”)

“finance amount” means the finance amount determined in accordance with the regulations; (“French”)

“Financial Services Manager” means the Financial Services Manager appointed under section 18; (“gestionnaire des services financiers”)

“financing entity” means an entity established or caused to be established by the Financial Services Manager as described in subsection 22 (2); (“entité de financement”)

“Financing Plan” means the plan prepared under section 21; (“plan de financement”)

“funding obligation” means a payment obligation incurred by or on behalf of an investment interest owner to fund its ownership of an investment interest or a payment obligation that meets such other criteria as may be prescribed; (“obligation financière”)

“funding rebate” means a payment obligation incurred by the IESO as part of the transfer of the regulatory asset; (“French”)

“IESO” means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; (“SIERE”)

“IESO deferral” means the amount determined under section 23; (“French”)

"investment asset" means the rights and interests described in section 29; ("actif d'investissement")

"investment interest" means,

(a) an ownership interest in the investment asset, and

(b) in circumstances where the ownership interest is transferred, the rights and benefits specified in the agreement under which the interest is transferred; ("participation d'investissement")

"investment interest owner" means a financing entity that has acquired and holds an investment interest; ("propriétaire de l'actif d'investissement")

"licensed distributor" means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system within the meaning of that Act; ("distributeur titulaire d'un permis")

"licensed retailer" means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; ("détaillant titulaire d'un permis")

"Minister" means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; ("ministre")

"Ontario Power Generation Inc." means the corporation incorporated as Ontario Power Generation Inc. under the *Business Corporations Act* on December 1, 1998; ("Ontario Power Generation Inc.")

"prescribed" means prescribed by the regulations; ("prescrit")

"reference period" means,

(a) the period beginning on July 1, 2017 and ending on October 31, 2017, and

(b) during the period beginning on November 1, 2017 and ending on either April 30, 2047 or such later day as may be prescribed,

(i) every six-month period following the period mentioned in clause (a); or

(ii) any period shorter than six months, as may be prescribed; ("période de référence")

"refinancing" means, subject to the regulations, the incurrence of debt in connection with a redemption, repayment or repurchase of a funding obligation; ("refinancement")

"regulation" means a regulation made under this Act; ("règlement")

"regulatory asset" means the right established under section 25; ("actif réglementaire")

"specified consumer" means,

(a) a person who has an account with an electricity vendor for the supply of electricity in Ontario and meets the criteria set out in subsection (2), or

(b) such other person as may be prescribed; ("consommateur déterminé")

"transfer" includes, when used in relation to an investment interest, the assignment, conveyance, disposition or sale of the investment interest; ("transfert")

"true up amount" means a true up amount determined in accordance with the regulations; ("French")

"unit sub-metering" has the same meaning as in the *Energy Consumer Protection Act, 2010;* ("activités liées aux compteurs divisionnaires d'unité")

"unit sub-meter provider" has the same meaning as in the *Energy Consumer Protection Act, 2010;* ("fournisseur de compteurs divisionnaires d'unité")

"variance account" means the variance account established by the IESO under subsection 24 (1). ("French")

Specified consumer

(2) For the purposes of clause (a) of the definition of "specified consumer" in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of not more than 50 kilowatts, or such other amount as may be prescribed.

2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.

3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or has had the

obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.

4. The person's account with the electricity vendor relates to,

    i. a dwelling,

    ii. a property within the meaning of the *Condominium Act, 1998*,

    iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or

    iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.

5. The person satisfies such criteria as may be prescribed.

Transfer of regulatory asset

(3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 26 (3):

1. A reduction in the balance in the variance account.

2. The adjustment of the regulatory asset.

3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Effect of invalidity

2. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if one or more provisions are held to be invalid, the intention of the Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect the validity or enforceability of a funding obligation incurred before the day that the provision is held to be invalid or ceases to be in effect, or any rights or obligations associated with the funding obligation.

Purposes

3. The purposes of this Act are,

(a) to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers;

(b) to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province; and

(c) to align clean energy costs with clean energy benefits, in order to provide fairness for specified consumers over time.

Crown bound

4. This Act binds the Crown.

Protection and assurances

Prohibition

5. (1) No action or omission by the Board, the Minister or the Crown shall be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.

Agreements

(2) The Minister and the Minister of Finance may together, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding the performance of the IESO or electricity vendors under this Act or related transactions.

Guarantee, indemnification

(3) The Lieutenant Governor in Council may by order,

(a) authorize the Minister and the Minister of Finance, acting together on behalf of the Province,

(i) to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and

(ii) to determine terms and conditions of the guarantee or indemnity and the maximum liability for the guarantee or indemnity;

(b) specify terms and conditions that must be included in any guarantee or indemnity given by the Minister and the Minister of Finance; and

(c) specify a maximum liability for the guarantee or indemnity.

PART II
FAIR ADJUSTMENT

Definitions

6. In this Part,

"regulated rate consumer" means a specified consumer who meets the following criteria:

1. The consumer is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1998 for the purposes of subsection 79.16 (1) of that Act.*

2. The consumer would, if the consumer were not subject to this Act, be invoiced the rates determined by the Board under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*. ("French")

Regulated rate consumers, first adjustments

7. (1) Despite any order under subsection 78 (3.1) of the *Ontario Energy Board Act, 1998 and despite section 79.16 of that Act, t*he electricity rates payable by regulated rate consumers for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would result in a hypothetical regulated rate consumer who meets the prescribed criteria being charged an invoice amount that is 25 per cent less than the invoice amount that would have been charged to that consumer under the comparison rates described in subsection (2).

Comparison rates

(2) The comparison rates are the rates that would have been effective May 1, 2017 if they had been determined by the Board *solely using the method prescribed by the regulations made under clause 79.16 (1) (b) of the Ontario Energy Board Act, 1998*, without taking into account any forecasted impact of any other provisions of this Act.

Invoice amounts

(3) The types of amounts to be included or excluded in each invoice amount mentioned in subsection (1) are the types of amounts specified in the regulations.

Other specified consumers, first adjustments

8. (1) For the period beginning on July 1, 2017 and ending on April 30, 2018, the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998 shall, with respect to specified consumers who are not regulated rate consumers, be further adjusted*

*by e*lectricity vendors in accordance with the determinations of the Board under subsection (2).

Board to make determinations

(2) The Board shall, in accordance with the regulations, determine the adjustments to be made by electricity vendors.

Same, regulations

(3) The regulations may specify different adjustments to be made in respect of prescribed classes of specified consumers who are not regulated rate consumers.

Determinations by Board

9. The Board shall make the determinations mentioned in sections 7 and 8 no later than 15 business days after the day this section receives Royal Assent and, regardless of whether the Board makes the determinations before or after July 1, 2017, the determinations shall be effective as of July 1, 2017.

Implementation by electricity vendors

10. (1) As soon as possible after the Board makes determinations under section 9, each electricity vendor shall, in respect of electricity used on or after July 1, 2017, ensure that its invoices reflect the determinations of the Board.

Same

(2) The electricity vendor shall ensure that, if any of its customers who are specified consumers have been invoiced in a manner that does not reflect the determinations of the Board under section 9, the specified consumer receives the difference between the amounts shown on the invoice and the amounts reflecting the Board's determinations, provided as a lump sum credit on the first invoice issued after the electricity vendor has adapted its invoices or by such other means as may be prescribed.

Subsequent adjustments

11. (1) Despite clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998 and s*ubject to subsection (2), the Lieutenant Governor in Council may prescribe the methodology to be applied by the Board after April 30, 2018 for the purpose of determining,

(a) electricity rates for regulated rate consumers; or

(b) adjustments to be applied by electricity vendors to the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998 in respect of prescribed classes of specified consumers who are not regulated rate consumers.*

Limitation

(2) Any prescribed methodology shall have regard to the following:

1. The purposes of this Act.

2. The clean energy costs borne by specified consumers over time.

3. Such other matters as may be prescribed.

Sub-metering

12. (1) This section applies if a specified consumer provides to another person electricity in respect of which a determination of the Board referred to in section 9 or 11 applies.

Same

(2) If an invoice for the electricity is issued to the person by the specified consumer or a unit sub-meter provider providing unit sub-metering for the specified consumer, the amount payable for the electricity by the person who is liable to pay the invoice shall be determined in accordance with the regulations.

PART III
CLEAN ENERGY ADJUSTMENT

Specified consumers to pay

13. (1) Upon receipt of an invoice from an electricity vendor that includes an amount in respect of the clean energy adjustment, a specified consumer shall pay the amount to the electricity vendor as agent of the investment interest owners.

Same

(2) For greater certainty, subsection (1) applies regardless of,

(a) whether the clean energy adjustment was determined in a manner that was inconsistent with this Act; and

(b) whether the amount payable in respect of the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan, including in a manner that failed to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Terms

(3) The payment shall be made in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Indebtedness of specified consumer

(4) An unpaid amount that is required to be paid by a specified consumer under this section constitutes indebtedness of the specified consumer to each investment interest owner to the extent of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer.

Unit sub-metering

(6) A specified consumer who provides electricity through unit sub-metering may collect amounts in respect of the clean energy adjustment payable under this section in accordance with the regulations.

Irrevocability of amount

14. (1) An amount in respect of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness resulting from the clean energy adjustment and is irrevocable upon invoicing the consumer and may not be set off or bypassed.

Exception

(2) Subsection (1) does not apply to the extent that the invoice reflects a clerical, typographical or calculation-related error.

Determination of clean energy adjustment
Financial Services Manager to determine

15. (1) The Financial Services Manager shall determine the clean energy adjustment payable by all specified consumers in respect of each month in a reference period by taking the following steps:

1. Calculate the sum of the following:

    i. The estimated finance amount in respect of the reference period.

    ii. The true up amount in respect of the reference period.

2. Divide the sum calculated under paragraph 1 by the number of months in the reference period.

Regulations re true up amount

(2) The Lieutenant Governor in Council shall, in making regulations with respect to the determination of the true up amount, have regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the finance amount when it is due.

2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

   i. differences between the estimated and actual finance amount for the applicable reference period,

   ii. differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and

   iii. variations in billings due to variations in electricity consumption.

Financial Services Manager to notify Board

(3) The Financial Services Manager shall, in accordance with the regulations, notify the Board of the clean energy adjustment in respect of a reference period and such other information related to the determination of the clean energy adjustment as may be prescribed.

Board to determine rates

(4) Without changing the clean energy adjustment, the Board shall, in accordance with the regulations, determine the rates at which specified consumers are invoiced to recover the clean energy adjustment in respect of the reference period.

IESO to receive amounts

16. (1) The IESO shall, as agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the market rules made under section 32 of the *Electricity Act, 1998 or the regulations*.

Account

(2) All of the following amounts received by the IESO shall, until remitted to or for the benefit of the investment interest owners in accordance with subsection (4), be

deposited promptly into an account established for the purposes of receiving those amounts:

1. Amounts described in subsection (1).

2. Payments made by specified consumers directly to the IESO as electricity vendor under subsection 13 (1).

3. Proceeds of amounts described in paragraphs 1 and 2.

Same, held in trust

(3) All amounts received by the IESO in respect of the clean energy adjustment shall, until remitted to or for the benefit of the investment interest owners, be held in trust by the IESO for the investment interest owners.

IESO to remit

(4) The IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the amounts referred to in subsection (1), to or for the benefit of the investment interest owners in accordance with the regulations.

Electricity vendor to invoice specified consumers

17. (1) Each electricity vendor shall issue an invoice to each of its customers who is a specified consumer for the amount payable by the consumer in respect of the clean energy adjustment, as determined by applying the rate set by the Board under subsection 15 (4) and in accordance with the regulations.

Electricity vendor to report

(2) Each electricity vendor shall, in accordance with the regulations, promptly report to the IESO the total amount invoiced to its customers who are specified consumers in respect of the clean energy adjustment, the amount collected and such other information as may be prescribed.

Electricity vendor to collect

(3) Each electricity vendor shall, as agent of the investment interest owners, collect amounts in respect of the clean energy adjustment from specified consumers in accordance with the regulations.

Pro rating of payments

(4) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

Held in trust

(5) Payments received by an electricity vendor from or on behalf of specified consumers in respect of the clean energy adjustment and all proceeds of the payments shall, until remitted to the IESO for the benefit of the investment interest owners in accordance with subsection (6), be held by each electricity vendor in trust for the benefit of the investment interest owners.

Remittance to IESO

(6) Each electricity vendor shall remit amounts in respect of the clean energy adjustment to the IESO for the benefit of the investment interest owners in accordance with the regulations.

PART IV
IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

18. Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act.

Duties and powers

19. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

Same

(2) The administration of the investment asset may include providing information to the IESO in respect of obligations under Part III and such other activities as may be prescribed.

Fees

(3) Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees in relation to such matters as may be prescribed in accordance with the regulations, which regulations may provide for the ability to recover costs and expenditures and to earn a return.

Same, Board approval

(4) Before establishing fees under subsection (3), the Financial Services Manager shall submit them to the Board for approval in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Minister to calculate fair allocation amount

20. (1) Subject to subsections (2) and (3), before the first funding obligation is incurred the Minister shall calculate a fair allocation amount in respect of each reference period, applying such method as the Minister considers appropriate and in accordance with the following steps:

1. Determine the estimated clean energy costs and estimated clean energy benefits allocated to specified consumers in respect of the reference period.

2. Determine the estimated reduction in the amounts payable by specified consumers as a result of determinations of the Board under Part II in respect of all previous reference periods, including the estimated reduction in clean energy costs described in clause (a) of the definition of "clean energy costs" in subsection 1 (1) that would otherwise have been payable by specified consumers in the absence of this Act.

3. Determine the amount, if any, by which the determination under paragraph 1 exceeds the determination under paragraph 2.

4. Calculate the sum of the amount determined under paragraph 3 and such other amounts as may be prescribed.

Principles

(2) In calculating the fair allocation amount, the Minister shall have regard to the following principles:

1. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among the specified consumers in respect of each reference period.

2. Calculations should be made having regard to the need to align each fair allocation amount with the estimated finance amount payable during the reference period.

3. Estimated clean energy costs allocated to specified consumers in respect of a reference period should be allocated in proportion to the estimated clean energy benefits attributed to the specified consumers in respect of the reference period.

4. Such other principles as may be prescribed.

Assumptions

(3) In calculating the fair allocation amount, the Minister shall make such assumptions as the Minister considers to be reasonable regarding the following:

1. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.

2. The expected number of specified consumers in respect of each reference period.

3. The expected electricity consumption rates in respect of each reference period.

4. Such other assumptions as may be prescribed.

Minister to provide amount to Financial Services Manager

(4) The Minister shall provide the fair allocation amount in respect of each reference period to the Financial Services Manager.

Recalculation

(5) A calculation of the fair allocation amount under this Part may be changed by such person as may be prescribed in accordance with such requirements as may be prescribed.

Same

(6) No change under subsection (5) shall affect any clean energy adjustment that has already been determined under section 15 or any funding obligations that have already been incurred before the change.

Information

(7) The Minister, the IESO, the Financial Services Manager, the Board and electricity vendors shall provide such information as may be prescribed in accordance with the regulations for the purposes of facilitating a change to a calculation of the fair allocation amount.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

21. (1) The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of a refinancing.

Plan to be provided to Minister

(2) The Financial Services Manager shall provide the Financing Plan to the Minister.

Principles

(3) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Funding obligations should be incurred such that, along with any funding obligations already incurred, the estimated finance amount that would, subject to any refinancing, become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period, in each case after reducing the fair allocation amount to reflect determinations of the Board under Part II in respect of the reference period.

2. Incurrences should be implemented in a manner that, in the opinion of the Financial Services Manager, is reasonable, cost effective and that reflects prevailing market terms and conditions.

3. Reasonable assumptions should be made regarding such matters as may be prescribed.

4. Such other principles as may be prescribed.

Limitation

(4) In respect of each reference period from July 1, 2017 to April 30, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment in respect of the reference period unless,

(a) the amounts are payable in respect of a reference period in respect of which the Board has not made any determinations under Part II; or

(b) if the Board has made a determination under Part II in respect of the reference period, the funding obligations incurred would not result in amounts payable in respect of the clean energy adjustment during the reference period in an amount that exceeds the limit determined in accordance with the regulations.

Other reports

(5) The Financial Services Manager shall submit to the Minister such reports and information as the Minister may require from time to time and shall, if required by the Minister to do so, examine, report and advise on any question relating to the Financing Plan.

Amendments to plan

(6) The Financial Services Manager may amend the Financing Plan at any time.

Same

(7) In the event that the Financing Plan is amended, any reference in this Act to the Financing Plan is deemed to be a reference to the plan as amended.

Incurrence of funding obligations

22. (1) The Financial Services Manager shall ensure that funding obligations incurred for the purposes of this Act are incurred in a manner that is consistent with the applicable Financing Plan.

Financing entities

(2) In accordance with the Financing Plan, the Financial Services Manager may establish or cause to be established one or more financing entities that may incur funding obligations.

Prohibition

(3) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, Ontario Power Generation Inc., the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation or other agreement.

Effect of amendment to fair allocation amount

(4) Each funding obligation incurred and each transfer made by a financing entity is deemed to be consistent with the Financing Plan and to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Same

(5) For greater certainty, subsection (4) applies despite the failure of the Financial Services Manager to comply with subsection (1).

PART V
THE REGULATORY ASSET

IESO deferral

23. (1) The IESO deferral for each month, commencing May 1, 2017, shall be determined by the IESO in accordance with the regulations.

Same, retrospective amounts

(2) For greater certainty, the regulations may provide for the IESO deferral to include an amount that was incurred by the IESO on or after May 1, 2017 and before the day this section comes into force.

Electricity vendors to provide information

(3) Electricity vendors shall provide to the IESO such information as the IESO may reasonably request for the purposes of determining the IESO deferral under subsection (1) and such further information as may be prescribed.

Same

(4) The IESO may rely on information provided by electricity vendors for the purposes of the determination under subsection (1).

Variance account to be established, maintained

24. (1) The IESO shall establish and maintain a variance account in which it records the following:

1. The IESO deferral for each month.

2. All payments received by the IESO resulting from the exercise of the right of recovery under section 25 and any transfer under section 26.

3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences on or after May 1, 2017 and before the day this section comes into force.

Recording determinative

(2) Subject to the correction of any obvious error by the IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

Rights of investment interest owner

(3) No change made by the IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 26, affect the rights acquired by the investment interest owner under the transfer.

Regulatory asset established

25. (1) Effective May 1, 2017, the IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

Board to set rates

(2) Subject to subsection (3), the Board shall, from time to time and in accordance with the regulations, determine and set rates payable by specified consumers to allow for the IESO to recover the balance recorded in the variance account.

Limitation

(3) The IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

Transfer of regulatory asset

26. (1) The IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

Agreement

(2) An agreement between the IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to the IESO in an amount equal to the amount of the specified portion.

Effect of payment

(3) Upon receipt by the IESO of the payment by the financing entity,

(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) the IESO shall retain no further right, title or interest in the corresponding investment interest.

Validity of transfer

27. (1) A transfer of a specified portion of the regulatory asset under section 26 constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

Same

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for the IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of the IESO's right to

recover the corresponding amount in the variance account and not merely as a security interest.

Deemed perfection, etc.

(3) At the time a transfer of the regulatory asset is made under section 26, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI
THE INVESTMENT ASSET

Investment asset established

28. (1) The transfer of a specified portion of the regulatory asset under section 26 creates an investment asset or, if it is not the first transfer, adds to the investment asset.

Same

(2) Upon transfer of a specified portion of the regulatory asset under section 26 to a financing entity, the investment asset resulting from the transfer is immediately vested in the financing entity, free and clear of any adverse claim.

Investment asset, irrevocable rights and interests

29. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that is imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, the IESO and other prescribed parties.

3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.

4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge and invoice for the clean energy adjustment.

5. The right to enforce the duties and obligations under this Act of each electricity vendor and the IESO to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by any electricity vendor to recover payment of the clean energy adjustment.

6. All rights of any kind related to any of the other property rights or interests that comprise the investment interest, including any rights to receive funding rebates.

7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether it is invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

Not affected by failure to impose etc. clean energy adjustment

(2) An investment interest is not affected by any failure to impose, attribute, invoice, accrue or collect amounts in respect of the clean energy adjustment.

No set off, etc.

(3) The investment asset shall not be set off,

(a) by a consumer, an electricity vendor, the IESO, an agent of the investment interest owners or an owner in the Province of a distribution system within the meaning of the *Electricity Act, 1998*;

(b) in connection with any default of a person mentioned in clause (a); or

(c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(4) The rights of the investment interest owners to collect and enforce their rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with Part III of this Act.

Collective action required

(5) If one investment interest owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment interest

owner collectively and in coordination with all other investment interest owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment interest owners as a collective in accordance with its terms.

Transfer of investment interest

30. An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

31. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the transferee a valid property right and interest in, to and under the applicable investment interest acquired in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment interest owner's right, title and interest in, to and under an investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected as described in the *Personal Property Security Act*, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer, and the property rights and interests acquired by the investment interest owner shall have priority over any liens in favour of such other persons.

Investment interest owner may grant security interest

32. (1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment interest owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any account of any electricity vendor, an agent of an electricity vendor or other person who may have commingled such revenues or other proceeds with other funds.

Notice required

(7) The secured party shall be entitled to exercise the rights of an investment interest owner only after the secured party has given notice of the enforcement of its security interest to the IESO.

Definition

(8) For the purposes of this section, a security interest is perfected when it is perfected as described in the *Personal Property Security Act.*

PART VII
MISCELLANEOUS

Appointment of agent, invoicing or collection

33. (1) If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Same, not Crown agent

(2) For greater certainty, a person appointed under this section is not an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Board's authority

34. (1) Each electricity vendor, the IESO and the Financial Services Manager shall maintain such accounts and provide such information to the Board as the Board may require for the purposes of carrying out its responsibilities under this Act, in the form and manner and within the time required by the Board.

No hearing required

(2) Despite anything to the contrary in the *Ontario Energy Board Act, 1998*, the Board may exercise any of its responsibilities under this Act without a hearing.

Sequestration

35. (1) A court in the Province may, upon application by an investment interest owner or a secured party, order the sequestration and payment of amounts in respect of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment interest owner or secured party by any person or entity authorized to collect amounts in respect of the clean energy adjustment, including defaults on any required remittance of amounts in respect of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Choice of law

36. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to a transfer under this Act or the creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section 5 shall be the laws of the Province.

Conflict

37. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

38. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required to be taken under the Financing Plan or in relation to the determination of the fair allocation amount.

Liability

39. (1) No action or other civil proceeding shall be commenced against any employee of the Province or Ontario Power Generation Inc. for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under this Act, the regulations under this Act or for any alleged neglect or default in the exercise or performance in good faith of such a power or duty.

Same

(2) Nothing in subsection (1) shall be read as limiting the effect of subsection 19 (1) of the *Electricity Act, 1998* or subsection 11 (1) of the *Ontario Energy Board Act, 1998.*

Same

(3) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.*

References in marketing materials and offering documents

40. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under section 5 unless the prescribed requirements, if any, are satisfied.

Regulations

41. (1) The Lieutenant Governor in Council may make regulations in respect of the following matters:

1. Governing anything that is required or permitted to be prescribed or that is required or permitted to be done by, or in accordance with, the regulations or as authorized, specified or provided in the regulations.

2. Defining, for the purposes of a regulation, words and expressions used in this Act that are not defined in the Act.

3. Governing the incurrence of debt for the purposes of the definition of "refinancing" in subsection 1 (1).

4. Governing the inclusion of information under this Act on or with invoices, which may include requiring notice to be provided by electricity vendors to specified consumers and other prescribed persons regarding the adjustments, including providing for different requirements in different circumstances and for different classes of specified consumers.

5. Governing the inclusion of information about the clean energy adjustment and any other matters provided for under this Act on or with invoices issued to specified consumers, including the form that the information must take and the form of the invoices and the form of any notice to be provided to the specified consumer under this Act.

6. Governing the manner by which invoices or notices provided for under this Act are to be provided to specified consumers and other prescribed persons.

7. Providing for a right of compensation for investment interest owners affected by a breach under section 29 and the manner in which such a right may be enforced under this Act.

8. Prescribing the time within which any action required by this Act may be required to be done.

9. Providing for such other matters as the Lieutenant Governor in Council considers advisable to carry out the purpose of this Act.

Limitation

(2) Despite subsection (1) or any other Act, no regulation under this Act shall have the effect of reducing, impairing, postponing or terminating the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or impairing or postponing the invoicing, collection, remittance or recovery of the clean energy adjustment.

PART VIII
AMENDMENTS TO OTHER ACTS

Electricity Act, 1998

42. (1) Subsection 6 (1) of the *Electricity Act, 1998* is amended by adding the following clause:

(q.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,

(i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*,

(ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities,

(iii) engaging in activities related to the transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,

(A) incurring liabilities in relation to the regulatory asset,

(B) transferring the regulatory asset under section 26 for consideration, and

(C) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

(2) Subsection 25.33 (1) of the Act is amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by the IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*.

(3) Subsection 25.33 (2) of the Act is amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by the IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*.

(4) Clause 25.33 (4) (b) of the Act is amended by adding "or as may be required by a regulation made under this Act or the Ontario Fair Hydro Plan Act, 2017" at the end.

(5) Subsection 25.33 (5) of the Act is amended by adding "or under the Ontario Fair Hydro Plan Act, 2017" at the end.

(6) Section 53.1 of the Act is amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

(1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

Deemed assets, non-subsidiary

(1.3) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is not a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of the financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries shall not form part of the assets and liabilities of the financing entity.

Deemed assets, subsidiary

(1.4) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of that financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries shall not form part of the assets and liabilities of that financing entity.

Definition, financing entity

(1.5) For the purposes of this section,

"financing entity" has the same meaning as in the *Fair Hydro Plan Act, 2017*.

Ontario Energy Board Act, 1998

43. (1) Subsection 70 (2.1) of the *Ontario Energy Board Act, 1998* is amended by adding the following paragraph:

4. The licensee is required to comply with the *Ontario Fair Hydro Plan Act, 2017*.

(2) Section 70 of the Act is amended by adding the following subsection:

Deemed condition of licences, unit sub-meter provider, *Ontario Fair Hydro Plan Act, 2017*

(2.4) Every licence issued to a unit sub-meter provider is deemed to contain the condition that the unit sub-meter provider is required to comply with the *Ontario Fair Hydro Plan Act, 2017* and the regulations made under it.

(3) Section 78.1 of the Act is amended by adding the following subsections:

Same, limitation re Ontario Power Generation Inc.

(3) The determination of a payment to Ontario Power Generation Inc. under this section shall not include any consideration of amounts related to activities of Ontario Power Generation Inc. carried out in relation to the *Ontario Fair Hydro Plan Act, 2017*.

Same

(3.1) The amounts referred to in subsection (3) include, without limitation, the following:

1. Amounts related to the appointment of Ontario Power Generation Inc. as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

2. Amounts related to the charging of fees for performing duties as the Financial Services Manager.

3. Amounts related to exercising the powers and performing the duties of the Financial Services Manager.

4. Amounts related to the consolidation of the assets and liabilities for accounting purposes of any special purpose financing entities established under and for the purposes of that Act.

(4) Subsection 79.16 (3) of the Act is repealed.

PART IX
COMMENCEMENT AND SHORT TITLE

Commencement

44. This Schedule comes into force on the day the *Fair Hydro Act, 2017 receives* Royal Assent.

Short title

45. The short title of the Act set out in this Schedule is the *Ontario Fair Hydro Plan Act, 2017*.

SCHEDULE 2
AMENDMENTS TO THE ONTARIO ENERGY BOARD ACT, 1998

1. (1) Subsection 79 (4) of the *Ontario Energy Board Act, 1998* is repealed and the following substituted:

Liability

(4) All consumers are required, in accordance with the regulations, to contribute towards the amount of any compensation required under subsection (3) that is not otherwise provided under subsection (4.1).

Payments for certain classes

(4.1) Compensation required under subsection (3) may be provided with respect to one or more prescribed classes of consumers who receive rate protection under this section, in a manner provided for in the regulations.

Money appropriated by the Legislature

(4.2) The compensation provided for in subsection (4.1) shall be paid for out of the money appropriated for those purposes by the Legislature.

Information, etc.

(4.3) If provided for in the regulations, the Board, the IESO and distributors, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of the rate protection or of anything else provided for in this section.

(2) Clause 79 (5) (e) of the Act is repealed and the following substituted:

(e) prescribing rules respecting the amounts that must be collected to compensate distributors, taking into account any compensation provided under subsection (4.1), including rules,

(i) respecting the calculation of those amounts,

(ii) respecting the calculation of any off-set to the liability of consumers under subsection (3) having regard to those amounts,

(iii) establishing the time and manner of collection,

(iv) requiring the amounts to be paid in instalments and requiring the payment of interest or penalties on late payments,

(v) prescribing methods of ensuring that the amounts required cannot be bypassed, and

(vi) respecting the distribution of those amounts to consumers;

(e.1) prescribing classes of consumers for the purposes of subsection (4.1), and governing how and when the compensation is to be provided with respect to the rate protection provided to them, including, without restricting the generality of the foregoing, requiring the IESO to receive payments or amounts from the Minister of Energy and to make payments to licensed distributors or to prescribed persons and prescribing how and when payments are to be made;

2. Section 79.2 of the Act is repealed and the following substituted:

Rate assistance

79.2 (1) The Minister shall make provision for rate assistance for rate-assisted consumers having regard to their economic circumstances, and where the Minister makes such provision, shall do so out of the money provided for in subsection (4).

OESP

(2) The program known as the "Ontario Electricity Support Program" in English and "Programme ontarien d'aide relative aux frais d'électricité" in French is continued for the purpose of providing rate assistance to rate-assisted consumers having regard to their economic circumstances.

Administered by Board

(3) The Ontario Electricity Support Program shall be administered by the Board, or when the regulations so provide, by a Minister of the Crown or other entity provided for in the regulations.

Money appropriated by the Legislature

(4) The money required for the purposes of the Ontario Electricity Support Program shall be paid out of the money appropriated for those purposes by the Legislature, once the amounts recorded in the variance account referred to in subsection (5) are no longer sufficient to provide for the funding of the program when taken on their own.

Variance account

(5) The money required for the purposes of the Ontario Electricity Support Program shall be provided out of the credit balance in the variance account maintained by the IESO under the Program as it existed before the coming into force of section 2 of Schedule 2 to the *Fair Hydro Act, 2017* until the amounts recorded in the account are no longer sufficient, when taken on their own, to fund the Program.

Variance account depleted

(6) The IESO shall provide the Ministry of Energy with advance notice, on a timely basis, of the time the IESO estimates that the amounts reflected in the variance account would be less than the amount required to meet its obligations related to funding the Ontario Electricity Support Program for the upcoming month.

How provided

(7) Rate assistance provided under this section shall be provided with respect to consumers prescribed in the regulations, and shall be provided at the times provided for in the regulations and in the amounts and in the manner provided for in the regulations.

Payments with respect to prior use

(8) The regulations may require provision of rate assistance to prescribed classes of rate-assisted consumers with respect to electricity consumed during a period prior to the date of the making of the regulation, but no such rate assistance shall be required under the regulations with respect to electricity consumed before January 1, 2016.

Transitional

(9) The regulations may require the provision of rate assistance for a rate-assisted consumer with respect to a period prior to the date on which the consumer became a rate-assisted consumer if the consumer meets all of the criteria prescribed by the regulations.

Distributors, etc.

(10) A distributor, a unit sub-meter provider and any other person or entity that may be prescribed is entitled to be compensated from the money referred to in subsection (4) or subsection (5), as the case may be, for any lost revenue resulting from the provision of rate assistance under the Ontario Electricity Support Program.

Deemed licence conditions, IESO, settlements, payments, etc.

(11) Every licence issued to the IESO, a distributor or unit sub-meter provider or a retailer of electricity shall be deemed to contain conditions requiring the licensee to do anything necessary to implement and administer the provision of rate assistance under this section as may be required by the regulations or the Board, including requirements with respect to,

(a) making payments to the IESO, distributors, unit sub-meter providers and other persons and entities identified by the regulations;

(b) receiving payments or other amounts from the IESO, distributors, unit sub-meter providers and other persons and entities identified by the Minister;

(c) requiring licensees to pass any rate assistance provided for under this section through to rate-assisted consumers in the manner provided for in the regulations;

(d) engaging in settlement activities;

(e) providing information to and receiving information from the Ministry of Energy, the Board, the IESO, distributors, unit sub-meter providers, retailers of electricity and any other prescribed persons and entities in the time and in the manner provided for by the Board or as may be prescribed; and

(f) entering into agreements or arrangements with licensees and other persons.

Information, etc.

(12) If provided for in the regulations, the Board, the IESO, distributors, retailers of electricity and unit sub-meter providers, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of rate-assistance or of anything else required under this section.

Conflicts, etc.

(13) Where any conflict exists between an order of the Board, a code issued by the Board or a licence condition and this section or a regulation made under this section, this section or the regulation made under this section shall prevail to the extent of the conflict.

Regulations

(14**)** The Lieutenant Governor in Council may make regulations governing anything dealt with in this section and without limiting the generality of the foregoing, may make regulations,

(a) governing anything that is described in this section as being prescribed or as being provided for in the regulations or that is required to be done in accordance with the regulations;

(b) governing the time or times at which rate assistance shall be paid or become payable to rate-assisted consumers;

(c) governing the determination of classes of consumers who are rate-assisted consumers, including providing for different classes of rate-assisted consumers;

(d) requiring that certain costs and expenditures related to the Ontario Electricity Support Program be only incurred with the prior approval of the Minister, and governing those costs and expenditures;

(e) establishing rules for the calculation of the amount of the rate assistance to be provided;

(f) governing payments under this section, including determining the method or methods of calculating the amount of rate assistance to be provided;

(g) setting maximum amounts of the total annual value of rate assistance that may be provided;

(h) requiring a distributor, the IESO or a unit sub-meter provider or other prescribed person or entity to make or receive payments in respect of rate assistance, including requiring them to make or receive payments directly to or from the Ministry of Energy or to receive overpayments directly or indirectly from consumers or other persons entitled to receive the rate assistance and prescribing the circumstances in which such payments are to be made and received and such overpayments are to be received as well as methods for determining the amounts payable or to be received;

(i) requiring the IESO to receive payments from the Minister and requiring the IESO to make payments to the Board, to licensed distributors, to unit sub-meter providers or to prescribed persons, in respect of the rate assistance provided under this section and governing methods for determining the amounts payable;

(j) governing the Board's or other prescribed entity's administration and program-related costs in administering the Ontario Electricity Support Program;

(k) governing transitional matters arising from the changes made to the Ontario Electricity Support Program as a result of the enactment of the *Fair Hydro Financing Plan Act, 2017*.

Retroactivity

(15) A regulation made under this section is, if it so provides, effective with reference to a period before it is filed.

General or particular

(16) A regulation under this section may be general or particular in application, may provide for different classes of persons and entities and may prescribe different rules for different persons or entities or different classes of persons or entities.

Verification of eligibility

(17) Section 11 of the *Ministry of Revenue Act* applies with respect to the Ontario Electricity Support Program as a government assistance program administered by the Board.

Definitions

(18) In this section,

"Government assistance program" has the meaning provided for in subsection 11 (2) of the *Ministry of Revenue Act*; "(programme d'aide gouvernementale)"

"rate-assisted consumer" means a consumer referred to in subsection (7). "(consommateur admissible à l'aide tarifaire)"

3. The Act is amended by adding the following section:

Confidentiality, information sharing, etc.

79.2.1 (1) For the purposes of section 79.2, the Board or the Minister or entity having responsibility for administering the Ontario Electricity Support Program may enter into an agreement with the Minister of Community and Social Services to provide the services to the public listed in subsection (2) on behalf of the Board, Minister or the entity, as the case may be, in relation to the administration of the Ontario Electricity Support Program.

Agreement, etc.

(2) The services that may be included in an agreement referred to in subsection (1) are the following:

1. Providing documents and information about the Ontario Electricity Support Program.

2. Processing applications for the Ontario Electricity Support Program.

Arrangements with others

(3) The Minister of Community and Social Services may arrange with another person or entity to provide, on behalf of that Minister, services that that Minister is authorized to provide under an agreement referred to in subsection (1).

Personal information

(4) The Minister of Community and Social Services is authorized to collect, use, disclose and retain personal information necessary to provide the services authorized by

an agreement referred to in subsection (1), but shall not collect, use, disclose or retain more personal information than is reasonably necessary to provide the services.

Limitation

(5) Except where otherwise authorized under subsection (7), the Minister of Community and Social Services shall not collect, use, disclose or retain personal information provided for in subsection (4) without the consent of the individual to whom the information relates.

Duty to transfer personal information

(6) The Minister of Community and Social Services shall transfer an individual's personal information provided for in subsection (4) into the control of the Board, Minister or entity responsible for administering the Ontario Electricity Support Program promptly after processing an application for the Ontario Electricity Support Program, but may retain such personal information as is reasonably necessary to confirm that an individual has been provided a service.

Use of personal information, etc.

(7) The Minister of Community and Social Services may use personal information maintained by that Minister in connection with the administration of the Ontario Disability Support Program and the program established pursuant to the *Ontario Works Act, 1997*, for the purpose of identifying and contacting individuals eligible for the rate assistance provided under the Ontario Electricity Support Program, and to provide services authorized under an agreement referred to in subsection (1).

Deemed compliance

(8) The use of personal information as allowed by subsection (7) is deemed to comply with section 41 of the *Freedom of Information and Protection of Privacy Act*.

Disclosure of list

(9) In order to assist the Minister of Community and Social Services to identify individuals eligible for rate assistance, the Board or the Minister or entity having responsibility for administering the Ontario Electricity Support Program shall, as soon as practicable after the coming into force of this section, disclose to the Minister of Community and Social Services a list of individuals who are enrolled in the Ontario Electricity Support Program, together with their mailing address and other contact information.

Use of list

(10) The Minister of Community and Social Services may use the information on the list provided under subsection (9) to determine whether an individual who is currently enrolled in the Ontario Disability Support Program or the program established under the *Ontario Works Act, 1997* is also enrolled in the Ontario Electricity Support Program.

Destruction of list

(11) The Minister of Community and Social Services shall destroy the list provided under subsection (9) no later than one year after receiving the list.

Notification about the management of personal information

(12) The Minister of Community and Social Services shall ensure that a notice is published on a website describing,

(a) the purpose for which that Minister collects, uses, discloses and retains personal information in connection with the Ontario Electricity Support Program;

(b) the types of personal information that may be collected, used, disclosed and retained in connection with the Ontario Electricity Support Program, and the circumstances in which the personal information may be collected, used, disclosed and retained in connection with that Program; and

(c) the title, and contact information, including an email address, of an employee who can answer an individual's questions about the use of the personal information under this section.

4. The Act is amended by adding the following sections:

Distribution rate-protected consumers

79.3 (1) The Minister shall provide for distribution rate protection to distribution rate-protected residential consumers having regard to the costs of the distribution of electricity to such consumers with respect to electricity consumed on or after the date prescribed by the regulations.

Money appropriated by the Legislature

(2) The money required for the purposes of the provision of distribution rate protection under this section shall be paid out of the money appropriated for those purposes by the Legislature.

Maximum charge

(3) Despite any order of the Board, or anything else under this Act, where the regulations so provide, a prescribed distributor who distributes electricity to distribution rate-protected residential consumers shall not charge those consumers, or a prescribed class of those consumers, any amount for monthly base distribution charges more than,

(a) the maximum amount for the charge that is provided for in the regulations; or

(b) the amount determined by the Board after applying any calculations, processes or methods provided for in the regulations.

Distributors

(4) A distributor who is prescribed under this section is entitled to be compensated from the money referred to in subsection (2) for lost revenue resulting from the provision of the distribution rate protection to distribution rate-protected residential consumers under this section.

Information, etc.

(5) If provided for in the regulations, the Board, the IESO and distributors, or any of them shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of distribution rate protection or of anything else required under this section.

Limitation periods for distribution rate protection, consumer

(6) Despite any past entitlement of a consumer who is eligible to distribution rate protection under this section, no distribution rate protection is payable to a consumer after a limitation period prescribed by the regulations in respect of the consumer, other than in such circumstances as may be prescribed by the regulations.

Limitation, reimbursement of distributor, etc.

(7) Despite any requirement under this Act to reimburse a prescribed distributor or other person for distribution rate protection provided by them to distribution rate-protected residential consumers under this section, no amounts for reimbursement are payable to the prescribed distributor or other person after a limitation period prescribed by the regulations in respect of the prescribed distributor or other person, where such reimbursement is based on a consumer's past entitlement under this section which has not yet been paid or reimbursed under this section, other than in such circumstances as may be prescribed by the regulations.

Transitional

(8) If, for technical or operational reasons, a distributor referred to in subsection (3) is unable to adapt its invoices to comply with this section and the regulations by the time it issues its first invoice for electricity consumed after the prescribed date in respect of an account of a consumer who is eligible for distribution rate protection under this section,

(a) the distributor shall adapt its invoices as soon as possible and, in any event, no later than a date prescribed in the regulations; and

(b) consumers continue to be entitled to receive the distribution rate protection to which they are entitled under this Act and may receive it as a lump sum credit

on the invoice for the first billing period after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Regulations

(9) The Lieutenant Governor in Council may make regulations,

(a) prescribing consumers or classes of consumers as distribution rate-protected residential consumers for the purposes of this section;

(b) prescribing dates for the purposes of subsections (1) and (8);

(c) prescribing distributors for the purposes of this section;

(d) governing anything that is described in this section as being prescribed or as being provided for in the regulations or that is required to be done in accordance with the regulations;

(e) governing the provision of distribution rate protection by the Minister in respect of distribution rate-protected residential consumers under this section including determining the method or methods of calculating the amount of rate protection to be provided;

(f) requiring the IESO to receive payments from the Minister and to make payments to licensed distributors, or to persons prescribed by the regulations, in respect of the distribution rate protection provided for under this section and prescribing methods for determining the amounts payable to distributors or distribution rate-protected residential consumers in respect of that protection.

Interpretation

(10) In this section,

"distribution rate-protected residential consumer" has the meaning provided for in the regulations; **(French)**

"monthly base distribution charges" has the meaning provided for in the regulations. (frais de distribution mensuels de base)

Delivery credit for on-reserve consumers

79.4 (1) The Minister shall provide a delivery credit to on-reserve consumers who meet the criteria prescribed under this section with respect to electricity consumed on or after the date prescribed by the regulations.

Money appropriated by the Legislature

(2) The money required for the purposes of the provision of the credits required under this section shall be paid out of the money appropriated for those purposes by the Legislature.

Eligible costs

(3) The eligible costs for the delivery credit referred to in subsection (1) are,

(a) the sum of the following charges for which the consumer would otherwise be liable,

(i) all variable and fixed distribution charges,

(ii) all charges based on the retail transmission network service rate,

(iii) all charges based on the retail transmission connection service rate,

(iv) all charges related to losses incurred in the distribution of electricity, except for such amounts that are included in regulatory charges provided for in the regulations, and

(v) any other charges that may be prescribed in the regulations; or

(b) where no separate charges for delivery are provided for by the distributor or other person or entity that may be prescribed in the regulations, the monthly service charge or such other amount as may be prescribed for or in respect of a prescribed distributor.

Delivery credit

(4) A distributor, person or entity shall, unless the regulations provide otherwise, provide the delivery credit referred to in subsection (1) by crediting the account of an on-reserve consumer.

Same

(5) The regulations may require that distributors and any other persons or entities provide a delivery credit to an on-reserve consumer who is entitled to a delivery credit under subsection (1) in such manner or in accordance with such methods as may be prescribed.

Same

(6) A distributor or any person or entity as may be prescribed is entitled to be compensated from the money referred to in subsection (2) for any lost revenue resulting from the provision of the delivery credits under this section.

Information, etc.

(7) If provided for in the regulations, the Board, the IESO and distributors, and other persons or entities, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of the delivery credits or of anything else required under this section.

Limitation periods for delivery credit, consumer

(8) Despite any past entitlement of an on-reserve consumer who is eligible for a delivery credit under this section, no delivery credit is payable to an on-reserve consumer after a limitation period prescribed by the regulations in respect of the on-reserve consumer, other than in such circumstances as may be prescribed by the regulations.

Limitation, reimbursement of distributor, etc.

(9) Despite any requirement under this Act to reimburse a distributor or other persons or entities for delivery credits provided by them to on-reserve consumers under this section, no amounts for reimbursement are payable to the distributor or other persons or entities after a limitation period prescribed by the regulations in respect of the distributor or other persons or entities, where such reimbursement is based on an on-reserve consumer's past entitlement under this section which has not yet been paid or reimbursed under this section, other than in such circumstances as may be prescribed by the regulations.

Transitional

(10) If, for technical or operational reasons, a distributor referred to in subsection (4) is unable to adapt its invoices to comply with this section and the regulations by the time it issues its first invoice for electricity consumed after the prescribed date in respect of an eligible account,

(a) the distributor shall adapt its invoices as soon as possible and, in any event, no later than a date prescribed in the regulations; and

(b) on-reserve consumers continue to be entitled to receive the delivery credit to which they are entitled under this Act and may receive it as a lump sum credit on the invoice for the first billing period after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Regulations

(11) The Lieutenant Governor in Council may make regulations,

(a) governing who is an on-reserve consumer for the purposes of this section and, without limiting the generality of the foregoing, may provide that consumers

who occupy certain areas are on-reserve consumers, and may do so without regard to whether those areas constitute a "reserve" under any other Act or law;

(b) prescribing dates for the purposes of subsections (1) and (10);

(c) governing provision of the delivery credits provided to on-reserve consumers under this section and, without restricting the generality of the foregoing, governing anything that under this section is to be prescribed or provided for in the regulations, or that is to be done in accordance with the regulations;

(d) determining the method or methods of calculating the amount of the delivery credits to be provided by the Minister in respect of on-reserve consumers under this section;

(e) requiring the IESO to make and receive payments to and from the Minister and to make payments to licensed distributors, or to persons prescribed by the regulations, in respect of the delivery credits provided for under this section and prescribing methods for determining the amounts payable to distributors or on-reserve consumers in respect of the credits provided.

Interpretation

(12) In this section,

"on-reserve consumer" has the meaning provided for in the regulations.

Application

79.5 Sections 79.6 through 79.11 apply to the programs provided for under sections 79, 79.2, 79.3 and 79.4 to the extent that they are funded by money appropriated for those purposes by the Legislature.

Definition

79.6 In sections 79.7 to 79.11,

"Finance Minister" means the Minister of Finance or such other member of the Executive Council to whom the administration of those sections is assigned under the *Executive Council Act*.

Records

79.7 (1) Every distributor and every other person prescribed by regulation shall keep at a location in Ontario such records as are necessary to determine and verify compliance with sections 79, 79.2, 79.3 and 79.4 and the regulations associated with them and any records required by those regulations to be kept.

Electronic records

(2) If a person keeps records in an electronic form, the person shall ensure that, from the time the records are first made and for as long as they are required to be retained,

(a) they remain complete and unaltered, apart from any changes or additions made in the normal course of communication, storage or display; and

(b) they are capable of being printed and of being produced in electronically readable format for inspection, examination or audit.

Retention of records

(3) Records required to be kept under subsection (1) shall not be destroyed unless authorization has been given in writing by the Finance Minister.

Offence

(4) Every person who fails to keep records in accordance with this section is guilty of an offence and, on conviction, is liable to a fine of not less than $50 and not more than $5,000.

Inspections and inquiries

79.8 (1) The Finance Minister may appoint one or more inspectors who are authorized to exercise any of the powers and perform any of the duties of a person authorized by the Minister under subsection 31 (1) of the *Retail Sales Tax Act* for any purpose related to the administration and enforcement of sections 79, 79.2, 79.3 and 79.4 of this Act.

Same

(2) Subsections 31 (1), (2), (2.1) and (2.2) of the *Retail Sales Tax Act* apply, with necessary modifications, with respect to the administration and enforcement of sections 79, 79.2, 79.3 and 79.4 of this Act.

Admission of evidence

(3) The Finance Minister, or a person authorized by the Finance Minister, may, for any purpose related to the administration of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them, reproduce from original data stored electronically any information previously submitted as required under those sections or regulations in any form by any person, and the electronically reproduced document shall be admissible in evidence and shall have the same probative force as the original document would have had if it had been proved in the ordinary way.

Inquiry

(4) The Finance Minister may, for any purpose related to the administration of sections 79, 79.2, 79.3 and 79.4 of this Act or the regulations made in association with

them, authorize any person, whether or not the person is an employee in the Ministry of the Finance Minister, to make such inquiry as the Finance Minister considers necessary with reference to anything relating to the administration of this Act or the regulations.

Copies

(5) If a book, record or other document is examined or produced under this section, the person by whom it is examined or to whom it is produced or any officer of the Ministry may make, or cause to be made, one or more copies of it, and a document purporting to be certified by the person to be a copy made pursuant to this section is admissible in evidence and has the same probative force as the original document would have if proved in the ordinary way.

Compliance

(6) No person shall hinder or molest or interfere with any person doing anything that the person is authorized by this section to do or prevent or attempt to prevent any person doing any such thing.

Same

(7) Despite any other law to the contrary, every person shall, unless the person is unable to do so, do everything the person is required by this section to do.

Administration of oaths

(8) Declarations or affidavits in connection with statements of information submitted pursuant to this section may be taken before any person having authority to administer an oath or before any person specially authorized for that purpose by the Lieutenant Governor in Council, but any person so specially authorized shall not charge any fee for doing so.

Application of *Public Inquiries Act, 2009*

(9) Section 33 of the *Public Inquiries Act, 2009* applies to an inquiry under subsection (4).

Recovery of overpayments

Definitions

79.9. (1) In this section,

"inspector" means an inspector referred to in section 79.8; ("inspecteur")

"overpayment" means an amount received by a person in excess of that to which the person is entitled under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them. ("trop-perçu")

Notice of overpayment

(2) If it appears to an inspector that a person has received an overpayment, the Finance Minister may send a written notice to the person advising the person of the following:

1. That the person has received an overpayment.

2. The amount of the overpayment and how it was calculated.

3. The required steps to be taken by the person with respect to the overpayment.

4. The date, not more than six months after the date of the notice, by which these steps must be completed.

5. That the Finance Minister has the authority to assess the person for the amount of the overpayment, plus interest, if the person fails to complete the required steps by the specified date.

Calculation of amount of overpayment

(3) For the purposes of this section, an inspector shall calculate an overpayment or the outstanding balance of an overpayment in the manner and form and using such procedures as the Finance Minister considers adequate and expedient.

Assessment

(4) If a person fails to complete the steps required in a notice under subsection (2) within the time specified in the notice, and any additional time requested by the person and permitted by the Finance Minister, the Finance Minister may assess or reassess the amount of the overpayment, or the outstanding balance of the overpayment, based on the inspector's calculation described in subsection (3).

Penalty

(5) If the Finance Minister makes an assessment or reassessment under subsection (4) and is satisfied that the person's non-compliance with the required steps in the notice was attributable to neglect, carelessness, wilful default or fraud, the Finance Minister may assess a penalty against the person equal to the outstanding balance of the overpayment when the penalty is assessed.

Time limit

(6) The Finance Minister shall not assess or reassess under subsection (4) more than 48 months after the end of the month in which the person received the overpayment.

Exception, where misrepresentation, etc.

(7) Subsection (6) does not apply if the Finance Minister establishes that the person has made a misrepresentation that is attributable to neglect, carelessness or wilful default or has committed any fraud in supplying information under this Act or the regulations or in omitting to disclose information.

Deeming

(8) An amount assessed or reassessed by the Finance Minister under this section is deemed, for the purposes of the administration and enforcement of this Act, to be a debt retirement charge owing and payable, as defined in subsection 85 (1) of the *Electricity Act, 1998*, that has been collected, on the last day of the month in which the person received the overpayment, by the person as a collector appointed under subsection 85.3 (1) of the *Electricity Act, 1998* and, for those purposes,

(a) sections 85.11, 85.12, 85.14, 85.17 and 85.30 of that Act apply with necessary modifications;

(b) in the application of sections 85.11 and 85.14 of that Act and without limiting the generality of clause (a) of this subsection, references to the Financial Corporation are read as references to the Minister of Finance and references to the Minister of Finance are read as references to the Finance Minister as defined in section 79.6 of this Act;

(c) the regulations made under that Act for the purposes of calculating the rate or rates of interest payable under section 85.11 of that Act and the manner of calculating the amount of interest apply with necessary modifications; and

(d) sections 23 and 36, subsections 37 (1), (1.1) and (2) and sections 37.1, 38 and 39 of the *Retail Sales Tax Act* apply with necessary modifications.

Disposition of repaid amounts

(9) If all or part of an overpayment is repaid to the Finance Minister, the Minister of Energy shall make such financial arrangements and payments as may be necessary to ensure that any person entitled to all or part of the overpayment receives the appropriate amount.

Confidentiality

79.10 (1) Except as authorized by this section, no person employed by the Government of Ontario shall,

(a) knowingly communicate or knowingly allow to be communicated to any person any information obtained by or on behalf of the Minister of Energy or

the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; or

(b) knowingly allow any person to inspect or to have access to any record or thing obtained by or on behalf of either Minister for the purposes of this Act.

Testimony

(2) No person employed by the Government of Ontario shall be required, in connection with any legal proceedings,

(a) to give evidence relating to any information obtained by or on behalf of the Minister of Energy or Finance Minister for the purposes of this Act; or

(b) to produce any record or thing obtained by or on behalf of either Minister for the purposes of this Act.

Exception

(3) Subsections (1) and (2) do not apply in respect of,

(a) criminal proceedings under any Act of the Parliament of Canada;

(b) proceedings in respect of the trial of any person for an offence under an Act of the Legislature; or

(c) proceedings relating to the administration or enforcement of this Act or Part V.1 or VI of the *Electricity Act, 1998*.

Communication

(4) A person employed by the Government of Ontario may, in the course of duties in connection with the administration or enforcement of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them,

(a) communicate or allow to be communicated to another person employed by the Government of Ontario in the administration or enforcement of any law or to an employee of the Board information obtained by or on behalf of either Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; and

(b) allow another person employed by the Government of Ontario in the administration or enforcement of any law or an employee of the Board to inspect or have access to any record or thing obtained by or on behalf of either Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

Reciprocal communication

(5) A person who receives information or obtains access to any record or thing under subsection (4) has a duty to communicate or furnish to that Minister on a reciprocal basis any information, record or thing obtained by the person that affects the administration or enforcement of this Act.

Use of information

(6) Any information, record or thing communicated or furnished under this section may be used only for the administration or enforcement of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them or an Act that is administered or enforced by the person receiving the information, record or thing.

Same

(7) The Finance Minister may permit information or a copy of any record or thing obtained by or on behalf of the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them to be given to,

(a) the person from whom the information, record or thing was obtained;

(b) any person by whom an amount is payable or has been paid under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; or

(c) the legal representative of a person mentioned in clause (a) or (b) or the agent of the person authorized in writing in that behalf.

Information

(8) The Finance Minister may permit information or a copy of any record or thing obtained by or on behalf of the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them to be given to any person employed by any government if,

(a) the information, record or thing obtained by that government for the purpose of any Act that imposes a tax or duty are communicated or furnished on a reciprocal basis to the Minister; and

(b) the information, record or thing will not be used for any purpose other than the administration or enforcement of a law that provides for the imposition of a tax or duty.

Offence

(9) Every person who contravenes any provision of this section is guilty of an offence and on conviction is liable to a fine of not more than $2,000.

Offences

False statements, etc., and fraud

79.11 (1) Every person who engages in any of the following acts or omissions is guilty of an offence:

1. Making, participating in, assenting to or acquiescing in the making of a false or deceptive statement in any document or answer required or submitted under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

2. Destroying, altering, mutilating, hiding or otherwise disposing of information or records of any person, for the purpose of evading compliance with sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

3. Making, assenting to or acquiescing in the making of a false or deceptive entry of a material particular in a record of any person required to maintain records for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

4. Omitting to make or assenting to or acquiescing in the omission of an entry of a material particular in a record of any person required to maintain records for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

5. Wilfully evading or attempting to evade, in any manner, compliance with an obligation under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

Penalty upon conviction

(2) A person convicted of an offence under subsection (1) is liable to either or both of the following penalties in addition to any other penalty assessed under this Act:

1. A fine in an amount that is not less than $1,000 and not more than $10,000.

2. Imprisonment for a term of not more than two years.

General offence

(3) Every person who contravenes, by any act or omission, any other requirement imposed under sections 79, 79.2, 79.3 and 79.4 is guilty of an offence and, on conviction, is liable, where no other penalty is provided for the offence, to a fine of not less than $50 and not more than $5,000.

Limitation period

(4) A proceeding to prosecute an offence provided for in this section must be commenced within six years after the date on which the matter of the offence arose.

Payment of fines

(5) Fines imposed on conviction of an offence provided for in this section are payable to the Finance Minister on behalf of the Crown in right of Ontario.

Commencement

5. (1) Subject to subsection (2), this Schedule comes into force on the day the *Fair Hydro Act, 2017* receives Royal Assent.

(2) Section 2 comes into force on a day to be named by proclamation of the Lieutenant Governor.

Fair Hydro Act, 2017

COMPENDIUM

The proposed Bill, the *Fair Hydro Act, 2017*, if enacted, would enact the *Ontario Fair Hydro Plan Act, 2017* and amend various Acts according to the provisions of Schedules 1 and 2 set out in greater detail below.

Schedule 1
Ontario Fair Hydro Plan Act, 2017

Schedule 1 enacts the *Ontario Fair Hydro Plan Act, 2017*. The Act establishes a framework under which the costs and benefits associated with the "clean energy initiative" are to be allocated among present and future consumers of electricity. The "clean energy initiative" describes the policies of the Government of Ontario related to fostering the development of a clean, modern and reliable electricity system.

Part I of the Act sets out the purposes of the Act and includes protections and assurances related to investor interests.

Under Part II of the Act, the Ontario Energy Board is required to determine reduced electricity rates that would achieve a 25% reduction in monthly invoice amounts from July 1, 2017 to April 30, 2018 for a hypothetical "regulated rate consumer" who meets prescribed criteria. The methodology to be applied by the Ontario Energy Board to determine electricity rates after April 30, 2018 would be prescribed by regulations.

Part III of the Act requires "specified consumers" to pay an amount in respect of the "clean energy adjustment". The clean energy adjustment is determined by the Financial Services Manager in accordance with rules set out in the Act and the regulations. Part III also specifies the roles and responsibilities of electricity vendors and the Independent Electricity System Operator ("IESO") with respect to the collection and remittance of amounts in respect of the clean energy adjustment.

Part IV of the Act requires the Minister of Energy to calculate a "fair allocation amount" by taking specified steps in accordance with principles and assumptions set out in the Act. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among specified consumers.

Also under Part IV, Ontario Power Generation Inc. is appointed as the Financial Services Manager. The Financial Services Manager is required to prepare a written "Financing Plan" to evaluate whether potential funding obligations should be incurred to acquire and

finance investment assets (under Part V). Constraints are placed on incurring funding obligations that would result in amounts becoming payable in respect of the clean energy adjustment from July 1, 2017 to April 30, 2021. In accordance with the Financing Plan, the Financial Services Manager may establish financing entities that may incur funding obligations.

Part V of the Act requires the IESO to determine the "IESO deferral" in accordance with the regulations and to establish and maintain a variance account in which it records the IESO deferral for each month. The balance in the variance account becomes a "regulatory asset", which the IESO has the right to recover from specified consumers through rates set by the Ontario Energy Board. The IESO is authorized to transfer a specified portion of the regulatory asset to a financing entity. The transfer results in the financing entity acquiring a corresponding "investment interest". The Act sets out various rules respecting the validity and priority of such a transfer.

In Part VI, the Act provides various rules in respect of the "investment asset" created by the transfer under Part V of a specified portion of the regulatory asset. Part VI provides that the investment asset constitutes a current and irrevocable property right and interest, consisting collectively of various specified rights and interests of investment interest owners. The Act also includes rules respecting the validity and priority of transfers of investment interests and the granting of a security interest in an investment interest by an investment interest owner.

Part VII deals with various administrative and miscellaneous matters, including regulation-making authority of the Lieutenant Governor in Council.

Part VIII includes consequential amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1999* to address various matters relating to the enactment of the new Act.

Schedule 2
Amendments to the Ontario Energy Board Act, 1998

Schedule 2 amends the *Ontario Energy Board Act, 1998*.

Section 79 of the Act is amended so that the rate protection provided to certain classes of rural or remote rate protected (RRRP) consumers may be funded out of money appropriated by the Legislature, rather than by consumers. Consumers would still be required to fund the remaining portion of RRRP not funded through appropriations.

Section 79.2 of the Act, which governs the Ontario Electricity Support Program (OESP), is repealed and replaced on a date to be named by proclamation of the LGIC. Once s.79.2 is proclaimed, the program would be continued, but will be funded out of money

appropriated by the Legislature after the variance account maintained by the IESO is exhausted, rather than by consumers. There are provisions relating to the sharing, use and disclosure of information relating to the administration of the OESP.

New provisions are created in the Act to establish programs to provide rate protection to certain distribution rate-protected residential consumers and a delivery credit to on-reserve consumers.

The Schedule also contains various amendments of a technical and administrative nature to support the implementation and oversight of these programs including provisions related to auditing, record-keeping, inspections and inquiries, offences and penalties.

The Schedule contains regulation-making authority in order to specify the details required to implement the various government-funded.

Ministry of the Attorney General

Legal Services Branch

Ministry of Energy
Ministry of Economic Development and Growth
Ministry of Research, Innovation and Science
Ministry of Infrastructure
Accessibility Directorate of Ontario

56 Wellesley Street West
18th Floor,
Toronto, ON
M7A 2E7

Telephone: (416) 325-1841
Fax: (416) 326-1021

Ministère du Procureur général

Direction des services juridiques

Ministère de l'Énergie
Ministère du Développement économique et de la Croissance
Ministère de la Recherche, de l'Innovation et des Sciences
Ministère de l'Infrastructure
Direction générale de l'accessibilité pour l'Ontario

56, rue Wellesley Ouest
18e étage,
Toronto, ON
M7A 2E7

Téléphone: (416) 325-1841
Télécopieur: (416) 326-1021

PRIVILEGED AND CONFIDENTIAL

Memorandum To: The Honourable Glen Murray
Chair of the Legislation and Regulations Committee

From: Carolyn Calwell
Director, Legal Services Branch

Date: May 5, 2017

Re: Ontario's Fair Hydro Plan
An Act to enact the Ontario Fair Hydro Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

I have examined the draft of the above-referenced item being submitted to Legislation and Regulations Committee on May 10, 2017 and have compared that draft with the policy approved by Cabinet on March 1, 2017.

As a result of this comparison, I am able to advise you that the draft corresponds to the approved policy with the exception of the variances identified on the attached chart.

_____
Carolyn Calwell
Director

Ontario's Fair Hydro Plan
An Act to enact the Ontario Fair Hydro Act, 2017
and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

Minute Item	Approved Policy/Policy Sought to be Approved	Proposed Variance	Degree of Variance	Rationale/Commentary
1.A	Total projected bill increases will be kept in line with Consumer Price Index (CPI) **until the end of 2021.**	Bill increases will be prescribed by regulation for the period May 1, 2018 **to June 30, 2021**.	Low	June 30, 2021 aligns with public communications that rate increases will be held to inflation over the next four years. This regulation making authority would enable the government to keep bill increases in line with CPI.
1.A	Cap bill increases due to repayments at around 10% of the total bill.	Bill increases will not be capped.	High	Consultation with stakeholders and external advisors revealed that a legislated cap would undermine investors' certainty in recovering their investment. However, the debt rating will be impaired if modelling suggests that rates could increase more than 10%, providing a cap in practical terms.

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – March 1, 2017	**Tracking to: Fast Track** LRC at Cabinet – March 10, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan Legislation

I. DECISION BEFORE THE BOARD

Receive a report back on Ontario Fair Hydro Plan implementation, supporting implementation decisions and recommending the proposed Ontario Fair Hydro Plan Act to proceed to LRC and Cabinet for approval.

II. RECOMMENDATIONS:

• Receive a report Ontario Fair Hydro Plan implementation: o Proposed legislation ▪ Note key aspects of proposed legislation ▪ Recommend proposed legislation o Approve up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program to fully recover costs for the public education campaign.	*Board Judgement*
• Direct the Ministry to return to TB/MBC with regulations support implementation prior to going to LRC. • Note outstanding report back requirements, • Direct in-year reporting through quarterly reporting and PRRT planning process on spending to date versus funding allocation for Electricity social programs and Global Adjustment Refinancing	

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Affordability Fund	0.0	0.0	0.0
	Global Adjustment Refinancing*^	0.0	0.0	0.0
	Electricity social programs*	499.0	753.0	829.0
	Ontario Rebate for Electricity Consumers	939.0	882.0	882.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

* Subject to enacting proposed Ontario Fair Hydro Plan legislation.
^ As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget, linked to proposed legislation

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017 the Ministry received TB/MBC approval for additional rate mitigation actions that support up to a 25% electricity bill reduction (including the 8% reduction announced in 2016 for an average household in 2017. The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017. This submission deals with three key elements of the OFHP:

- Refinancing Portion of Global Adjustment (GA) to partially defer RPP eligible ratepayer GA costs (Implementing a non-fiscal impact approach over government funding).
- Expanding, enhancing ratepayer funded electricity social programs and shifting them to being government funded (OESP, RRRP), along with a new government funded On-Reserve First Nations Delivery Credit.
- Expansion of Industrial Conservation Initiative (ICI).

The Ministry was directed to report back to the Board with proposed legislation supporting OFHP implementation, including the following specific direction regarding a non-fiscal mechanism (approach) to refinancing a portion of Global Adjustment costs (Appendix C provides the March 1, 2017 minute):

- Formal accounting opinions from OPG and IESO auditors.
- Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
- Report on the multi-year profile of GA smoothing, identifying specific assumptions.
- Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
- Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

Direction was also given to report back with final details for electricity support programs, as well as programs' effectiveness, efficiency, and sustainability.

The current submission does not address all report back requirements. The proposed legislation would establish the legislative framework, to be followed by further program related details being set by regulations at a later date (Ministry is targeting June 2017).

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two Schedules (Appendix D provides details of each part):

- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment partial refinancing)
- Schedule 2: Legislative amendments for electricity social programs

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment (GA) Refinancing)

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

The Ministry indicates under OFHP, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017 (This includes the 8% Ontario Rebate for Electricity Consumers). In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Reflecting March 2017 approvals (See Appendix C for March 2017 TB/MBC minute), proposed legislation for GA Refinancing is designed to establish a non-fiscal impact mechanism. Minuting indicated proceeding with GA Refinancing requires completed legal, accounting and financing risk assessments.

The proposed approach to GA Refinancing is complex. Appendix D provides proposed legislative details.

- At a high level, the proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future.

    - July 1, 2017, to April 30, 2018, reduces, on average, after-tax electricity costs for "specified consumers" by 25% (inclusive of the 8% rebate and shifting of support program to be government funded).
    - May 1, 2018, to June 30, 2021, electricity rates will be prescribed by regulation with the intention to keep increases in line with the Consumer Price Index (CPI).
    - July 1, 2021, to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs.
    - Through the bill and amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998, expands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to provide for appropriate oversight, put in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the refinanced GA costs.

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG, through a special purpose vehicle (OPG Trust) is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Schedule 2: Legislative amendments for electricity social programs

Electricity social programs becoming government funded under OFHP target residential electricity customers disproportionately affected by increased electricity costs.

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The bill amends the *Ontario Energy Board Act, 1998* for various electricity social programs:

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001. The bill enables the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial appropriations, rather than from electricity.

Appropriated funds would be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the government funding provided.

Distribution Rate Protection (Broadened RRRP)

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

The proposed legislation would enable a broader government funded Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge for consumption on or after July 1, 2017.

If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The legislation contains retroactive application of the provisions to offset any potential lapses in implementation and ensure that consumers receive the benefit following the July 1st effective date through to the final effective date of October 1st, 2017.

On-Reserve First Nations Delivery Credit

The proposed bill would enable the provision of a government funded on-reserve First Nations Delivery Credit (FNDC), which would eliminate the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The program is premised around the findings in an OEB Report submitted to the Ministry on December 29, 2016 providing advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers.

Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program to being government funded, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid

by all Ontario consumers on May 1, 2017. On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will come into effect on May 1, 2017.

The proposed bill would move the recently expanded Ontario Electricity Support Program (OESP) to government funding, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program (ODSP) and Ontario Works (OW) to potentially allow for automatic enrolment procedures to be established.

The Ministry indicates the proposed legislative amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

Expansion of Industrial Conservation Initiative (ICI)

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and “1114”) in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

The Ministry is also undertaking targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants.

- The extent of the impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

Financials

Electricity Social Programs:

March 1, 2017 TB/MBC approvals supporting OFHP included full year projected costs. The 2017 Ontario Budget included refined projected costs shifting expanded/enhanced electricity social programs from ratepayers to being government funded starting in 2017-18, lowering the total amount from $665M to $499M to reflect rollout timing not full year costs. The table below shows expense amounts currently in the PRRT multi-year fiscal plan related to these support programs for the most vulnerable consumers.

Government Funded Social Programs ($million)	2017-18	2018-19	2019-20	2020-22
Rural or Remote Rate Protection (RRRP)	344	472	484	497
Ontario Electricity Support Program	140	261	325	375
On-Reserve First Nations Delivery Credit	15	20	20	20
Total	**499**	**753**	**829**	**892**

GA Refinancing:

The 2017 Budget also includes an investment operating asset of $1.1B related to the Province's equity injection to OPG, enabling the OPG Trust to regularly purchase IESO's regulatory asset through 2017-18. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. The Province's net debt will remain unchanged as the equity investment in OPG would offset the additional Provincial borrowing.

Projected annual amounts of GA deferrals (i.e., the regulatory asset) are shown below and are not part of the province's multi-year fiscal plan (2017 Budget(Assumed to be funded from electricity ratepayers udner the proposed legisation). Appendix E provides analysis of financial models.

($million)	2017-18	2018-19	2019-20	2020-22
GA Refinancing - Residential Bills lowered by 25%	2,534	2,668	2,942	3,420
Interest Portion (5% annually, compounded monthly)	32	162	298	449

Under GA refinancing, ratepayers will incur interest costs and will be added to the GA payments ratepayers make.

- OPG intends to use a Special Purpose Vehicle (OPG Trust) to purchase the "right to collect" assets from the IESO in return for cash. OPG Trust will be structured to finance 51% of its funding requirements through the capital market with the remaining 49% being provided by OPG as subordinated debt. The 49% subordinated debt from OPG will be financed though debt from the capital markets (about 5%) and through equity injections from the Province (44%).

- The proposed legislation does not compel the OPG Trust to purchase 100% of the regulatory asset created by IESO at any given time. IESO have noted that it may need to cover clean energy costs if for some reason the OPG Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. On behalf of IESO, the Ministry is requesting a credit facility for IESO, up to about $3B, and notes the use of this credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO. Appendix F provides more information.

Financial, Accounting, Legal Risk Assessments:

In the March 1, 2017 TB/MBC Minute, refinancing the Global Adjustment to partially defer RPP eligible ratepayer GA costs, was subject to completed legal, accounting and financing risk assessments. Appendix G provides more details from the Ministry.

Financial

The Ministry indicates it has prepared legislation and is working on developing regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure

that the full value of any investment is recoverable.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year.

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

The Ministry indicates the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost.

The Ministry also acknowledges given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term, and the rate of inflation.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The Ministry indicates the following:

- Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations, satisfying accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

KPMG:

- The proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements.
- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.
- The regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG/E&Y:

- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.
- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-

making, funding and ongoing operation.

- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.
- Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.
- Judges can be expected to take a careful look at the government's evidence in support of the re-allocation of Global Adjustment.
- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.
- The provincial assurance provision - Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes. The proposed legislation focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers.
- The provincial guarantee provisions are intended to backstop the provincial assurance provision Legal risk to the province will be assessed as the agreements are negotiated and drafted.
    - The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.
- Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry indicates it retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements.

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. The Ministry indicates Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social,

health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

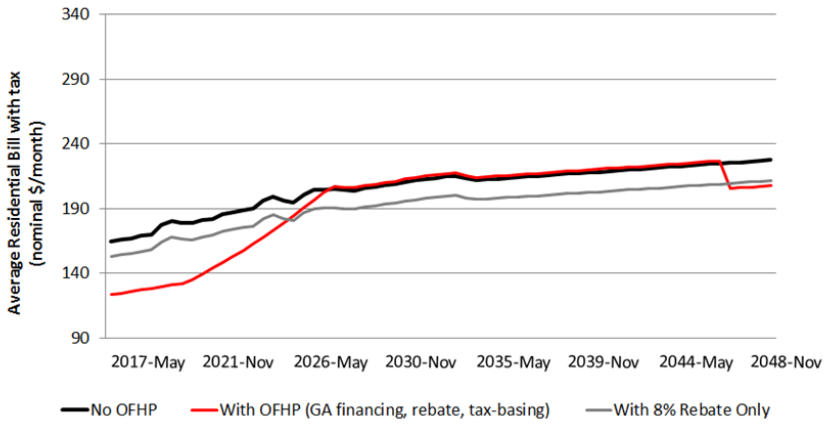
The Ministry's signed submission included external opinions and assessments for Ontario Power Generation (Accounting), KPMG Letter to the Independent Electricity System Operator (Accounting Opinion), Ernst &Young (as auditors) letter to OPG concurring with OPG's description of OPG accounting considerations of OFHP.

TBS staff note external opinions and assessments are supportive of the Ministry's intended plan for implementing Ontario's Fair Hydro Plan, noting the opinions and assessments must be revisited once key implementation details are finalised (e.g. draft legislation, regulations, special purpose vehicle documents, terms of conditions within various other agreements etc). Future reassessments and other factors such as Ontario electricity demand, interest rates in the medium to long-term, and the rate of inflation may contribute to fiscal plan implications emerging over time.

TBS staff also note, while submission details and related discussions have not indicated a non-fiscal mechanism cannot be established, the complexity of the transaction and the time frame involved suggest it is not reasonable, at present, to support a claim of no impact on the province's fiscal plan as the Ontario Fair Hydro Plan is implemented (Appendix H includes a strategic level risk assessment prepared by TBS staff). .

Ultimately, GA Refinancing being a sustainable strategy assumes electricity consumers' willingness to accept later to bear the extra costs of deferring electricity price hikes.

- The following graphic from the Ministry indicates the multi-year profile of GA Refinancing:



The chart above shows the expected multi-year profile under GA Refinancing for each Regulated Price Plan (RPP) period. In the first year, residential bills are projected to be 25 per cent lower as result of the OFHP. In the early years, bills increases are held to the rate of inflation – assumed to be 2% per year in the chart above. From July 1, 2021 onwards, prices increase at a higher rate compared to the first four years on the OFHP.

In the medium to longer term, residential bills exceed what they would have been but for the OFHP. However, in any given year, a typical residential bill under the OFHP cannot exceed what it would have been without OFHP by more than 10 per cent.

Media Procurement Request

The Ministry is requesting approval up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program to fully recover costs for the public education campaign.

The Ministry indicates spending about $1M on media planning and buying for radio and digital media. The Ministry is forecasting $2.5M in 2017-18 (Q clarifying the remaining $1M).

Name of analyst:	James Strang With input from CO, COE, OPCD and OFA	**Phone number:**	416-327-2071
Date:	May 8, 2017	**Log number:**	
Branch / Division:	GGPR, PEMD, COE, OPCD/Treasury Board Secretariat Ontario Financing Authority/ Ministry of Finance		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

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

Receive the report back on proposed legislation supporting implementation of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

i) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

a) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
b) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
c) Shift from electricity consumer funding to funding out of voted appropriations for Ontario Electricity Support Program, and for majority of costs for existing RRRP.
d) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

a) Establishing the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
b) Requirement for future consumers to pay the clean energy adjustment that backs financings
c) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
d) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
e) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights
f) Sets out that security interests can be granted in investment interests in the investment asset

ii) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

iii) Note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments.

iv) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC.

In this regard,

a) Direct the Ministry to include a report on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates
b) Direct the Ministry to report back with final program details for 2017-18 for GA Refinancing and Social Programs, including fiscal plan implications.

Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the broadened program now government funded
- Report on and assessment of impacts of consolidation of LDCs
- Assessment of distribution rates and implications for the program

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

- Identify eligibility criteria, and refinements being made.
- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

…Placeholder for media procurement minute…

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX D: PROPOSED FAIR HYDRO ACT OVERVIEW

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two schedules:

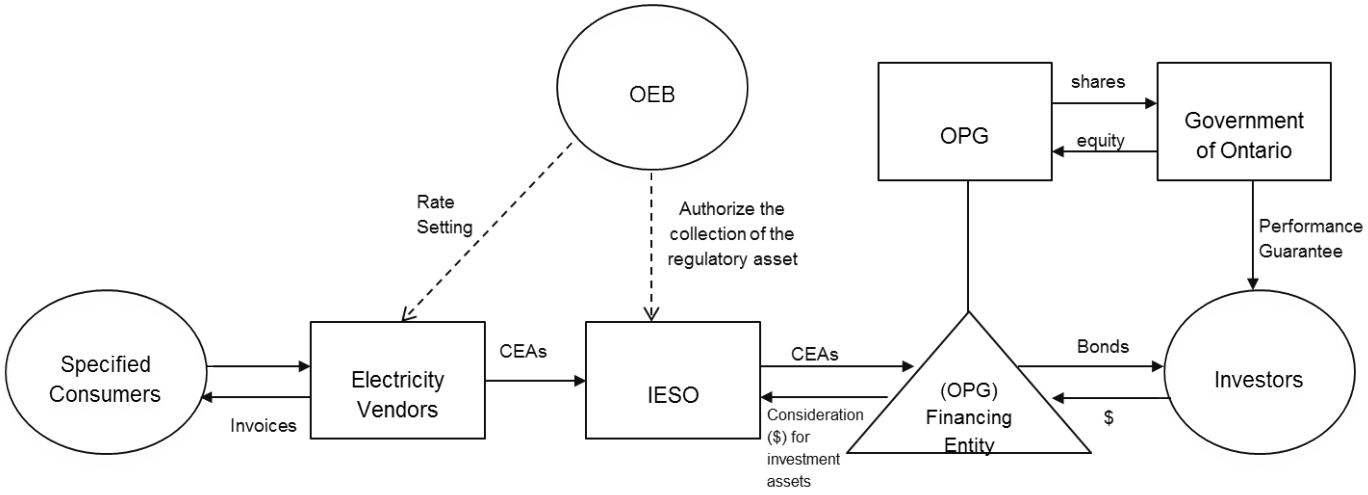
- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Dealing with Global Adjustment (GA) refinancing).
- Schedule 2: Legislative amendments for electricity social programs (See Appendix D1)

The Ministry has provided the following overview of the proposed legislation:

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (GA refinancing).

Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system (Clean Energy Initiative) creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations. The diagram below outlines how the refinancing of GA would be implemented.



Note: CEAs are "clean energy adjustments"

Clean Energy Costs and Benefits:

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (the Global Adjustment provisions) which relate to contracts for:
  - Renewable energy generation or capacity
  - Conservation and demand management, including shortage
  - Energy efficiency
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*
  - Other such costs to be included in "clean energy costs" may be prescribed

- These are the costs to be distributed fairly among the specified consumers through the "fair allocation amount".

Fair Allocation Adjustment:

- Part II establishes that the rate that will be payable by "specified RPP consumers" from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the "comparison rate". The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.
- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).
- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.
- The Minister sets the fair allocation amount.

    - The establishment of the "fair allocation amount" is required to,
        - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods"; and
        - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).
    - The "fair allocation amount" is to have regard to:
        - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the "specified consumers" (in the applicable "reference periods");
        - Reasonable assumptions regarding the time value of money, the number of consumers in the "reference period"; and
        - Expected electricity consumption for the reference period.

Regulatory Asset and Investment Asset:

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets.
- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a "regulatory asset". In simple terms, the regulatory asset is IESO's right to recover the revenues that it has deferred collecting.
- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities. OPG financing entities are not required to purchase the regulatory asset.
- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".
- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

Issuance and Payment of Debt:

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.
- The financings will be backed primarily by the "clean energy adjustments" payable by specified consumers. The "clean energy adjustments" will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the "fair allocation amounts" ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).
- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity's related funding obligations.
- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario's undertakings not to adversely affect the program through subsequent legislation.

Financing Plan:

- The Financing Plan is prepared by the Financial Services Manager (OPG).
- The Financing Plan is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.
- There are rules that apply to the Financing Plan:
  - It must align with the "estimated finance amount" that will become due and payable during a "reference period";
  - It must take into account the "fair allocation" and any "fair adjustment";
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancing, redemption opportunities and liquidity, and similar assumptions).
- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.
- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

Who Does What?

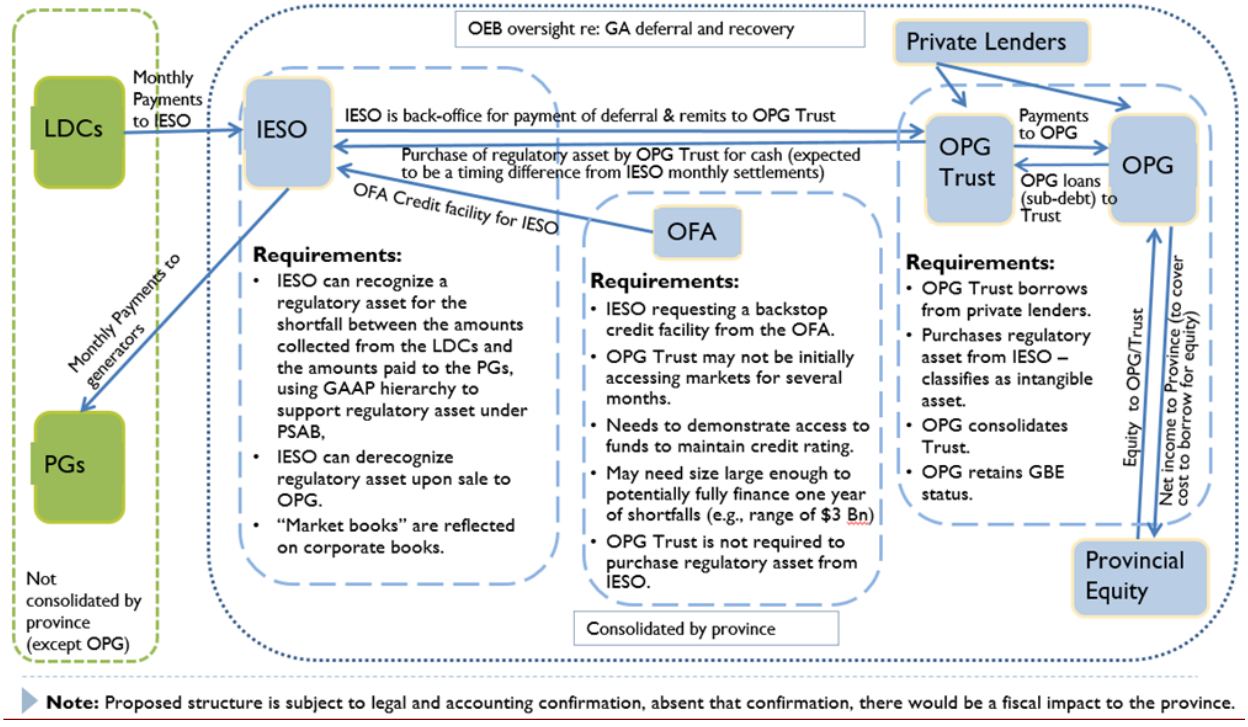
- Minister of Energy – Determine the "fair allocation amount" applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.
- Ontario Power Generation (OPG) – As financial services manager, OPG will be responsible for the following under the Act:
  - Prepare and implement Financing Plan.
  - Establish and administer the financing entities.
  - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.

- Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

- Independent Electricity System Operator (IESO):
  - Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.
  - Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.
  - Coordinates the collection of "clean energy adjustments" from Electricity Distributors.
  - Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.
  - Fund initial interest costs and expenses during the first 4 years.

- Local Distribution Companies (LDCs):
  - Obligation to invoice specified consumers.
  - Collect, as agent of the investment interest owners, "clean energy adjustments" from specified consumers.
  - Hold money received for clean energy adjustments in trust until remittance to the IESO.

- Ontario Energy Board:
  - Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).
  - Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).
  - Review the administrative costs of OPG in connection with the administration of the program.



Schedule 2: Legislative amendments for electricity social programs moving to being government funded

As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:

- Enhancing and providing government funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates
- Enhancing and providing government funding for the Ontario Electricity Support Program (OESP)
- Creating a new First Nation On-Reserve Delivery Credit and providing for government funding

Overview of RRRP and Broadened Distribution Rate Protection:

- Section 79 of the Ontario Energy Board Act would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution cost.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program:

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.
- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.
- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.

- Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
- This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit:

- Energy is proposing legislative amendments that would establish a First Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.
- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

APPENDIX E: ANALYSIS OF FINANCIAL MODELS AND RISKS (UNDER DEVELOPMENT)

Treasury Board Secretariat received two models related to global adjustment refinancing.

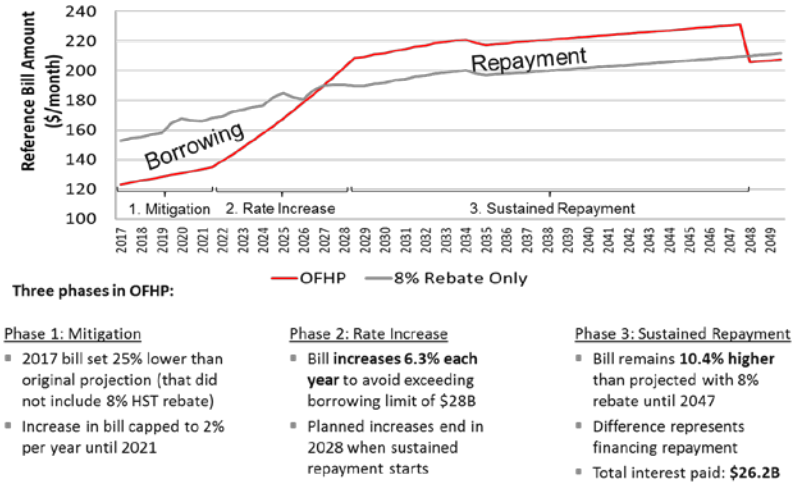
- The model the Ministry of Energy developed and used to support the March 2017 submission
- The financial model that was developed by the Ontario Power Generation (OPG) that provides details regarding the financing of the proposed structure

TBS staff noted the models received are based on high level aggregates and do not allow for running different scenarios that would allow TBS to determine the financial impact of potential changes in variables. In discussions with the Ministry of Energy and OPG, it has been agreed that these scenarios must be developed – both to help creation of a risk-based outlook for the province, as well as to respond to questions that will inevitably arise from the credit rating agencies.

- For example, the current model is based on a static interest rate of 5%. While this assumption is accurate within the current historically low interest rate environment, should interest rates increase above 5% after 2020, residential bills would also significantly increase during the repayment phase of the plan. For instance, if the interest rates increase from 5% to 7% (historical 30 year average) between 2020 and 2024, financing costs would increase by $11.2B (for a total of $37B), requiring much higher price increases in the out-years. Under this scenario, the increases required from 2022 to 2029 would be 7.3% annually (compared to 6.3% per year increases required under the base case) and the bill would remain 12.5% higher (compared to 10.4% in the base case).

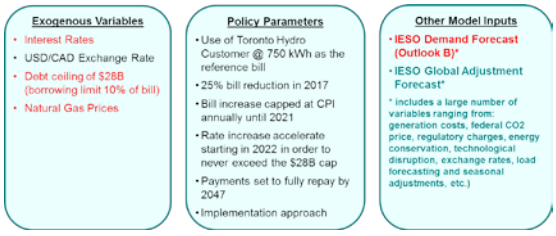
The OFHP can be thought of as having three phases:

The model is a high level and aggregate model, which is build on other independent forecasts (e.g. IESO demand forecast). There are a large number of assumptions built into the model explicitly and implicitly (as a large number of assumptions are embedded into the other forecasts that are used as inputs into this model).



Analysis is currently underway to better understand intergenerational costs and benefits and the impact of GA smoothing on recovery charges that would be allowed under the current Eurig compliance rules.

Depending on the legal determination, if the annual increases in bills or the commodity prices will be subject to caps, additional borrowing/provincial funding may be required.



With the shift of electricity social programs costs moving to being funded by government appropriations (Including the 8% rebate, total costs are forecast to be $1.4B in 2017-18), cost forecasting models/assumptions should also under go sensitivity analysis to inform future funding requests.

APPENDIX F: PROVIDING A CREDIT FACILITY TO IESO

After IESO's review of the proposed legislation, it has indicated to the Ministry and the Ontario Financing Authority (OFA)/MOF that IESO may need to cover clean energy costs if for some reason the Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. IESO noted that the proposed legislation does not compel the Trust to purchase 100% of the regulatory asset at anytime. Also, the establishment of the regulatory asset and purchase by the Trust is expected to take three to six months to implement following the introduction of enabling legislation.

The OFA currently provides a $975 million credit facility to the IESO for other purposes, it is proposed that the OFA provide a new credit facility to the IESO, in an amount of up to about $3 billion.

The use of this new credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO.

Approvals Required for OFA Financing

OFA indicates the recommended TB/MBC minute should note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An order-in-council will be sought to allow the OFA to be able to provide the new credit facility to the IESO, for an amount to be determined as per the requirements of the Fair Hydro Plan.

The following approvals are required by the OFA to accommodate the request to provide financing to the IESO:

1) An Order-in-Council is required for the Minister of Finance to lend to the OFA.
2) A Directive from Minister of Finance is required for the OFA to on-lend to the IESO.
3) An executed credit agreement between the OFA and the IESO.

1. Order-in-Council (OIC)

An OIC is required to authorize the Minister of Finance to lend to the OFA. Ministry of Finance Legal Services Branch would need to be engaged to facilitate the request.

- The existing $975 million credit facility was covered under OIC 675/97 which authorized the Minister of Finance to lend a revolving $2.16 billion to the OFA. This OIC was originally obtained in 1997.

It is understood that upon drafting the OIC (by MOF Legal), the OIC would need final approval from Lieutenant Governor in Council LGIC as required under section 22(1) of the *Capital Investment Plan Act*, 1993.

- The OIC would go through Deputy Minister of Finance, Minister of Finance, Chair of Cabinet for briefing/sign-offs and finally to the LGIC for approval.

To draft the OIC, the following details will be required:

i. Dollar Value of Loan from the Minister of Finance to the OFA
ii. Maturity Date of the Loan
iii. Interest Rate of the Loan

The following are recommended to accommodate IESO's need for financing:

i. Dollar Value of Loan:
   $3 billion, as per request. The OIC would provide the maximum limit of any loan to IESO and it may be advisable to add a cushion and provide an OIC for $3.5 billion.

ii. Maturity Date of the Loan:
OIC maturing March 31, 2048 would provide approximately 30-year term to match the Fair Hydro Plan. It may be advisable to add a cushion and set a maturity date to March 31, 2053 (cushion of 5-years).

iii. Interest Rate of the Loan
Interest rates on the loans from the Minister of Finance to the OFA have typically been a 1) Ontario 90-day t-bill rates, 2) flow-through of the rates charged to the third-party by the OFA and/or 3) the rate charged to the third-party by the OFA less 25bps.

OFA recommends to keep this unchanged to provide consistency with past OICs but also to provide flexibility in the rates that could potentially be charged to IESO, to be determined by the Minister of Finance, by way of the Minister's Directive.

2. Minister's Directive

Once the Minister of Finance has the authority under an OIC, a Minister's Directive can authorize the OFA to lend to IESO. The Directive can outline specific terms and conditions as needed.

3. Executed Credit Agreement

With a Minister's Directive approved, the OFA and IESO can work to execute a credit agreement, subject to any terms and conditions of the Directive and any policy considerations.

APPENDIX G: FINANCIAL, LEGAL, ACCOUNTING RISK ASSESSMENTS

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.
- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.
- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and
- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.
- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG’s capital structure:

- OPG would require monthly “equity injections” from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;
- Funds from the Province would flow from the Ontario Financing Authority (OFA); and
- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.
- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset ”OPG Share Purchase” and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG’s business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy’s concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual ratepayers. Note: The reverse is also true in regards to decreasing demand.
- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted. **A statutory cause of action** may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation.The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

APPENDIX H: OVERVIEW OF RISKS

Prepared by TBS staff, the following chart provides an overview of strategic (versus operational) risks to inform the approval/decision making process regarding the proposed legislation. Each part, GA Partial Refinancing & Electricity social programs, is a separate table.

Global Adjustment Partial Refinancing:

Objective: Provide immediate ratepayer relief by capping rate increases at Consumer Price Index (CPI) for four years and refinancing GA costs over a longer period of time. Develop and implement a financing structure that increases provincial borrowing, but has no impact on annual provincial surplus/deficit.

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA smoothing being allocated to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there would be a negative impact on the province's fiscal plan of $2.5B in 2017-18 and rising. • Rating agencies and investors in Province's debt may view all of the borrowing as an obligation of the Province, which could put pressure on the Province's credit rating and overall borrowing capacity. • Proposed structure may result in negative response from Ontario Auditor General (OAG) due to previous concerns regarding recognition of rate regulated assets and liabilities. The OAG may take this into account when the provincial books are audited. • Initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to justify structure of financial model and be utilized in discussions with the OAG.

Risk	Level of Risk	Risk Response
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.
A legal determination that the Province is spreading the costs of GA financing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Medium **Risk Impact:** High **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and close monitoring of costs and changes in variables built into model. • Analyze the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Moderate **Time Scale:** 12 to 24 months **Rationale** • The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the government to offset a part of the scheduled increases. • Risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.	Risk can be avoided by: • Province providing a potential guarantee for the cost of borrowing – however, would redirect risk back to the Province and negate benefits of proposed financing structure. Risk can be mitigated by: • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • Proposed legislation to enable GA refinancing has been draft with input from third-party financers. Provides a 'narrow' provincial guarantee and ensuring that debt holders have the right of action against a future government to recover the amount outstanding including interest, fees, expenses and any damages.

Electricity social programs (Enhancing Electricity Support & Conservation Programs):

Objective: Shift funding of existing and new electricity support programs (RRRP, OESP, Affordability Fund, First Nations Credit) from rate to tax base.

Risk	Level of Risk	Risk Response
Uncertainty in forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated fiscal impacts for the Province.	**Risk Likelihood:** Possible **Risk Impact:** Major **Timescale:** 12 to 24 months **Rationale:** • The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate. • Fiscal projection is highly dependent on factors which can fluctuate from year to year, including: o electricity usage; o distributions costs; and o consumer consumption patterns that may change due to extreme weather or other factors. • Fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. o Enhanced RRRP may create disincentives from the eligible LDCs towards productivity and performance improvements and/or cause ineligible LDC's to drive up distribution costs to gain access to program.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models.

From:	John Kim
To:	Shajee Kathirgamanathan
Subject:	FW: DRAFT RAN Ontario Fair Hydro Plan
Date:	Thursday, May 11, 2017 9:46:41 AM
Attachments:	OFHP - TB Submission.msg Fw OFHP - LRC Submission.msg 3 RAN Ontario Fair Hydro Plan Proposed Leg v3.doc

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We have this so can't imagine there being a later version….

From: Fung, Felix (TBS) [mailto:Felix.Fung@ontario.ca]
Sent: Monday, May 08, 2017 11:09 AM
To: Judy George-Harris (MGS) <Judy.George-Harris@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Violetta Goralski (MAG) <Violetta.Goralski@ontario.ca>; Helder Marcos (MCSS) <Helder.Marcos@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: DRAFT RAN Ontario Fair Hydro Plan

Hi everyone,

In advance of our 11:45 am meeting with Karen - please find attached our latest draft TB/MBC assessment note for the OFHP along with the TB submission and LRC submission received from Energy.

Thanks,
Felix

From: Schlaepfer, Martin (ENERGY) [Martin.Schlaepfer@ontario.ca]
To: Felix Fung (MOF) [Felix.Fung@ontario.ca]; James Strang (MOF) [James.Strang@ontario.ca]
CC: Pratima Gounden (ENERGY) [Pratima.Gounden@ontario.ca]
Subject: OFHP - TB Submission
Date: Sunday, May 07, 2017 13:58:47
Attachment 1: OFHP TB sub - 20170418_May7__clean.docx
Attachment 2: IESO Final Draft.pdf
Attachment 3: OPG - EY Letter on Fair Hydro Act May 5_FINAL.PDF
Attachment 4: GA Consolidated Memo_May 2_FINAL.PDF

Hi Felix and James,

Please find attached the final TB submission for the Ontario Fair Hydro Plan item. Also attached are the materials for the appendix.

This is Minister signed and hard copies will be delivered first thing on Monday morning.

Thanks,

Martin

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

May 9, 2017

CONFIDENTIAL
MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on following:

    i. Implementation of Global Adjustment (GA) Refinancing;

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program and First Nations On-Reserve Delivery Credit); and

    iii. Expansion of Industrial Conservation Initiative (ICI).

2) APPROVE the Ministry funding a media buy procurement with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record.

3) NOTE the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

4) NOTE the Ministry of Energy will return to TB/MBC to request a transfer of funds to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to fully recover the costs for the public education campaign.

5) APPROVE the creation of a new transfer payment line entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-01, Electricity Price Mitigation, with a $1,000 placeholder, to support future rate mitigation initiatives.

Note: The Independent Electricity System Operator (IESO) is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current lines of credit with the OFA and OEFC.

2.0 PURPOSE OF REQUEST

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower bills by 25 per cent for a typical residential consumer, starting in the summer of 2017. Up to half a million small businesses and farms are also expected to benefit. Any rate increases for residential consumers over four years would be held to the rate of inflation. Note: These measures include the 8 per cent rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

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As part of the OFHP approval process, TB/MBC requested that the Ministry "report back" before legislation to enable OFHP was introduced on the following items:

1) GA Refinancing;

2) Social Programs; and

3) ICI Expansion.

In addition to the report back, the Ministry is also requesting the creation of a new transfer payment line, "Price Mitigation Support Initiatives" in Vote 2905-01. The purpose for this is to provide the Ministry an appropriate transfer payment line to support future activities and initiatives around electricity price mitigation for Ontarians.

There is no fiscal impact associated with this request. All new funding placed into the transfer payment lines will be offset by services dollars previously approved within the Ministry's multi-year allocation.

In February 2017, the Ministry reported back to TB/MBC on the details related to the establishment of the new Affordability Fund announced in the OFHP. In April 2017, the Affordability Fund Trust was established. It is expected that electricity distributors will be able to begin applying to the Affordability Fund Trust in Summer 2017.

The Ministry has developed proposed legislation to implement key components of OFHP by summer 2017, and address financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations to enable implementation of OFHP.

1. GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

<u>Proposal</u>

On March 2, 2017, as part of OFHP, it was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and

future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. For example, by recognizing that generation assets are expected to continue to provide residual benefit to future ratepayers, beyond the term of current contracts, future ratepayers are expected to be able to utilize these assets and reduce the need to finance the development of new generation assets.

Under this proposal, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017. In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed proposed legislation to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations;

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY);

- Launched a third party research project to assist with implementation of GA refinancing; and

- Developed comprehensive risk-based costing, including forecast models and sensitivity tests on key assumptions.

Proposed legislation to enable GA refinancing is planned for a May 2017 introduction.

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2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The proposed legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

Proposal

The Government is proposing to introduce legislation and regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.

The legislative proposal enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers.

- R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province.

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Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

Proposed legislation will enable tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

Proposed legislation enables the establishment of a maximum monthly base distribution charge for those prescribed customers. If the proposed legislation is passed, the mechanism to set this charge will be established in regulation.

On-Reserve First Nations Delivery Credit

On July 12, 2016, the Province and First Nations in Ontario announced an agreement-in-principle for the Province to sell to First Nations for their collective benefit, shares of Hydro One Limited.

The Province would sell up to approximately 15 million shares (2.5 per cent of total current outstanding Hydro One common shares), depending on the level of First Nation participation, to a new collective investment fund owned by First Nations.

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The proposal is premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program proposal involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The resulting First Nations Delivery Credit is a reflection of First Nation leadership on this issue and an example of the Political Accord coming to life.

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Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program from the rate base to the tax base, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid by all Ontario consumers on May 1, 2017 ($0.0011 per kilowatt-hour of power consumed). On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will also come into effect on May 1, 2017.

The amendments to the *Ontario Energy Board Act, 1998* pertaining to OESP will move the program funding from the rate-base and transfer it to the tax-base, and enable alignment of the OESP with social assistance programs delivered by the Ministry of Community and Social Services.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB sets amount that LDCs charge for RRRP to all customers. Once the regulatory mechanism is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. Change to the funding structure of the program does not require any additional implementation risks or efforts.

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Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers would be prescribed in regulation, if the legislation is passed. Additionally, the Ontario Energy Board would be empowered by regulation to determine the rate at which affected LDCs would be harmonized.

The efforts required to implement the program will fall upon the impacted LDCs who will need to adjust their billing systems in order to carry out the program.

On-Reserve First Nation Delivery Credit

A new regulation will need to be passed to set out the program particulars including eligibility for the program.

The LDCs will need to enter into communication plans in order to work with local First Nations Band Councils and to increase awareness of the delivery credit to all eligible consumers.

There are transitional provisions for both the enhanced rate protection and First Nations Delivery Credit that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.

Ontario Electricity Support Program

A legislative amendment to the *Ontario Energy Board Act, 1998* will allow funding to shift from the rate base to the tax base. The amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

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3. ICI Expansion:

Ontario is committed to providing competitive electricity rates for energy intensive consumers in the manufacturing sector while also promoting electricity conservation.

In January 2011, the Industrial Conservation Initiative (ICI) was announced to help large industrial electricity power users better manage their electricity costs while reducing electricity consumption during peak periods.

ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. Reducing peak demand increases the reliability of the electricity system, reduces greenhouse gas (GHG) emissions and helps defer the need to procure new resources. There are currently about 300 participating consumers who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Proposal

On March 2, 2017, as part of OFHP), the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

- As of January 1, 2017, the regulatory amendments came into effect to make ICI available to electricity consumers with an average monthly peak demand greater than 1 MW. The lowering of the ICI threshold to 1MW and removal of sector restrictions was announced in the 2016 Speech from the Throne.

Implementation

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

- Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

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In addition, the Ministry has retained the Ontario Chambers of Commerce (OCC) and the Canadian Manufacturing and Exporting (CME) to undertake targeted stakeholder outreach on ICI and other cost saving energy programs/measures available to the commercial and industrial sectors in Ontario.

3.0 KEY CONTEXT

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would reduce the electricity bills of residential consumers by 25 per cent on average starting in summer 2017. In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and bend the future cost curve of electricity (see Background for details).

On April 20, 2017, the OEB announced new Regulated Price Plan (RPP) rates effective May 1, 2017 that include a portion of the bill reduction proposed under OFHP and the shifting of the funding of the OESP to provincial revenues. The full reduction from OFHP is expected to be addressed through a July 1st RPP rate adjustment.

The Ministry's report back to TB/MBC focuses on the following OFHP initiatives:

1) GA Refinancing:

As part of OFHP, it was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

- Today's electricity consumers have been responsible for the costs of investments in developing the clean, modern and reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. There is an opportunity to recognize the long-term benefit of these generation assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

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To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed proposed legislation to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations;

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY);

- Launched a third party research project to assist with implementation of GA refinancing; and

- Developed comprehensive risk-based costing, including forecast models and sensitivity tests on key assumptions.

Financing, Accounting and Legal Risk Considerations / Mitigations

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager

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(OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.

- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.

- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

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- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and

- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

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These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG's capital structure:

- OPG would require monthly "equity injections" from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;

- Funds from the Province would flow from the Ontario Financing Authority (OFA); and

- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.

- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG's business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy's concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual

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ratepayers. Note: The reverse is also true in regards to decreasing demand.

- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

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IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".

- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust,

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additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.

- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.

- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-

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year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).

- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.

- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be

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imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and

- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted.

A statutory cause of action may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

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2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The proposed legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

If passed, the government proposes to identify Hydro One R2 customers, as having their RRRP funded through appropriated funds.

Distribution Rate Protection

New Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, would be established through proposed legislative amendments under the *Fair Hydro Act, 2017,* and the creation of consequential regulations. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhance protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

Eligible on-reserve customers will receive a 100% delivery credit or the elimination of their monthly service charge on their electricity bills. The eligibility requirements will be prescribed under regulation.

There are 11 LDCs identified by OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One,

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Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 customers may be eligible.

Ontario Electricity Support Program (OESP)

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by a rebate directly on bills. The OESP is currently funded by the rate base.

OESP credits vary by income level and family size, and there are two credit scales that include:

- The basic program credit ranges from $30/month to $50/month.
- An enhanced credit that ranges from $45/month to $75/month for consumers that are either Indigenous, use electric heat or use certain electrically intensive medical devices.

Ontario's Fair Hydro Plan (OFHP) committed to move the program from the rate base to the tax base, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

The proposed legislative changes will address the move to the tax base, and regulatory changes approved by Cabinet on April 10, 2017 will enable the expansion of the OESP effective May 1, 2017. Discussions are ongoing with the OEB and MCSS on aligning OESP delivery with other social assistance programs.

<u>Roles and Responsibilities</u>

Rural or Remote Rate Protection

The roles and responsibilities of the Board remain the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The Board would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would once again need to appropriate money from the legislature to cover the costs of administering the program.

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On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers. In addition, ENERGY would need to work with LDCs, Chiefs of Ontario and Band Councils to ensure the program is delivered to all eligible consumers.

Ontario Electricity Support Program

The OEB will continue to the deliver the OESP under the current legislative framework until the variance account is depleted. When legislative changes to shift the program from the rate base to the tax base are proclaimed, the OEB will continue to administer the program, but certain decision making responsibilities and oversights will shift to the Minister of Energy.

MCSS will begin supporting OESP uptake by helping social assistance clients to apply to the OESP. Legislative and regulatory changes will enable this work.

The IESO will continue to manage payments to utilities, unit sub-meter providers, and the OEB in relation to OESP credit delivery and program administration costs. When legislative changes are proclaimed, IESO will begin reporting costs to the Ministry to support forecasting and audit.

3) ICI Expansion:

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and “1114”) in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

In addition, the Ministry has retained the OCC and the CME to undertake targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants. **Note:** The extent of the impact will depend on the uptake in the newly

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expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

4.0 BACKGROUND

Decarbonizing and Modernize Ontario's Energy System

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

The Ministry of Energy has taken a number of actions to lower electricity costs for all consumers by:

- Deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices; and

- Increasing cost effectiveness and improving efficiency by adopting new electricity market approaches (e.g., no new NUG contracting and demand response).

Following the 2016 Speech from the Throne, several actions were announced to further reduce electricity costs:

- As of January 1, 2017, Ontario is rebating an amount equal to the provincial portion of the HST to reduce eligible residential, small business and farm electricity bills by 8 per cent.

- Expanded support to eligible rural consumers by updating Rural or Remote Rate Protection (RRRP) with the additional relief, decreasing total electricity bills by an average of $45 each month when combined with the 8 per cent rebate.

- Expanding the Industrial Conservation Initiative (ICI) – up to one-third savings for participants.

- Suspending the LRP II and the Energy from Waste Standard Offer Program (EFWSOP) – up to $3.8 billion in savings.

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- Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – average annual savings of $15 million.

Ontario's Fair Hydro Plan

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP). The OFHP includes the following:

- Refinancing the GA over a longer period for Regulated Price Plan (RPP) eligible consumers, including residential consumers and most small businesses and farms.

- Shifting cost recovery for Rural or Remote Rate Protection (RRRP) and Ontario Electricity Support Program (OESP) from electricity bills to the tax base, lowering the regulatory charges paid by ratepayers. Consumers of all sizes would benefit from this change.

- Helping vulnerable electricity consumers by enhancing electricity support programs, including:

  - Broadening RRRP to provide delivery charge relief for the customers of the local distribution companies (LDCs) with the highest delivery charges. We currently support approximately 350,000 Ontarians living in rural or remote areas through RRRP. The enhancement would extend relief to approximately 800,000 households in total.

  - Expanding the OESP, which provides relief directly on the bills of low-income consumers who have applied and meet the eligibility criteria. The expansion would increase OESP credits by 50 per cent and allow more Ontarians to benefit from the program.

  - Establishing a new Affordability Fund, which would provide financial support to lower-income Ontarians who are not eligible for the Home Assistance Program to make home energy efficiency improvements, helping to manage their energy costs.

  - Establishing a Delivery Credit to eliminate delivery charges for all First Nations people living on reserve.

- Expanding the Industrial Conservation Initiative (ICI), which allows large consumers to reduce their electricity bills by up to one-third by reducing their consumption during peak hours. The expansion will allow manufacturers and greenhouses between 500 kW and 1 MW to

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participate, in addition to the consumers over 1 MW that are already eligible.

- OFHP also committed to reducing system costs by improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

Legislation to Enable the Refinancing of Global Adjustment

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the Ministry has developed proposed legislation (and is working on supporting regulations) that outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;
- A detailed Preamble, Purpose and Definitions;
- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;
- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the Global Adjustment.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the proposed legislation.

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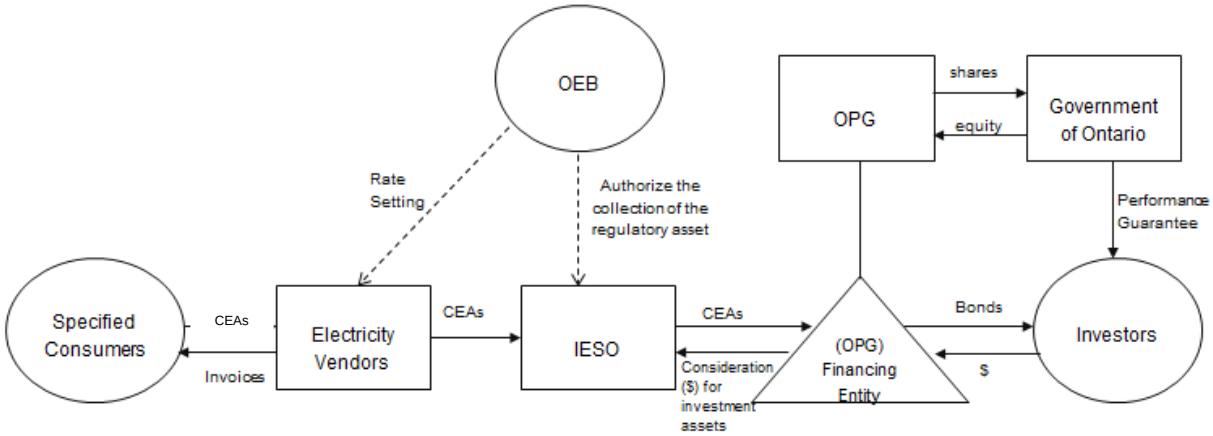
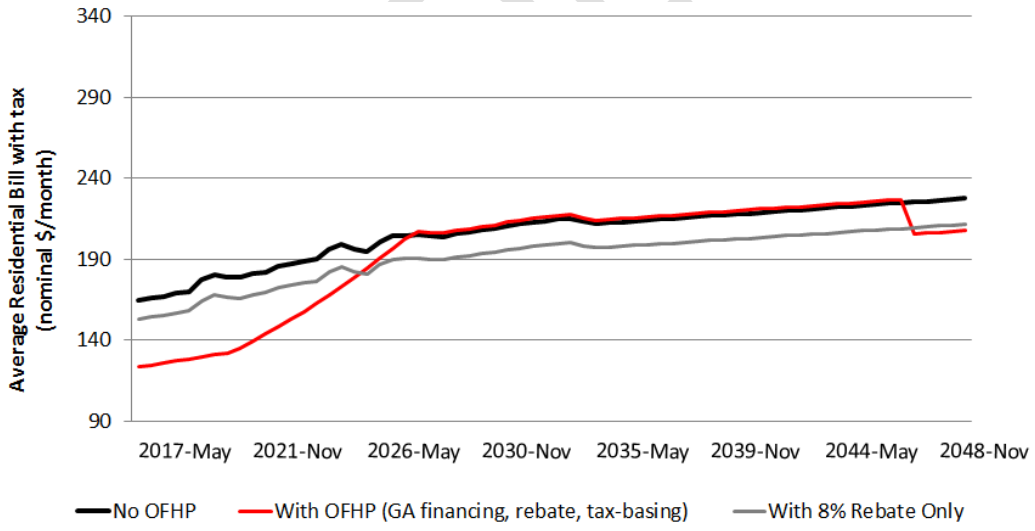
GA Refinancing Implementation Model – Overview

The diagram below outlines how the refinancing of GA would be implemented:



Note: CEAs are “clean energy adjustments”.

Multi-Year Profile of GA Refinancing / Assumptions



The chart above shows the expected multi-year profile under GA Refinancing for each Regulated Price Plan (RPP) period. In the first year, residential bills are projected to be 25 per cent lower as result of the OFHP. In the early years, bills increases are held to the rate of inflation – assumed to be 2% per year in the chart above. From July 1, 2021 onwards, prices increase at a higher rate compared to the first four years on the OFHP.

In the medium to longer term, residential bills exceed what they would have been but for the OFHP. However, in any given year, a typical residential bill under the OFHP cannot exceed what it would have been without OFHP by more than 10 per cent.

OPG's Financing Structure / Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected during four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a "Regulatory Asset".

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an "Investment Asset".

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG's capital structure:

- OPG would require monthly "equity injections" from the Province;

- Funds from the Province would flow from the Ontario Financing Authority (OFA); and

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- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.

Global Adjustment – Overview

The Global Adjustment (GA) accounts for the fixed costs, including capital costs, of running Ontario's generation fleet, as well as the cost of conservation programs. GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.

It is via GA that much of the costs of investments in developing a clean, modern and reliable electricity system with a diverse supply mix are recovered.

The vast majority of GA costs now stem from greenhouse gas (GHG) emissions-free renewable and nuclear generation facilities, as well as natural gas plants that were constructed to improve system reliability and replace coal-fired capacity. Generators in Ontario received contracted or regulated rates, which are typically designed to recover capital, financing and fixed operations costs. The GA recovers these fixed costs of running the province's generation fleet, as well as the cost of conservation programs.

The majority of the province's electricity generators are under 20-year contracts and account for under 50% of the GA. Some of these generators will continue to provide value to the electricity system beyond their contract lives (i.e., beyond 20 years). Similarly, conservation costs are recovered annually on an 'as incurred basis' through GA while conservation initiatives can reasonably be expected to provide benefits to the electricity system over many years.

The Ministry is proposing in legislation to recognize the long-term benefit of specific assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs. The proposed legislation outlines how costs would be fairly allocated among eligible consumers over time.

OEB's Regulated Price Plan (RPP) – Overview

On April 20, 2017, the OEB announced new Regulated Price Plan (RPP) rates effective May 1, 2017 that include a portion of the bill reduction proposed under OFHP and the shifting of the funding of the Ontario Electricity Support Program (OESP) to provincial revenues. The full reduction from OFHP is expected to be addressed through a July 1st RPP rate adjustment.

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Social Program

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 335,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.
- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.9 million.
- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.
- These customers still have high distribution costs and are often faced with significantly higher than average bills.

The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Energy is proposing legislative amendments that will broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

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- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the existing RRRP program costs and the proposed enhancements from the electricity rate base to the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

Ontario Electricity Support Program (OESP)

The OESP launched on January 1, 2016. By the end of March 2017:

- Almost 192,000 have been enrolled in the program, which is approximately 1/3 of all potentially eligible low-income customers in Ontario.

- Over $60 million in credits have been provided to vulnerable consumers.

- 172 intake agencies have been mobilized to assist low income consumers to apply for the OESP.

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Industrial Conservation Initiative (ICI)

Ontario is committed to providing competitive electricity rates for energy intensive consumers in the manufacturing sector while also promoting electricity conservation.

In January 2011, ICI was announced to help large industrial power users better manage their electricity costs while reducing electricity consumption during peak periods. ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. Reducing peak demand increases the reliability of the electricity system, reduces greenhouse gas (GHG) emissions and helps defer the need to procure new resources. There are now about 300 participating consumers who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Currently, ICI is available to electricity consumers who have an average monthly peak demand greater than 1 MW (i.e., Class A). Smaller electricity consumers – known as “Class B” consumers – are charged GA based on their total consumption regardless of when it occurs.

ICI provides a strong incentive for participating consumers to reduce their consumption during peak hours to reduce their cost. Note: ICI is administered by the Independently Electricity System Operator (IESO) and Local Distribution Companies (LDCs).

As of January 1, 2017, the regulatory amendments came into effect to make ICI available to electricity consumers with an average monthly peak demand greater than 1 MW. The lowering of the ICI threshold to 1MW and removal of sector restrictions was announced in the 2016 Speech From the Throne.

On March 2, 2017, as part of Ontario’s Fair Hydro Plan (OFHP), the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

- Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and CDM programs and/or OCCSDC programs and pilots.

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5.0 TIMING

As part of OFHP, the government announced that eligible electricity consumers would see the reduction to their electricity bills in the summer of 2017 (i.e., July).

On April 20, 2017, OEB announced that it has adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing. The Ministry anticipates that the OEB will set an interim rate adjustment following the passage of the legislation to enable GA Refinancing that would account for the full impact (i.e., 25 per cent).

The Ministry is planning to introduce legislation in early May 2017 and develop supporting regulations in early summer 2017 to enable GA Refinancing. Note: The OPG will require legislation and regulations to be in place to support its discussions with rating agencies and third-party financing.

The timeline for all of the social programs, with the exception of the OESP, is identical as the program implementation for the regulations that follow to be passed in unison for July 1, 2017.

Some of Ontario's Fair Hydro Plan commitments for the OESP came into effect on May 1, 2017 (e.g., removal of the OESP charge from customer bills; expanding credit amounts and program eligibility). Remaining changes associated with moving the program from the rate-base to the tax-base will be proclaimed at a later date when the OESP variance account is depleted. Additional regulatory amendments needed to implement this legislative change will come into effect on the same date.

As part of the OFHP, the government also announced the expansion of ICI to enable greater participation from the manufacturing sectors in Ontario.

The April 2017 ICI amendments enabled new electricity consumer's time to opt in to the expanded program ahead of the next ICI billing period (i.e., July 1, 2017). Note: Under ICI, as set out in Ontario Regulation 429/04, eligible electricity consumers must opt in to the ICI program on or before June 15 of each calendar each year.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

As it relates to the "equity injection", these changes are expected to have no impact on the Provincial net debt position as the Province's increased investment in OPG will be offset by the incremental borrowing to fund the

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equity injections. The Province has assumed incremental income from OPG arising from interest income on the subordinated debt which OPG will lend to the OPG Special Purpose Vehicle (SPV)/Trust. This offsets forecast increases in Provincial interest on debt expenses associated with equity injections.

Proposed legislation to enable GA refinancing has been drafted to mitigate financing, accounting and legal risks. In addition, IESO and OPG have sought independent advice and confirmation with respect to financing, accounting and legal matters.

Note: There would be a significant impact on provincial net debt and the fiscal plan if the legal, financing and accounting conditions change.

2) Social Programs:

As approved in the TB/MBC submission of Mach 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection	344,000,000
Ontario Electricity Support Program	140,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The IESO manages a variance account for the OESP, which holds the difference between the amount of OESP charge collected from the rate base, and the amount of OESP paid out in the form of credits. The amount in the variance account is about $109 million as of March 1, 2017. These funds will be used to fund the OESP program until the variance account is depleted, at which point the transfer payment line will be used to finance the program costs. Due to the potential range in costs of the OESP, which will depend on program uptake and any costs associated with supporting increased participation, the set allocation is required despite the variance account.

ENERGY will report back as part of PRRT with an update on out-year projections following analysis on rate applications before the Ontario Energy Board.

3) ICI Expansion:

Since ICI is funded through the electricity rate-based and not the provincial tax-base, ICI expansion will have no direct financial impact for the Province.

With respect to rate-base impacts, expanding ICI to consumers in the manufacturing and greenhouse sectors (i.e., between 500 kW and 1 MW) is

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expected to result in a modest increase on electricity bills for non-ICI participants starting in July 2017. For example, preliminary analysis estimates that the increase on a typical residential bill would by up to 0.66% or just over $1/month based on a 2016 bill of about $158.

Note: The extent of the non-ICI participant impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting in July 2017.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16 and April 19, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, 2017 to discuss implementation.
Future Industrial Conservation Initiative (ICI) Participants	• On March 9, 2017, the Ministry posted an ICI expansion proposal for comment on the Regulatory Registry for stakeholder comment. The Ministry has received 7 comments. • The Ministry is also working with the IESO, OCC and the CME regarding targeted outreach in relation to the ICI expansion.

8.0 RISK ASSESSMENT AND MITIGATION

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line.
Managing Interest Cost Risks	M	H	• Proposed legislation has been drafted with input from third-party financers (i.e., dealers). • OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%).
Provincial Guarantee is Triggered	L	H	• The proposed legislation sets out that the province would provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also establishes assurances that the Province would: - Through the Minister of Finance as provided by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and - Not hinder the charging and remittance of the under-collection of GA refinancing (i.e., through a provincial undertaking and guarantee).
IESO Failure to Establish a Regulatory Asset	L	H	• Under the proposed legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to do create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• Proposed legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • The degree of constitutional risk is in direct proportion to the extent the government is not able to show a

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date.
Social Program Cost Estimating	M	M	• OESP costs will depend on uptake of the program, which will be impacted by the 50% increase in credits, enhanced eligibility, and work with MCSS on aligning OESP delivery with their social assistance programs. • Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operatory (IESO) to ensure access to data for regular forecasting • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.
3) Industrial Conservation Initiative (ICI) Expansion			
Perceived Fairness Between Electricity Consumer Classes	M	L	• The expansion of the ICI program include electricity consumers in the manufacturing and greenhouse sectors with average monthly peak demand greater than 500 kW and less than 1 MW will impact those consumers that remain outside the program (i.e., Class B and RPP electricity consumers). • Increases to electricity bills will occur for non-ICI participants to ensure full cost recovery in the electricity system. Note: the extent of the impact on other non-ICI participants would depend on the uptake in the newly expanded ICI, but is expected to be modest. • Restricting eligibility to the manufacturing and greenhouse sector helps to ensure that the expanded ICI is focused on those consumers which are most impacted by GA costs and associated economic competitiveness pressures from neighbouring jurisdictions.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the proposed legislation is model on a those used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

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The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

The ICI program is unique to Ontario and the proposed expansion would not directly impact on other jurisdictions.

10.0 PERFORMANCE MEASURES

The proposed legislation sets parameters within which refinancing of GA can proceed. These parameters include the initial percentage reduction in eligible electricity rates, the number of years that rates will increase at a rate equivalent to CPI and the length of time within which the recovery of funds must take place (i.e., by 2047). In addition, OPG's existing financial reporting process provides an additional framework for monitoring and reporting of OPG's role in OFHP.

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. The Ministry will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing.

With respect to ICI, the Ministry regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting in July 2017.

11.0 COMMUNICATIONS

ENERGY has developed a comprehensive, two-phase media campaign to increase awareness of Ontario's existing rate mitigation measures and new proposed electricity initiatives under Ontario's Fair Hydro Plan OFHP):

- Phase I – Launched on March 13, 2017 and included radio and digital media in English and French. This was followed by multi-cultural extensions on radio in 19 languages. Phase I of the media campaign is complete.

- Phase II – Is expected to launch early Summer 2017 and will include television, radio, print, digital and social media advertising support.

ENERGY received TB/MBC approval on February 6, 2017 for an exemption from the competitive acquisition requirement under the *Procurement Directive on*

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Advertising, Public and Media Relations, and Creative Communications Services for the development of the electricity cost reduction public education campaign. Through this, ENERGY acquired the services of Rain43, an Agency of Record under Advertising Review Board's corporate vendor of record arrangement for advertising, public and media relations, and communication services, to develop this public education campaign with an estimates maximum value of $1,500,000.

As of July 20, 2015, PHD Canada is the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In 2016-17, through Phase I, ENERGY has spent approximately $1,000,000 on media planning and buying for radio and digital media. The cost of media space for television is substantially higher than radio; as such, ENERGY is forecasting to spend an additional $2,500,000 in 2017-18.

This campaign is integral for demonstrating Ontario's commitment to lower energy costs for ratepayers through the new proposed electricity initiatives. This campaign could also open the Ministry to increased scrutiny as critics may conclude savings are too little or too late to help those suffering from what the media has deemed energy poverty. Public perception may be unchanged as emotional triggers to rising electricity prices and the constant stream of negative news by the media could overpower the campaign.

The Ministry has assessed the risks, and deems the benefits for running this campaign outweigh any risks of not doing so. ENERGY anticipates reaction from electricity consumers is to be generally positive with an awareness that changes to the electricity system have led to a reliable, cleaner system that is now more affordable.

In addition, the communications for GA refinancing, delivery electricity social programs and ICI expansion will be referenced in ongoing announcements related to Ontario's Fair Hydro Plan (OFHP) broadly, and as necessary targeted communications for specific stakeholder group can be developed.

For example, the Ministry has retained the OCC and the CME to undertake targeted stakeholder outreach on ICI and other cost saving energy programs/measures available to the commercial and industrial sectors in Ontario.

The Ministry will ensure that the social programs are communicated effectively to stakeholders and specific target audiences. The Ministry will leverage its agencies and its relationship with LDCs to ensure eligible consumers are aware of the programs.

Chiefs of Ontario (COO) will be a vital partner in communicating the benefits of the First Nations Delivery Credit.

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The Ministry also believes there is opportunity for consultation on the design of the electricity bill, with a goal to refresh the regulatory framework to improve the value of the bill to the consumer across all LDCs. The Ministry proposes to convene with LDCs in July, once they've had sufficient time to implement the OFHP initiatives and prescribed messaging.

Changes of this nature will require more in-depth consultation with LDCs, as well as broader regulatory amendments to simplify the requirements, necessitating a longer period to implement. This refresh would also include opportunities to communicate OFHP savings in a more personalized and comprehensive manner. For example, each customer could receive a "personalized" message indicating how much they saved as a result of the plan.

Based on this feedback, the Ministry would aim to introduce regulatory amendments to simplify bill presentment and introduce dynamic OFHP messaging in the Fall 2017.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on following:

    i. Implementation of Global Adjustment (GA) Refinancing;

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program and First Nations On-Reserve Delivery Credit); and

    iii. Expansion of Industrial Conservation Initiative (ICI).

2) APPROVE the Ministry funding a media buy procurement with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record.

3) NOTE the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

4) NOTE the Ministry of Energy will return to TB/MBC to request a transfer of funds to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to fully recover the costs for the public education campaign.

5) APPROVE the creation of a new transfer payment line entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-01, Electricity Price Mitigation, with a $1,000 placeholder, to support future rate mitigation initiatives.

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Appendix:

- KPMG Opinion
- E&Y Opinion (including OPG Management Memo)

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FINAL DRAFT

KPMG Letter to the Independent Electricity System Operator

An Accounting Opinion on the Application of PSAS to the Consolidation of a Trust and to the Recognition and Derecognition of a Variance Account in Relation to the Proposed *Ontario Fair Hydro Plan Act, 2017*

This letter has been prepared in draft form and will be updated upon receipt of the adopted legislation (including the amendments of the Electricity Act and the OEB Act) and finalized financial structure (including the bylaws and regulations of the OPG Trust) and other relevant agreements necessary for us to provide our final opinion, of which legislation and other relevant agreements are expected to be enacted/ finalized on or before September 30, 2017.

NOTICE OF NON RELIANCE

This Notice is regarding the accompanying Letter to provide an accounting opinion on the application of Public Sector Accounting Standards to the consolidation of a trust and to the recognition and derecognition of a variance account in relation to the proposed *Ontario Fair Hydro Plan Act, 2017* (the "**Letter**") prepared by KPMG LLP for the Independent Electricity System Operator ("Client").

The following terms apply to any review of the Letter and should you not agree to these terms, please do not review the Letter and delete copy of the same.

The Letter was prepared in connection with certain services we provided to the Client and should not be used for any other purpose or regarded as suitable for use by any person or persons other than the Client

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Yours very truly,

KPMG LLP

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
Suite 4600
333 Bay Street
Toronto ON
M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
www.kpmg.ca

May 4, 2017

CONFIDENTIAL

120 Adelaide Street West
Suite 1600
Toronto, ON
M5H 1T1

The Board of Directors

Dear Sirs,

We have been engaged to provide you with an accounting opinion on the application of Public Sector Accounting Standards to the consolidation of a trust and to the recognition and derecognition of a variance account in relation to the proposed *Ontario Fair Hydro Plan Act, 2017* ("the proposed Act") (Appendix A, Version 6, to this letter). This letter is being issued to the Independent Electricity System Operator ("IESO" or the "Company") in connection with its evaluation of the consolidation requirements and the accounting for the variance account under Canadian Public Sector Accounting Standards ("PSAS"). Our engagement has been conducted in accordance with generally accepted standards in Canada for such engagements.

The ultimate responsibility for the decision on the appropriate application of PSAS for the specific issues described below rests with management of the Company as preparers of the financial statements.

The adoption of the proposed Act (including the subsequent amendments of the Electricity Act, 1998 ("the Electricity Act") and the Ontario Energy Board ("OEB" or the "Board") Act ("the OEB Act")), and the finalization of the financing structure (including the bylaws and regulations of the OPG Trust) and other agreements will take several weeks. Accordingly, our judgment on the appropriate application of PSAS for the specific matters described below is based on the facts, circumstances and assumptions provided to us. The finalization of the legislation, regulations, financing structure and other agreements may impact the comments and conclusions set out herein. Our comments and conclusions are based on the proposed Act and related matters as they exist at the date of this letter.

The following three issues are addressed in this letter:

Issue #1: Can the IESO recognize a regulatory asset related to the variance account created by the proposed Act?

Issue #2: Is the trust to be established by Ontario Power Generation (the "OPG Trust") controlled by the IESO according to the guidance issued under PSAS 1300 *Government Reporting Entity* and therefore subject to consolidation by IESO?

Issue #3: What is the accounting treatment for derecognition of the regulatory asset by the IESO upon transfer of the variance account to the OPG Trust?

Background for issue #1

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party) are as follows:

1. The IESO's legal status is a not-for-profit, non-taxable, corporation established pursuant to Part II of the Electricity Act. Management of the IESO has determined that the Company is an Other Governmental Organization and accordingly prepares its financial statements in accordance with PSAS.

2. IESO is rate regulated by the OEB in accordance with the Electricity Act and the OEB Act.

3. *Extract from the 2016 IESO financial statements, note 3 New Accounting Policies,* audited by KPMG *"*As of January 1, 2016, the IESO changed its accounting policy regarding the recognition of assets and liabilities subject to rate regulation. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model. This change has been applied retroactively and has increased amounts previously unrecorded for regulatory assets and decreased amounts previously reported for accumulated deficit."

4. *Extract from the 2016 IESO financial statements, note 2(d) Summary of Significant Accounting Policies, Regulatory assets and liabilities.* "As a rate-regulated entity, the IESO, in appropriate circumstances establishes regulated assets or liabilities and thereby defers the impact on the statement of operations of certain expenses or revenues because they are probable to be collected or refunded to market participants through future billings. The IESO applies guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, *Regulated Operations ("ASC 980")*, in this policy."

5. *Extract from Section 78(3.3) of the OEB Act:* In approving or fixing rates under subsection (3.1),

   (a) the Board shall forecast the cost of electricity to be consumed by the consumers to whom the rates apply, taking into consideration the adjustments required under section 25.33 of the Electricity Act, 1998 and shall ensure that the rates reflect these costs; and

   (b) the Board shall take into account balances in the IESO's variance accounts established under section 25.33 of the Electricity Act, 1998 and shall make adjustments with a view to eliminating those balances within 12 months or such shorter time periods as the Minister may direct.

6. Currently, IESO recognizes two regulatory assets for unrecovered smart metering expenses and unrecovered PSAB transition items as permitted by rates approved by the OEB. In addition, in accordance with section 25.33 of the Electricity Act, IESO also recognizes variance accounts (eg. OESP, RPP and RRRP variance accounts) to record all amounts payable or receivable by it in connection with the amounts paid to generators, the Ontario Electricity Financial Corporation ("OEFC"), distributors and to entities with whom the IESO has a procurement contract.

7. The Electricity Act, OEB Act and other regulations will be amended to reflect the following *extracts of the proposed Act:*

   Section 1xx Definitions, Transfer of regulatory asset

   (3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 22xx (3):

1. A reduction in the balance in the variance account.
2. The adjustment of the regulatory asset.
3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Section 20.1xx Variance account to be established

(1) IESO shall establish and maintain a variance account for the purposes of this section.

(2) IESO shall record the following in the variance account:

1. The amount of the IESO funding shortfall for each month.
2. All payments received by IESO resulting from the exercise of the right of recovery under section 21xx and any transfer under section 22xx.
3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences after May 1, 2017 and before the day this section comes into force.

(3) Subject to the correction of any obvious error by IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

(4) No change made by IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 22x, affect the rights of the investment interest owner acquired under the transfer.

Section 21xx Regulatory asset established

(1) Effective May 1, 2017, the IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

(2) Subject to subsection (3), the Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.

(3) IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

(4) The Board's powers under subsection (3) shall be exercised in accordance with the regulations.

Section 30.1xx Board's Authority

(2) Despite anything to the contrary in the OEB Act, the Board may exercise any of its responsibilities under this Act without a hearing.

8. It is expected that the funding shortfall recorded by the IESO in the variance account (the regulatory asset) will be transferred to an investment asset owner (ie a trust to be established by OPG) on a monthly basis and cash collected within a short period of time. The total IESO funding shortfall for the period from May 1, 2017 to April 30, 2047 is estimated at $28 billion plus interest.

Appropriate Accounting Principle for issue #1

ASC 980 Regulated Operations

– For general-purpose financial reporting, an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract. [980-10-05-6]

- Unless an accounting order indicates the way a cost will be handled for rate-making purposes, it causes no economic effects that would justify deviation from the GAAP applicable to business entities in general. The mere issuance of an accounting order not tied to rate treatment does not change an entity's economic resources or obligations. In other words, the economic effect of regulatory decisions—not the mere existence of regulation—is the pervasive factor that determines the application of GAAP. [980-10-05-8]
- The guidance in the Regulated Operations Topic applies to general-purpose external financial statements of an entity that has regulated operations that meet all of the following criteria:
  (a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
  (b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products. This criterion is intended to be applied to the substance of the regulation, rather than its form.
  (c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. [980-10-15-2]
- A cost arising from cash paid out or obligation to pay for an acquired asset or service, a loss from any cause that has been sustained and has been or must be paid for. [980-10-20] Glossary
- Failure of an entity's operations to continue to meet the criteria in paragraph 980-10-15-2 can result from different causes. Examples include the following:
  (a) Deregulation.
  (b) A change in the regulator's approach to setting rates from cost-based rate-making to another form of regulation.
  (c) Increasing competition that limits the entity's ability to sell utility services or products at rates that will recover costs (as used in paragraph 980-10-15-2).
  (d) Regulatory actions resulting from resistance to rate increases that limit the entity's ability to sell utility services or products at rates that will recover costs if the entity is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts. [980-20-15-2]
- Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
  (a) It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
  (b) Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date. [980-340-25-1]

- Rate actions of a regulator can reduce or eliminate the value of an asset. If a regulator excludes all or part of a cost from allowable costs, the carrying amount of any asset recognized pursuant to paragraph 980-340-25-1 shall be reduced to the extent of the excluded cost. Whether other assets have been impaired shall be judged the same as for entities in general and the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 shall apply. [980-340-35-1]
- If at any time an entity's incurred cost no longer meets the criteria for the capitalization of an incurred cost (see paragraph 980-340-25-1), that cost shall be charged to earnings. [980-340-40-1]
- In some cases, a regulator may approve rates that are intended to recover an incurred cost over an extended period without a return on the unrecovered cost during the recovery period. [980-340-55-2]
- The regulator's action provides reasonable assurance of the existence of an asset (see paragraph 980-340-25-1). Accordingly, the regulated entity would capitalize the cost and amortize it over the period during which it will be allowed for rate-making purposes. That cost would not be recorded at discounted present value. An exception to this general rule is provided for costs of abandoned plants. [980-340-55-3]

Issue #1: Can the IESO recognize a regulatory asset related to the variance account created by the proposed Act?

As noted above, as of January 1, 2016, the IESO changed its accounting policy to recognize the economic impacts of rate regulation and now applies guidance from US GAAP Topic 980, *Regulated Operations,* as PSAS does not have any specific guidance for entities with rate-regulated activities.

IESO concluded that it met the requirements of PS2120.02, which allows them to reflect the impacts of rate regulation, as it is considered that the change of accounting policy in its 2016 financial statements resulted in a more appropriate presentation of transactions in its financial statements. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The regulatory framework in Ontario relating to the generation and sale of electricity will be significantly impacted by the proposed Act. Currently, a substantial amount of the energy purchased from the generators is collected by IESO from the local distribution companies through the customer billing, with the remaining being recovered through variance accounts over a period of 12 months maximum. As mentioned above, the effect of the proposed Act is to defer the collection of a total estimated amount of $28 billion (plus interest) of energy purchased from the generators over a period of 30 years. The proposed Act will not permit IESO to collect the funding shortfall before May 1, 2021 and the recovery process will be established through regulations. Such a long-term deferred recovery plan requires IESO to consider whether the uncollected energy costs qualify for deferral as a regulatory asset and whether it continues to meet the criteria that allow IESO to use the guidance for regulated operations of Topic 980. These two accounting issues are analyzed in the two tables below.

Criteria for the recognition of regulatory assets

ASC 980-340-25-1 states that rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

Criteria	Comment	Evaluation
(a) It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. (b) Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. *(emphasis added)* If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.	The proposed Act states that, • *A recording of the balance in the variance account is determinative of the balance as of the time of the recording.* • *Effective May 1, 2017, IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.* • *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.* • *The IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.* Based on the proposed Act, IESO has the right to recover the balance recorded in the variance account. As a result, it is clear that IESO will be able to recover the amount previously incurred rather than to provide for expected levels of similar future costs.	Met

Criteria for the adoption and continued use of ASC 980 guidance

Deferred recovery plans are plans adopted by regulators or legislations in response to significant increases in costs (e.g. purchased power costs). These plans typically provide for rates to remain fixed or increase moderately with a variance account mechanism to capture costs in excess of the level allowed in current rates. A regulated utility subject to such plans is required to consider whether it continues to meet the criteria that allow it to use the guidance for regulated operations of Topic 980, especially criteria ASC 980-10-15-2 (b).

The proposed plan for the recovery of purchase power costs over a 30 year period is considered a deferred recovery plan as the rates for the first four years will remain fixed and subsequently the rates will increase moderately with a variance account to capture energy costs in excess of the level allowed in current rates. The following is an analysis of the ASC 980-10-15-2 criteria.

Criteria	Comment	Evaluation
(a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party	Currently, IESO recognizes regulatory assets related to smart meters and PSAS transition costs as permitted by rates approved by the OEB and regulatory liabilities related to the variance accounts (eg. OESP, RPP and RRRP variance accounts) established under section 25.33 of the Electricity Act related to the procurement of energy.	Met

Criteria	Comment	Evaluation
regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.	It is important to note that both Hydro One and OPG are classified as government business enterprises and are reporting under IFRS in their consolidated financial statements, are consolidated by the modified equity method into the province's books, are regulated by the OEB, and their respective regulatory assets and liabilities are reported in the province's books.	

(b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products.	Currently, the rates approved by the OEB are designed to recover the IESO's costs of providing the regulated services and the pass-through related to the energy purchased from the generators.
	
	As mentioned above, a regulated utility subject to a deferred recovery plan is required to consider whether it continues to meet the criteria ASC 980-10-15-2 (b).
	
	This criterion requires a cause-and-effect relationship between a reporting entity's costs and its revenue. In addition, the timing of cost recovery and the related frequency of ratemaking is important. A reporting entity should consider its rate case experience, including the design of its rates and timing of recovery, when determining whether this criterion is met. These factors are analyzed below.
	
	Frequency of rate case
	
	- Currently, IESO is subject to OEB's annual reviews
	- Although the recovery of purchase energy costs will be frozen at the approved rate on May 1, 2017 for the first four years, the IESO will be granted a right to recover after May 1, 2021 the funding shortfall recorded in the variance account during the four-year period.
	  - *A recording of the balance in the variance account of the balance is determinative of the balance, as of the time of the recording. (We note that this confirms that there will be no prudence review by the OEB)*
	  - *Right to recover the balance recorded in the variance account.*
	  - *Obligation on the part of the OEB to dispose the variance account in accordance with the regulation.*
	- Subsequent to May 1, 2021, the OEB will be required to determine and set rates payable by specified consumers to allow for IESO to recover the balance
		Met

Criteria	Comment	Evaluation
	recorded in the variance account. - *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.* - *Despite anything to the contrary in the OEB Act, the Board may exercise any of its responsibilities under this Act without a hearing.* *Rates are designed to recover incurred costs* - There is a cause-and-effect relationship between the purchase energy costs and revenue, as IESO will be allowed to recover the costs incurred. - *A recording in the variance account of the balance in the variance account is determinative of the balance as of the time of recording (We note that this confirms that there will be no prudence review).* - *Right to recover the balance recorded in the variance account.* - *Obligation on the part of the OEB to ensure IESO will recover the balance recorded in the variance account.* *Periods of alternative ratemaking (e.g., rate freezes)* Evaluation of the second criterion requires additional judgment if the regulated utility is subject to any form of ratemaking that introduces uncertainty about the cause-and-effect relationship between costs and rates. A rate freeze period is defined as a fixed rate that is charged to customers during a period of time (more than two years) and the utilities are exposed to increases in operating and energy costs with no ability to recover the variances. This is not the case as IESO will be granted the right to recover fully the funding shortfall recorded in the variance account, including the first four-year period. - *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.*	

Criteria	Comment	Evaluation
	Costs uncertainty As the IESO will be granted the right to fully recover the funding shortfall recorded in the variance account, there is no uncertainty about the recovery of the costs. *Disallowances of costs* The OEB has never disallowed the recovery of any material costs incurred by IESO. More importantly, as the IESO will be granted by legislation the right to fully recover the funding shortfall recorded in the variance account, there is no risk of the potential disallowance of the purchase power costs. Based on the analysis of the above factors, there are no indications that this criterion would not be met. The above factors establish that there will be a direct cause-and-effect relationship between IESO's costs and its future collection.	
(c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs."	The remaining criterion is whether limitations, including considering demand levels at the approved rates, on the extent of recovery of the regulatory asset could prevent the IESO from recognizing a regulatory asset for the entire balance in the recovery right granted to the IESO. The proposed Act notes that: - *Effective May 1, 2017, the IESO's right to recover the balance in the variance account is subject to the following:* o *The Board shall, from time to time, determine and set rates payable by specified customers to allow for IESO to recover the balance recorded in the variance account.* o *IESO shall not be entitled to collect the variance account from specified consumers before May 1, 2021.* Although the process, especially the timing of the recovery of the regulatory asset has not been established yet by the OEB, the wording and intent of the proposed legislation is clear that it is intended by law to be recoverable over the period of 30 years. Further, given the nature and extent of customer demand for the power generated and distributed in Ontario, both at this time and projected in the future, it is reasonable to conclude that there will be sufficient demand to recover the regulatory asset. As with the other criteria, this will	Met

Criteria	Comment	Evaluation
	need to be continually evaluated throughout the recovery period.	

Management conclusion:

IESO management has concluded that the IESO can recognize a regulatory asset related to the variance account created by the proposed Act based on the foregoing analysis.

The variance account created by the proposed Act is subject to rate regulation by the OEB and the variance account will be established with the right to collect funds against the variance amount in the future. In these circumstances, the IESO is able to establish a regulated asset. The IESO financial statements are prepared in accordance with Canadian public sector accounting standards. Although PSAB does not provide specific guidance on rate regulated accounting, it does under PS 1150 *Generally Accepted Accounting Principles* allow for guidance to be followed from other accounting frameworks. IESO has applied guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, Regulated Operations in its accounting policies.

Our conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that the variance account created by the proposed Act will meet the criteria for the recognition of a regulatory asset stated in ASC 980-340-25-1. Furthermore, we have also considered the criteria stated in ASC 980-10-15-2 and believe that IESO should be allowed to continue to use the guidance for regulated operations of Topic 980.

Background for issue #2

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party), in addition to those described in the background for issue #1, are as follows:

1. The IESO currently has the right to collect the global adjustment ("GA") monthly from ratepayers through provisions in the Electricity Act. It is proposed that collection of a certain portion of the monthly GA be deferred in a regulatory asset for collection in the future, and that the right to recover the deferred GA from ratepayers be used as the basis for structured financing/ securitization.
2. In connection with the proposed Act, it is proposed that a trust to be created as a financial vehicle by OPG in connection with the deferred GA. The OPG Trust will finance the deferral of the GA by purchasing the regulatory asset from the IESO for the principal amount of the GA being deferred.
3. The OPG Trust is expected to finance these purchases from the IESO through a combination of senior secured financing raised in the capital markets, and subordinated financing from OPG (the funding for which will mostly be from equity injections from the OEFC/Province of Ontario).
4. OPG will be appointed as the Financial Services Manager and will be given the responsibility to direct the activities of the OPG Trust, through a services agreement and/or through the Trust's constating documents.

Appropriate Accounting Principle for issue #2

PS1300 *Government Reporting Entity*:

PSAS refer to government or government organizations. For the purpose of this analysis, the PSAS guidance below relating to government or government organizations should be read and understood as being the IESO (emphasis added).

- The government reporting entity should comprise government components and those organizations that are controlled by the government. [PS 1300.07]
- Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities. [PS 1300.08] (emphasis added).
- Whether a government controls an organization is a question of fact that must be determined by reference to the definition of control established in paragraph PS 1300.08 and the particular circumstances of each case. The determination of the fact that control exists will require the application of professional judgment. Government achieves its objectives through a wide range of organizations which individually will fall somewhere along a continuum. At one end of the continuum, it will be clear that an organization does not have the power to act independently and is controlled by the government. At the other end, the organization will have the power to act independently and, while government will have a level of influence on the organization, it will be clear that it does not have control. Along the continuum, consideration needs to be given to the nature of the relationship between the government and the organization in order to determine whether control exists. This Section provides guidance intended to assist in this assessment. [PS 1300.10]
- In applying this guidance, it is necessary to determine the substance of the relationship between the government and the organization. The true nature of certain relationships may not be completely reflected by their legal form. All relevant aspects and implications of the relationship would be considered in determining whether or not the government controls the organization. Where various aspects of the relationship are designed, in effect, to achieve an overall objective, they would be viewed as a whole. [PS 1300.11]
- Financial and operating policies are principles and practices that determine how an organization conducts its activities. The ability to govern these policies is an important element of government control because it establishes the fundamental basis for the conduct of the organization's operations and the achievement of its mission and mandate. [PS 1300.13]
- There are a variety of ways to govern the financial and operating policies of an organization. For example:
  (a) a government may establish an organization's fundamental purpose and eliminate or significantly limit the ability of the organization to make future decisions by predetermining the financial and operating policies of the organization;
  (b) a government may direct the financial and operating policies of an organization on an ongoing basis; or
  (c) a government may veto, overrule or modify the financial and operating policies established by an organization. [PS 1300.14]
- A government does not need to manage an organization's activities on a day-to-day basis to control the organization. It is the government's existing authority to determine the policies governing those activities that is important. [PS 1300.15]

– For the purposes of this Section, it is assumed that where the government has the power to govern the financial and operating policies of an organization, it expects to derive a financial or non-financial benefit. The government may also be exposed to the risk of loss. [PS 1300.16]

Issue #2: Is the trust to be established by Ontario Power Generation (the "OPG Trust") controlled by the IESO according to the guidance issued under PSAS 1300 *Government Reporting Entity* and, therefore, subject to consolidation by IESO?

Under PSAS, IESO is required to consolidate all entities that are considered to be part of its reporting entity, applying the guidance provided in *Section PS 1300 Government Reporting Entity.* Under PS 1300, IESO must consolidate all entities it "controls".

In determining whether or not the OPG Trust should be consolidated by IESO, it must first be determined whether or not the IESO exercises control as a consequence of power to govern the financial and operating policies of the OPG Trust resulting in expected benefits to the IESO or the risk of loss from the activities of the OPG Trust.

PS 1300.17 indicates that "whether a government controls an organization is a question of fact that requires the application of professional judgment based on the definition of control in this Section and the substance of the relationship in each case." Under PS 1300.08 control is defined as "the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities". Therefore, the determination of whether IESO will consolidate the OPG Trust will be based on an assessment of whether IESO is considered to control the OPG Trust based on the indicia of control set out in PS 1300. The assessment of the IESO's control of the OPG Trust is made based on the proposed Act, facts and nature of the relationship between the IESO and the OPG Trust and based on facts and assumptions provided by IESO. PS 1300.18 and .19 set out 11 potential indicia of control. Several of these indicia have been categorized as more persuasive of a finding of control (see the first four indicators in the table below). For each indicator that applies, the degree of government influence would determine its importance as evidence of control. Finally, the indicia are considered both collectively and individually.

A detailed analysis of the 11 Indicators of control is provided in the following table.

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
Primary (more persuasive) indicators (PS 1300.18):		
Government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization	- The proposed Act states: - *OPG is appointed as the Financial Services Manager for the purposes of this Act. (Section 13xx)* - *The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners. (Section 14xx (1))* - *Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees to recover, the costs of doing anything the*	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?

	Financial Services Manager is required or permitted to do under this or any other Act; and any other type of expenditure, the recovery of which is permitted by the regulations. (Section 14xx (3))
	- The Electricity Act, 1998 (EA) will be amended as follows:
	  - *In addition to the objects mentioned in subsection (1), the objects of OPG include exercising the powers and rights and performing the duties and obligations assigned to it under the Ontario Fair Hydro Plan Act, 2017 and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services." (Section 53.1 (1.1))*
	  - *"OPG may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects." (Section 53.1 (1.2))*
	- OPG will establish a trust to manage the collection of the regulatory asset and related financing and administrative expenses. The Board of Trustees of the OPG Trust will be the governing body of the Trust and will be appointed by OPG. OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees.
	- The IESO will not have any rights in respect of the appointment or replacement of the Board of Trustees of the OPG Trust.	

Government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses	- Section 23xx of the proposed Act states:
	  - *A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.*
	  - *Without limiting subsection (1), any transfer agreement that states an intention of the parties for*
		No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
	IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest. - *At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.* - Based on the proposed Act, *upon transfer by IESO of a portion of the regulatory asset to the OPG Trust, the investment asset resulting from the transfer is immediately vested in the OPG Trust, free and clear of any adverse claim.* (Section 24xx (1.1)) - Therefore, upon transfer of the regulatory asset to the OPG Trust, IESO will no longer have access/ability to direct the regulatory asset nor have the ongoing responsibility for losses. - The credit risk related to the collection of the investment asset is borne by the OPG Trust.	
Government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization	- IESO will not have any ownership in the OPG Trust and will not have the power to govern the financial and operating policies of the OPG Trust.	No
Government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations	- IESO will not have the power to dissolve the organization.	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
Other indicators that may provide evidence of control exist when government has the power to (PS 1300.18):		
Provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members	- OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees of the OPG Trust. - IESO will not provide input in the appointment of members of the Board of Trustees.	No
Appoint or remove the CEO or other key personnel	- OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees of the OPG Trust and other key personnel.	No
Establish or amend the mission or mandate of the organization	- The Trust will be established by OPG and the mandate of the Trust will be set based on the proposed Act.	No

Approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis	- The proposed Act states:
	  - *OPG is appointed as the Financial Services Manager for the purposes of this Act. (Section 13xx)*
	  - *"The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of refinancing a funding obligation." (Section 16 (1))*
	- OPG is the Financial Services Manager, not IESO.
	- IESO is not involved in the preparation or approval of the business plans or budget of the OPG Trust.
		No

Establish borrowing or investment limits or restrict the organization's investments	- Section 17 of the proposed Act states: - *The Financial Services Manager shall ensure that funding obligations incurred for the purposes*	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
	of this Act are incurred in a manner that is consistent with the applicable Financing Plan. - OPG not IESO, is responsible for ensuring that the borrowings of the OPG Trust meet the above conditions.	
Restrict the revenue-generating capacity of the organization, notably the sources of revenue	- N/A	No
Establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources	- As mentioned above, OPG will be granted by legislation the power to establish or amend the policies of the OPG Trust and the ability to appoint and remove all members of the Board of Trustees.	No

Management Conclusion:

IESO management has concluded that the OPG Trust to be established would not be controlled by the IESO and therefore is not subject to consolidation by the IESO.

Based on the foregoing analysis of the 11 indicators of control as defined in Section PS 1300 *Government Reporting Entity,* considered both individually and collectively there is no evidence of control by the IESO in respect of the OPG Trust. The IESO will not have the power to govern the Trust, nor have ongoing access to Trust's assets. The IESO will also not have any voting shares or future rights to the Trust nor the power to dissolve the Trust. Without control, the Trust is not subject to consolidation within the IESO financial statements.

Our Conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that based on the Proposed Act, none of the four primary (more persuasive) indicators of control are considered to be met, and none of the seven other indicators of control are considered to be met. Accordingly, we concur that the IESO does not control the OPG Trust under the proposed Act and hence would not consolidate the OPG Trust.

The adoption of the proposed Act (including the subsequent amendments of the Electricity Act and the OEB Act) and the finalization of the financing structure (including the bylaws and regulations of the OPG Trust) and other agreements will take several weeks. Accordingly, our judgment on the appropriate application of PSAS to the conclusion on control may change subject to further analysis of any changes to the terms of the proposed Act or review of the final regulations, financing structure and other agreements.

Background for issue #3

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party), in addition to those described in the background for issues #1 and 2, are as follows:

1. The total IESO funding shortfall for the period from May 1, 2017 to April 30, 2047 is estimated at $28 billion plus interest and will be recorded by the IESO in a variance account recognized as a regulatory asset.
2. The IESO does not currently have the financial capability to finance the regulatory asset and will transfer the variance account to an investment asset owner (i.e. OPG Trust) on a monthly basis.
3. The IESO will obtain a written legal opinion as to the validity and enforceability of the transfer and sale of the regulatory asset.
4. Based on an assessment of control performed under the issue #2, IESO will not consolidate the OPG Trust. We understand that an assessment of control under International Financial Reporting Standards ("IFRS") has been performed by OPG and they have concluded that the OPG Trust will be consolidated by OPG; we note that the financial reporting framework used by OPG in preparing its financial statements for consolidation into the Province's books is IFRS.
5. The Electricity Act, OEB Act and other regulations will be amended to reflect the following *extracts from the proposed Act:*

   Section 11xx IESO to receive amounts

   (2) The IESO shall, as an agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the regulations and the market rules made under section 32 of the *Electricity Act, 1998*.

   (4) All amounts received by the IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment interest owner, be received and held in trust by the IESO for the investment interest owners.

   (5) The IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the accounts referred to in subsection (2), to or for the benefit of the investment interest owners in accordance with the regulations.

   Section 12xx Pro rating of payments

   (3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

   Section 22xx Transfer of regulatory asset

   (1) The IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

   (2) An agreement between the IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to the IESO in an amount equal to the amount of the specified portion.

(3) Upon receipt by the IESO of the payment by the financing entity,

(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) the IESO shall retain no further right, title or interest in the investment interest.

Section 23xx Validity of transfer

(1) A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.

(3) At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

Section 25xx Investment asset established

(1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that are imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, IESO and other prescribed parties.

Section 26xx Transfer of investment interest

(2) An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Section 28xx Investment interest owner may grant security interest

(1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

(3) All provisions of the Personal Property Security Act shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

6. The terms of the transfer agreement between the IESO and the OPG Trust that will be signed and executed upon transfer of the regulatory assets will be in compliance with the dispositions of the proposed Act.

Appropriate Accounting Principle for issue #3

The Derecognition Section of ASC 980-20-40 provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation. [ASC 980-20-40]

Failure of an entity's operations to continue to meet the criteria in paragraph 980-10-15-2 can result from different causes. Examples include the following:

(e) Deregulation.

(f) A change in the regulator's approach to setting rates from cost-based rate-making to another form of regulation.

(g) Increasing competition that limits the entity's ability to sell utility services or products at rates that will recover costs (as used in paragraph 980-10-15-2).

(h) Regulatory actions resulting from resistance to rate increases that limit the entity's ability to sell utility services or products at rates that will recover costs if the entity is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts. [ASC 980-20-15-2]

PS1000 *Financial statement concepts*:

- This Section is to be used by preparers and auditors of financial statements in exercising their professional judgment as to the application of generally accepted accounting principles and in establishing accounting policies in areas in which accounting principles are developing. [PS1000.03]
- Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness. [PS1000.24]
- An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph [PS3210.04]. Thus, for example, an item does not qualify as an asset of a government if the item involves:
  (a) no future economic benefit;
  (b) future economic benefit, but the government cannot obtain it; or
  (c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred. [PS1000.37]

PS3210 *Assets*:

- Assets are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. [PS3210.03]
- Assets have three essential characteristics:
  (a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.
  (b) The public sector entity can control the economic resource and access to the future economic benefits.
  (c) The transaction or event giving rise to the public sector entity's control has already occurred. [PS3210.04]
- Control of an economic resource and of access to the future economic benefits are essential characteristics of an asset, whereas possession or ownership is not. [PS3210.22]

PS3430 *Restructuring transactions* [1]

- Individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date. [PS3430.21]
- When a transferor continues to be involved in the individual assets and/or liabilities it transferred to a recipient subsequent to the restructuring date, it would assess the nature and extent of its continued involvement against the definitions of assets and liabilities and applicable recognition criteria to evaluate whether:
  (a) derecognition of the asset and liability transferred would be appropriate; and
  (b) its continued involvement gives rise to a new asset or new liability that needs to be recognized. [PS3430.24]
- A new asset or new liability may arise from a restructuring due to a transferor's continued involvement in the individual assets and liabilities transferred (for example, if it agrees to guarantee repayment of all or a portion of a transferred liability or leases back a portion of a transferred asset). As the new asset or new liability is not transferred, together with related program or operating responsibilities, they are not part of the restructuring transaction. They would be accounted for in accordance with individual Sections of the PSA Handbook by both the transferors and recipients. [PS3430.25]

1 This Section applies to fiscal years beginning on or after April 1, 2018. […] Earlier adoption is permitted."

Issue #3: What is the accounting treatment for derecognition of the regulatory asset by the IESO upon transfer of the variance account to the OPG Trust?

Although ASC 980-20-40 states that

> *"Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation."*

Subtopic 980-20 relates to discontinuation of rate-regulated accounting when an entity no longer meets the criteria in paragraph 980-10-15-2. ASC 980-20-15-2 provides examples of when an entity no longer meets the criteria, including deregulation and change of the form of regulation. Thus, ASC 980 does not provide clear guidance for the derecognition of a regulatory asset other than in connection with the discontinuation of rate-regulated accounting.

The above guidance in ASC 980-20-40 provides general principles for the derecognition of assets.

It should also be noted that PSASs provide limited guidance on derecognition of non-financial assets and liabilities. Section 3430 *Restructuring transactions,* which is applicable for fiscal years on or after April 1, 2018 with early application permitted, has guidance for the derecognition of assets and liabilities.

- Paragraph 21 states that individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date.
- As stated in paragraph 24, when a transferor continues to be involved in the individual assets and/or liabilities it transferred to a recipient subsequent to the restructuring date, it would assess the nature and extent of its continued involvement against the definitions of assets and liabilities and applicable recognition criteria to evaluate whether derecognition of the asset and liability transferred would be appropriate and whether its continued involvement gives rise to a new asset or new liability that needs to be recognized.

Recognizing the proposed transaction is not a restructuring transaction, Section 3430, which has recently been issued by PSAB, provides current evidence of thinking in the application of the general PSAS principles in respect of the recognition and derecognition of assets and liabilities. Accordingly, the analysis as to whether the regulatory asset transferred to the OPG Trust can be derecognized is based on the foregoing guidance.

Criteria for the recognition of an asset

PS3210.03 states that assets are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. More generally, PSAS PS1000.37 suggests that an asset would no longer be recognized when it fails to meet the definition of an asset:

Criteria	Comment	Evaluation
Assets (PS3210.04/ PS1000.36): Assets have three essential characteristics: (a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows,	Based on the guidance, the regulatory asset does not qualify as an asset of IESO if it cannot obtain the future economic benefits. Upon transfer of the regulatory asset, IESO will have no further rights or obligations in connection with the asset transferred. - *IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.* - *Upon receipt by IESO of the payment by the financing entity, IESO shall retain no further right, title or interest in the corresponding investment interest.*	Not Met

Criteria	Comment	Evaluation
or to reduce cash outflows. (b) The public sector entity can control the economic resource and access to the future economic benefits. (c) The transaction or event giving rise to the public sector entity's control has already occurred. *Financial statement concepts (PS1000.37):* An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph [see above]. Thus, for example, an item does not qualify as an asset of a government if the item involves: (a) no future economic benefit (b) future economic benefit, but the government cannot obtain it.	- *A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.* - *Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.* - *At the time a transfer of the regulatory asset is made, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor."* Upon transfer of the regulatory asset, the OPG Trust will have the right to sell the asset to another party or to grant a security interest in favour of any person to secure a funding obligation. - *Upon transfer, the financing entity becomes an investment asset owner and acquires an investment interest."* - *An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.* - *An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.* Based on the proposed Act, it is clear that IESO will have no rights to the benefits associated with the future cash inflows related to the regulatory asset as it will have transferred its right to recover the IESO funding shortfall to the OPG Trust. Further, it is also clear that IESO will have lost control over the regulatory asset once it is transferred to OPG Trust.	

Management conclusion:

IESO management has concluded that the regulatory asset will be derecognized upon transfer of the variance account to the OPG Trust.

The transfer of the variance account transfers the control and the benefits associated with the right to collect funds in the future against the variance amount to the OPG Trust. This will eliminate the IESO asset by the amount of the transfer as the IESO will no longer control an economic resource or have access to future economic benefits for that amount. The funds collected from the transfer will in turn reduce the associated debt held by the IESO, maintaining the IESO's net $ nil balance in the market accounts.

Our conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that the regulatory asset should be derecognized on transfer to the OPG Trust as IESO no longer has rights or future economic benefits associated with the asset.

Other Matters

The ultimate responsibility for the decision on the appropriate application of PSAS for the specific transactions rests with management as preparers of the financial statements. Our judgment on the appropriate application of PSAS for the specific transaction is based solely on the facts, circumstances and assumptions provided to us as described above. Should these facts and circumstances differ, our conclusion may change.

This letter has been prepared in draft form and will be updated upon receipt of the adopted legislation (including the amendments of the Electricity Act and the OEB Act) and finalized financial structure (including the bylaws and regulations of the OPG Trust) and other relevant agreements necessary for us to provide our final opinion, of which legislation and other relevant agreements are expected to be enacted/ finalized on or before June 30, 2017. This letter will not be updated as a consequence of pronouncements by the Public Sector Accounting Board, or any other authoritative bodies, that occur subsequent to the date of this letter.

This letter is intended solely for the information and use of the Board of Directors and management of the Company, and is not intended to be and should not be used, quoted, relied upon by, or otherwise referred to by anyone other than these specified parties or for any other purpose.

No one other than the Board of Directors and management of the Company is authorized by KPMG to rely upon any information or views expressed herein**.** KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

per Michel Picard
Partner
(416) 777 8414
mpicard@kpmg.ca

Appendix A:

Draft of the Ontario Fair Hydro Plan Act, 2017

Version 6

This confidential draft document is provided for discussion purposes only. It should not be construed as representing the position adopted by the Government of Ontario on any of the topics included or not included in this document. The notes included in this document are intended only to help facilitate a discussion of the topics to which they relate. Any potential legislation is subject to the approval of the Ontario Legislature.

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A proposal to create Legislation.

Ontario Fair Hydro Plan Act, 2017, if enacted

A proposal to create Legislation.

Ontario Fair Hydro Plan Act, 2017, if enacted

EXPLANATORY NOTE TO BE ADDED BY LEGISLATIVE COUNSEL TO ANY FINAL BILL PRIOR TO INTRODUCTION.

Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects.[1] These commitments can only be achieved if costs are shared fairly among consumers, today and in the future.

Electricity rates have risen for two key reasons. First, decades of under-investment in the electricity system resulted in the need to invest more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable. Second, the decision to eliminate Ontario's use of coal and produce clean, renewable power has created additional costs.

The actions taken to achieve a clean, modern and reliable electricity system have resulted in significant costs to residential consumers. The burden of financing these system improvements and funding key programs has unfairly fallen almost entirely on the shoulders of those consumers.

The Government of Ontario is committed to ensuring that the costs of financing these investments and the associated charges to consumers are allocated fairly among present and future generations.

Recognizing that the electricity infrastructure that has been built and the policy decisions that have been made will create benefits for years to come, costs should be allocated fairly over time, so that residential consumers in the future pay their fair share for the benefits that they receive from the investments already made.

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[1] FLS: please see the preamble of the *Green Energy Act, 2009.*

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PART I
GENERAL

Interpretation
Definitions

1xx. (1) In this Act,

"Board" means the Ontario Energy Board; ("French")

"clean energy adjustment" means the amount determined under section 10xx and payable by specified consumers; ("French")

"clean energy benefits" means the value of the benefits determined to be derived by or accruing to specified consumers as a result of the clean energy initiative, including as a result of clean energy costs; ("French")

"clean energy costs" means the value of the costs allocated to specified consumers as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

(a) the amounts to be paid or reflected by IESO in adjustments made under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts or amounts for,

(i) renewable energy generation or capacity,

(ii) conservation and demand management,

(iii) energy storage,

(iv) energy efficiency,

(v) natural gas generation and capacity, excluding contracts relating to amounts payable by IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed,

(b) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(c) such other costs or estimated costs as may be prescribed; ("French")

"clean energy initiative" means the policies of the Government of Ontario related to,

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(a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,

(b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

(c) promoting conservation, demand management and energy efficiency, and

(d) investing in energy infrastructure to ensure a clean, modern and reliable system; ("French")

"electricity vendor"[2] means,

(a) a licensed distributor,

(b) a licensed retailer,

(c) IESO in circumstances where it directly invoices a specified consumer for electricity used in Ontario, or

(d) such other person as may be prescribed; ("French")

"fair allocation amount" means an amount calculated under section 15xx; ("French")

"finance amount" means the finance amount determined in accordance with the regulations; ("French")

"financing entity" means an entity established or caused to be established as described in subsection 17xx (3); ("French")

"Financial Services Manager" means the Financial Services Manager appointed under section 13xx; ("French")

"Financing Plan" means a plan prepared under section 16xx; ("French")

"funding obligation" means a payment obligation incurred by or on behalf of an investment interest owner to fund its ownership of an investment interest or a payment obligation that meets such other criteria as may be prescribed; ("French")

[2] FLS - this is similar to the definition of "electricity vendor" in the Ontario Rebate for Electricity Consumers Act, 2016

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"funding rebate" means a payment obligation incurred by IESO as part of the transfer of the regulatory asset; ("French")

"IESO" means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; ("SIERE")

"IESO deferral" means the amount determined under section 20xx; ("French")

"investment asset" means the rights and interests described in section 25xx; ("French")

"investment interest owner" means a financing entity that has acquired and holds an investment interest; ("French")

"investment interest" means,

(a) an ownership interest in the investment asset, and

(b) in circumstances where the ownership interest is transferred, the rights and benefits specified in the agreement under which the interest is transferred; ("French")

"licensed distributor" means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system within the meaning of the *Electricity Act, 1998*; ("French")

"licensed retailer" means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; ("French")

"Minister" means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; ("ministre")

"Ontario Power Generation Inc." means the corporation incorporated as Ontario Power Generation Inc. under the *Business Corporations Act* on December 1, 1998; ("Ontario Power Generation Inc.")

"prescribed" means prescribed by the regulations; ("prescrit")

"reference period" means,

(a) the period beginning on July 1, 2017 and ending on October 31, 2017, and

(b) during the period beginning on November 1, 2017 and ending on April 30, 2047 or ending on such later day as may be prescribed,

(i) every six-month period following the period mentioned in clause (a); or

(ii) any period shorter than six months, as may be prescribed; ("French")

"refinancing" means, subject to the regulations, the incurrence of debt in connection with a redemption, repayment or repurchase of a funding obligation; ("French")

"regulation" means a regulation made under this Act; ("règlement")

"regulatory asset" means the right and interest established under section 21xx; ("French")

"specified consumer" means,

(a) a person who has an account with an electricity vendor for the supply of electricity in Ontario and meets the criteria set out in subsection (2); or

(b) such other person as may be prescribed; ("French")

"transfer" includes, when used in relation to an investment interest, the assignment, conveyance, disposition or sale of the investment interest; ("French")

"true up amount" means a true up amount determined in accordance with the regulations; ("French")

"unit sub-metering" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("activités liées aux compteurs divisionnaires d'unité")

"unit sub-meter provider" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("fournisseur de compteurs divisionnaires d'unité")

"variance account" means the variance account established by IESO under subsection 20.1xx (1). ("French")

Specified consumer

(2) For the purposes of clause (a) of the definition of "specified consumer" in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of 50 kilowatts or less, or such other amount as may be prescribed.

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2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.

3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or has had the obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.

4. The person's account with the electricity vendor relates to,

    i. a dwelling,

    ii. a property within the meaning of the *Condominium Act, 1998*,

    iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or

    iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.

5. The person satisfies such criteria as may be prescribed.

Transfer of regulatory asset

(3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 22xx (3):

1. A reduction in the balance in the variance account.

2. The adjustment of the regulatory asset.

3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Effect of invalidity, etc.[3]

2xx. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if one or more provisions are held to be invalid, the intention of the

[3] FLS: this is from the *Climate Change Mitigation and Low-carbon Economy Act, 2016*

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Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect the validity or enforceability of a funding obligation incurred before the day that the provision is held to be invalid or ceases to be in effect, or any rights or obligations associated with the funding obligation.

Purpose

3xx. (1) The purposes of this Act are,[4]

(a) to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers;

(b) to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province; and

(c) to align clean energy costs with clean energy benefits, in order to provide fairness for specified consumers.

Crown bound

4xx. This Act binds the Crown.

Protection and assurances

Prohibition

5xx. (1) No action or omission by the Board, the Minister or the Crown shall be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.

Agreements

(2) The Minister and the Minister of Finance may together, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding the performance of IESO or electricity vendors under this Act or similar transactions.

Guarantee, indemnification

(3) The Lieutenant Governor in Council may by order,

[4] FLS: Please see the *Electricity Act, 1998* for much of the wording proposed in this section.

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(a) authorize the Minister and the Minister of Finance, acting together on behalf of the Province,

(i) to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and

(ii) to determine terms and conditions of the guarantee or indemnity and the maximum liability for the guarantee or indemnity;

(b) specify terms and conditions that must be included in any guarantee or indemnity given by the Minister and the Minister of Finance; and

(c) specify a maximum liability for the guarantee or indemnity.

PART II
FAIR ADJUSTMENT

Definitions

6xx. In this Part,

"regulated rate consumer" means a specified consumer who meets the following criteria:

1. The consumer is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1998* for the purposes of subsection 79.16 (1) of that Act.

2. The consumer would, if the consumer were not subject to this Act, be invoiced the rate determined by the Board under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*. ("French")

Regulated rate consumer, first adjustments

6.1xx (1) Despite any order under subsection 78 (3.1) of the *Ontario Energy Board Act, 1998* and despite section 79.16 of that Act, the electricity rates payable by regulated rate consumers for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would achieve the following outcome: a fictional regulated rate consumer who meets the prescribed criteria would be charged an invoice amount that is 25 per cent less than the invoice amount that would have been charged to that consumer under the comparison rates described in subsection (2).

Comparison rates

(2) The comparison rates are the rates that would have been effective May 1, 2017 if they had been determined by the Board solely using the method prescribed by the

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regulations made under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*, without taking into account any forecasted impact of any other provisions of this Act.

Invoice amounts

(3) Each invoice amount mentioned in subsection (1) shall be determined in accordance with the regulations.

Other specified consumers, first adjustment

6.2xx (1) For the period beginning on July 1, 2017 and ending on April 30, 2018, the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* shall, with respect to specified consumers who are not regulated rate consumers, be further adjusted by electricity vendors in accordance with the determinations of the Board under subsection (2).

Board to make determinations

(2) The Board shall, in accordance with the regulations, determine the adjustments to be made by electricity vendors.

Same, regulations

(3) The regulations may specify different adjustments to be made in respect of prescribed classes of specified consumers who are not regulated rate consumers.

Determinations by Board

6.3xx The Board shall make the determinations mentioned in sections 6.1xx and 6.2xx no later than fifteen business days after the day this section receives Royal Assent and, regardless of whether the Board makes the determinations before or after July 1, 2017, the determinations shall be effective as of July 1, 2017.

Implementation by electricity vendors

6.4xx (1) As soon as possible after the Board makes determinations under section 6.3xx, each electricity vendor shall, in respect of electricity used on or after July 1, 2017, ensure that its invoices reflect the determinations of the Board.

Same

(2) The electricity vendor shall ensure that, if any of its specified consumers have been invoiced in a manner that does not reflect the determinations of the Board under section 6.3xx, the specified consumer receives the difference between the amounts shown on the invoice and the amounts reflecting the Board's determinations, provided as a lump sum credit on the first invoice issued after the electricity vendor has adapted its invoices or by such other means as may be prescribed.

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Subsequent adjustments

7xx. (1) Despite clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998* and subject to subsection (2), the Lieutenant Governor in Council may prescribe the methodology to be applied by the Board after April 30, 2018 for the purpose of determining,

(a) electricity rates for specified consumers; or

(b) adjustments to be applied by electricity vendors to the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* in respect of prescribed classes of specified consumers.

Limitation

(2) Any prescribed methodology to be applied in respect of a period after June 30, 2021 shall have regard to the following:

1. The fair allocation amount in respect of the period.

2. Any clean energy adjustments payable in respect of the period.

3. Such other matters as may be prescribed.

Sub-metering

7.1xx (1) This section applies if a specified consumer provides to another person electricity in respect of which a determination of the Board referred to in section 6.3xx or section 7xx applies.

Same

(2) If an invoice for the electricity is issued to the person by the specified consumer or a unit sub-meter provider providing unit sub-metering for the specified consumer, the amount payable for the electricity by the person who is liable to pay the invoice shall be determined in accordance with the regulations.

PART III
CLEAN ENERGY ADJUSTMENT

Specified consumers to pay

8xx. (1) Upon receipt of an invoice from an electricity vendor that includes an amount in respect of the clean energy adjustment, a specified consumer shall pay the amount to the electricity vendor, as agent of the investment interest owners.

Same

(2) For greater certainty, subsection (1) applies regardless of,

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(a) whether the clean energy adjustment was determined in a manner that was inconsistent with this Act; and

(b) whether the amount payable in respect of the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan, including in a manner that failed to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Terms

(3) The payment shall be made in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Indebtedness of specified consumer

(4) An unpaid amount that is required to be paid by a specified consumer under this section constitutes indebtedness of the specified consumer to each investment interest owner to the extent of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer.

Unit sub-metering

(6) A specified consumer who provides electricity through sub-metering may collect amounts in respect of the clean energy adjustment payable under this section in accordance with the regulations.

Irrevocability of amount

9xx. (1) An amount in respect of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness resulting from the clean energy adjustment and is irrevocable upon invoicing the consumer and may not be set off or by passed.

Exception

(2) Subsection (1) does not apply to the extent that the invoice reflects a clerical, typographical or calculation-related error.

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Determination of clean energy adjustment
Financial Services Manager to determine

10xx. (1) The Financial Services Manager shall determine the clean energy adjustment payable by all specified consumers in respect of each month in a reference period by taking the following steps:

1. Calculate the sum of the following:

    i. The estimated finance amount in respect of the reference period.

    ii. The true up amount in respect of the reference period.

2. Divide the sum calculated under paragraph 1 by the number of months in the reference period.

Regulations re true up amount

(3) The Lieutenant Governor in Council shall, in making regulations with respect to the determination of the true up amount, have regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the finance amount when it is due.

2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

    i. differences between the estimated and actual finance amount for the applicable reference period,

    ii. differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and

    ii. variations in billings due to variations in electricity consumption.

Financial Services Manager to notify Board

(4) The Financial Services Manager shall, in accordance with the regulations, notify the Board of the clean energy adjustment in respect of a reference period and such other information related to the determination of the clean energy adjustment as may be prescribed.

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Board to determine rates

(5) Without changing the clean energy adjustment, the Board shall, in accordance with the regulations, determine the rate at which specified consumers are invoiced to recover the clean energy adjustment in respect of the reference period.

IESO to receive amounts

11xx. (2) IESO shall, as an agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the regulations and the market rules made under section 32 of the *Electricity Act, 1998*.

Account

(3) All of the following amounts received by IESO shall, until paid to or for the benefit of the investment interest owners in accordance with subsection (5), be deposited promptly into an account established for the purposes of receiving those amounts:

1. Amounts described in subsection 11xx (2).

2. Payments made by specified consumers directly to IESO as electricity vendor under subsection 8xx (1).

3. Proceeds of amounts described in paragraphs 1 and 2.

Same, held in trust

(4) All amounts received by IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment interest owners, be received and held in trust by IESO for the investment interest owners.

IESO to remit

(5) IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the accounts referred to in subsection (2), to or for the benefit of the investment interest owners in accordance with the regulations.

Electricity vendor to invoice specified consumers

12xx. (1) Each electricity vendor shall issue an invoice to each of its specified consumers for the amount payable by the consumer in respect of the clean energy adjustment, as determined by applying the rate set by the Board under subsection 10xx (5) and in accordance with the regulations.

Electricity vendor to report

(1.1) Each electricity vendor shall, in accordance with the regulations, promptly report to IESO the total amount invoiced to its specified consumers in respect of the clean

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energy adjustment, the amount collected and such other information as may be prescribed.

Electricity vendor to collect

(2) Each electricity vendor shall, as agent of the investment interest owners, collect amounts in respect of the clean energy adjustment from specified consumers in accordance with the regulations.

Pro rating of payments

(3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

Held in trust

(4) Payments received by an electricity vendor from or on behalf of specified consumers in respect of the clean energy adjustment and all proceeds of the payments shall, until paid to or for the benefit of the investment interest owners in accordance with subsection (5), be received by and held by each electricity vendor in trust for the benefit of the investment interest owners.

Remittance to IESO

(5) Each electricity vendor shall remit amounts in respect of the clean energy adjustment to IESO for the benefit of the investment interest owners in accordance with the regulations.

PART IV
IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

13xx. Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act.

Duties and powers

14xx. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

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Same

(2) The administration of the investment asset may include providing information to IESO in respect of obligations under Part III and such other activities as may be prescribed.

Fees, etc.

(3) Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees in relation to such matters as may be prescribed in accordance with the regulations.

Same, Board approval

(4) Before establishing fees under subsection (3), the Financial Services Manager shall submit them to the Board for approval in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Minister to calculate fair allocation amount

15xx. (1) Subject to subsections (2) and (3), before the first funding obligation is incurred, the Minister shall calculate a fair allocation amount in respect of each reference period, applying such method as the Minister considers appropriate and in accordance with the following steps:

1. Determine the estimated clean energy costs and estimated clean energy benefits allocated to specified consumers in respect of the reference period.

2. Determine the estimated reduction in the amounts payable by specified consumers as a result of rates determined under Part II in respect of all previous reference periods, including the estimated reduction in clean energy costs described in clause (a) of the definition of "clean energy costs" in subsection 1 (1) that would otherwise have been payable by specified consumers in the absence of this Act.

3. Determine the amount, if any, by which the determination under paragraph 1 exceeds the determination under paragraph 2.

4. Calculate the sum of the amount determined under paragraph 3 and such other amounts as may be prescribed.

Principles

(2) In calculating the fair allocation amount, the Minister shall have regard to the following principles:

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1. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among the specified consumers in respect of each reference period.

2. Calculations should be made having regard to the need to align each fair allocation amount with the estimated finance amount payable during the reference period.

3. Estimated clean energy costs allocated to specified consumers in respect of a reference period should be allocated in proportion to the estimated clean energy benefits attributed to the specified consumers in respect of the reference period.

4. Such other principles as may be prescribed.

Assumptions

(3) In calculating the fair allocation amount, the Minister shall make such assumptions as the Minister considers to be reasonable regarding the following:

1. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.

2. The expected number of specified consumers in respect of each reference period.

3. The expected electricity consumption rates in respect of each reference period.

4. Such other assumptions as may be prescribed.

Minister to provide amount to Financial Services Manager

(4) The Minister shall provide the fair allocation amount in respect of each reference period to the Financial Services Manager.

Recalculation

(5) A calculation of the fair allocation amount under this Part may be changed by such person as may be prescribed in accordance with such requirements as may be prescribed.

Same

(6) No change under subsection (5) shall affect any clean energy adjustment that has already been determined under section 10xx or any funding obligations that have already been incurred before the change.

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Information

(7) The Minister, IESO, the Financial Services Manager, the Board and electricity vendors shall provide such information as may be prescribed in accordance with the regulations for the purposes of facilitating a change to a calculation of the fair allocation amount.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

16xx. (1) The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of a refinancing.

Plan to be provided to Minister

(1.1) The Financial Services Manager shall provide the Financing Plan to the Minister.

Principles

(2) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Funding obligations should be incurred such that, along with any funding obligations already incurred, the estimated finance amount that would, subject to any refinancing, become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period, in each case after reducing the fair allocation amount to reflect determinations of the Board under Part II in respect of the reference period.

2. Incurrences should be implemented in a manner that, in the opinion of the Financial Services Manager, is reasonable, cost effective and that reflects prevailing market terms and conditions.

3. Reasonable assumptions should be made regarding such matters as may be prescribed.

Limitation

(4) In respect of each reference period from May 1, 2017 to April 30, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment in respect of the reference period unless,

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(a) the amounts are payable in respect of a reference period in respect of which the Board has not made any determinations under Part II; or

(b) if the Board has made a determination under Part II in respect of the reference period, the funding obligations incurred would not result in amounts payable in respect of the clean energy adjustment during the reference period in an amount that exceeds the limit determined in accordance with the regulations.

Other reports

(3.1) The Financial Services Manager shall submit to the Minister such reports and information as the Minister may require from time to time and shall, if required by the Minister to do so, examine, report and advise on any question relating to the Financing Plan.

Amendments to plan

(6) The Financial Services Manager may amend the Financing Plan at any time.

Same

(7) In the event that the Financing Plan is amended, any reference in this section to the Financing Plan is deemed to be a reference to the plan as amended.

Implementation of Financing Plan

17xx. (1) The Financial Services Manager shall ensure that funding obligations incurred for the purposes of this Act are incurred in a manner that is consistent with the applicable Financing Plan.

Financing entities

(3) In accordance with the Financing Plan, the Financial Services Manager may establish or cause to be established one or more financing entities that may incur funding obligations.

Prohibition

(3.1) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, Ontario Power Generation Inc., the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation or other agreement.

Effect of amendment to fair allocation amount

(4) Each funding obligation incurred and each transfer made by a financing entity is deemed to be consistent with the Financing Plan and to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

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Same

(2) For greater certainty, subsection (4) applies despite the failure of the Financial Services Manager to comply with subsection (1).

PART V
THE REGULATORY ASSET

IESO deferral

20xx. (1) The IESO deferral for each month, commencing May 1, 2017, shall be determined by IESO in accordance with the regulations.

Same, retrospective amounts

(1.1) For greater certainty, the regulations may provide for the IESO deferral to include an amount that was incurred by IESO on or after May 1, 2017 and before the day this Act comes into force.

Electricity vendors to provide information

(2) Electricity vendors shall provide to IESO such information as IESO may reasonably request for the purposes of determining the IESO deferral under subsection (1) and such further information as may be prescribed.

Same

(3) IESO may rely on information provided by electricity vendors for the purposes of the determination under subsection (1).

Variance account to be established, maintained

20.1xx (1) IESO shall establish and maintain a variance account for the purposes of this section.

Recording in variance account

(2) IESO shall record the following in the variance account:

1. The IESO deferral for each month.

2. All payments received by IESO resulting from the exercise of the right of recovery under section 21xx and any transfer under section 22xx.

3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences on or after May 1, 2017 and before the day this section comes into force.

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Recording determinative

(3) Subject to the correction of any obvious error by IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

Rights of investment interest owner

(4) No change made by IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 22x, affect the rights acquired by the investment interest owner under the transfer.

Regulatory asset established

21xx. (1) Effective May 1, 2017, IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

Board to set rates

(2) Subject to subsection (3), the Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.

Limitation

(3) IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

Same, limitations

(4) The Board's powers under subsection (3) shall be exercised in accordance with the regulations.

Transfer of regulatory asset

22xx. (1) IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

Agreement

(2) An agreement between IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to IESO in an amount equal to the amount of the specified portion.

Effect of payment

(3) Upon receipt by IESO of the payment by the financing entity,

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(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) IESO shall retain no further right, title or interest in the corresponding investment interest.

Validity of transfer

23xx. (1) A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

Same

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.

Deemed perfection, etc.

(3) At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI
THE INVESTMENT ASSET

Effect of transfer

24xx. (1) The transfer of a specified portion of the regulatory asset under section 22x creates an investment asset or, if it is not the first transfer, adds to the investment asset.

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Same

(1.1) Upon transfer of a specified portion of the regulatory asset under section 22xx to a financing entity, the investment asset resulting from the transfer is immediately vested in the financing entity, free and clear of any adverse claim.

Investment asset established

25xx. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that are imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, IESO and other prescribed parties.

3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.

4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge and invoice for the clean energy adjustment.

5. The right to enforce the duties and obligations under this Act of each electricity vendor and IESO to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by any electricity vendor to recover payment of the clean energy adjustment.

6. All rights of any kind related to any of the other property rights or interests that comprise the investment interest, including any rights to receive funding rebates.

7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether it is invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

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Not affected by failure to impose etc. clean energy adjustment

(1.1) An investment interest is not affected by any failure to impose, attribute, invoice, accrue or collect amounts in respect of the clean energy adjustment.

No set off, etc.

(2) The investment asset shall not be set off,

(a) by a consumer, an electricity vendor, IESO, an agent of the investment interest owners or an owner in the Province of a distribution system within the meaning of the *Electricity Act, 1998*;

(b) in connection with any default of a person mentioned in clause (a); or

(c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(3) The rights of the investment interest owners to collect and enforce their rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with Part III of this Act.

Collective action required

(4) If one investment interest owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment interest owner collectively and in coordination with all other investment interest owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment interest owners as a collective in accordance with its terms.

Transfer of investment interest

26xx. An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

27xx. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the transferee a valid property right and interest in, to and under the applicable investment interest acquired in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment interest owner's right, title and interest in, to and under an

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investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected as described in the *Personal Property Security Act*, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer, and the property rights and interests acquired by the investment interest owner shall have priority over any liens in favour of such other persons.

Investment interest owner may grant security interest

28xx. (1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment interest owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may

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subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any account of any electricity vendor, an agent of an electricity vendor or other person who may have commingled such revenues or other proceeds with other funds.

Notice required

(7) The secured party shall be entitled to exercise the rights of an investment interest owner only after the secured party has given notice of the enforcement of its security interest to IESO.

Definition

(8) For the purposes of this section, a security interest is perfected when it is perfected as described in the *Personal Property Security Act*.

PART VII
MISCELLANEOUS

Appointment of agent, invoicing or collection

29xx. If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Not Crown agent

30xx. For greater certainty, a person appointed under section 29xx is not an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Board's authority

30.1xx (1) Each electricity vendor, IESO and the Financial Services Manager shall maintain such accounts and provide such information to the Board as the Board may require for the purposes of carrying out its responsibilities under this Act, in the form and manner and within the time required by the Board.

No hearing required

(2) Despite anything to the contrary in the *Ontario Energy Board Act, 1998*, the Board may exercise any of its responsibilities under this Act without a hearing.

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Sequestration

31xx. (1) A court in the Province may, upon application by an investment interest owner or a secured party, order the sequestration and payment of amounts in respect of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment interest owner or secured party by any person or entity authorized to collect amounts in respect of the clean energy adjustment, including defaults on any required remittance of amounts in respect of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Choice of law

32xx. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to a transfer under this Act or the creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section 5XX shall be the laws of the Province.

Conflict

33xx. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

34xx. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required to be taken under the Financing Plan or in relation to the determination of the fair allocation amount.

Liability

35xx. (1) No action or other civil proceeding shall be commenced against any employee of the Province or Ontario Power Generation Inc. for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under this Act, the regulations under this Act or for any alleged neglect or default in the exercise or performance in good faith of such a power or duty.

Same

(2) Nothing in subsection (1) shall be read as limiting the effect of subsection 19 (1) of the *Electricity Act, 1998* or subsection 11 (1) of the *Ontario Energy Board Act, 1998*.

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Same

(3) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act*, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.

References in marketing materials and offering documents

36xx. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under section 5xx unless the prescribed requirements, if any, are satisfied.

Regulations

38xx. (1) The Lieutenant Governor in Council may make regulations in respect of the following matters:

1. [5]Governing anything that is required or permitted to be prescribed or that is required or permitted to be done by, or in accordance with, the regulations or as authorized, specified or provided in the regulations.

2. Defining, for the purposes of a regulation, words and expressions used in this Act that are not defined in the Act.

3. Prescribing types of payment obligations that constitute funding obligations.

4. Governing the determination of classes of specified consumers, which may include determination based on the manner in which rates are determined for different classes of specified consumers.

5. Governing the determination of the finance amount and the true-up amount and how those amounts are to be applied to the clean energy adjustment.

6. Governing the inclusion of information under this Act on or with invoices, which may include requiring notice to be provided by electricity vendors to specified consumers and other prescribed persons regarding the adjustments, including providing for different requirements in different circumstances and for different classes of specified consumers.

7. Governing the inclusion of information about the clean energy adjustment and any other matters provided for under this Act on or with invoices issued to specified consumers, including the form that the information must take and the

[5] FLS - see s. 78 (1) of the Climate Change Mitigation and Low-carbon Economy Act, 2016 - paras. 1 and 2.

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form of the invoices and the form of any notice to be provided to the specified consumer under this Act[6];

8. Governing the manner by which invoices or notices provided for under this Act are to be provided to specified consumers and other prescribed persons.

9. Governing the Financial Services Manager's power to establish and charge fees, including the ability to recover costs and expenditures and to earn a return.

9.1 Providing for a right of compensation for investment interest owners affected by a breach of section 25xx and the manner in which such a right may be enforced under this Act.

10. Prescribing the time within which any action required by this Act may be required to be done.

11. Providing for such other matters as the Lieutenant Governor in Council considers advisable to carry out the purpose of this Act.

Limitation

(2) Despite subsection (1) or any other Act, no regulation under this Act shall have the effect of reducing, impairing, postponing or terminating the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or impairing or postponing the invoicing, collection, remittance or recovery of the clean energy adjustment.

PART VIII[7]
AMENDMENTS TO OTHER ACTS

ELECTRICITY ACT, 1998

200x. (1) Subsection 6 (1) of the *Electricity Act, 1998* would be amended by adding the following clauses:

(q.0.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,

[6] FLS - see *OEBA s.79.17 and 88(1)(z.11) and (z.12)*

[7] FLS: These amendments are drawn from previous drafting contained in gov2016.146.e05 (which was drafted as amendments to the EA, 1998).

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(i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*;

(ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities;

(iii) engaging in activities related to the transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,

(A) incurring liabilities in relation to the regulatory asset,

(B) transferring the regulatory asset under section 22x for consideration, and

(C) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

200.1xx (1) Subsection 25.33 (1) of the Act would be amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*;

(1.1) Subsection 25.33 (2) of the Act would be amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*;

(2) Subsection 25.33 (3) of the Act would be amended by adding the following paragraph:

4. A consumer who is a specified consumer within the meaning of the *Ontario Fair Hydro Plan Act, 2017* or such other consumer as may be prescribed.

(3) Clause 25.33 (4) (b) of the Act would be amended by adding "or as may be required by a regulation made under this Act or the *Ontario Fair Hydro Plan Act, 2017*" at the end.

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(4) Subsection 25.33 (5) of the Act would be amended by adding "or under the *Ontario Fair Hydro Plan Act, 2017*" at the end

201x. Section 53.1 of the Act would be amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

53.1 (1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

Deemed assets, non-subsidiary

(1.3) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is not a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of the financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries shall not form part of the assets and liabilities of the financing entity.

Deemed assets, subsidiary

(1.4) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of that financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries; and,

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries shall not form part of the assets and liabilities of that financing entity.

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Definition, financing entity

(1.5) For the purposes of this section, "financing entity" has the same meaning as in the *Fair Hydro Plan Act, 2017.*

AMENDMENTS TO ONTARIO ENERGY BOARD ACT, 1998

205x. Subsection 70 (2.1) of the Act would be amended by adding the following paragraph:

4. The licensee is required to comply with the *Ontario Fair Hydro Plan Act, 2017*.

205.1x Section 70 of the Act would be amended by adding the following subsection:

(2.3) Every licence issued to a unit sub-meter provider is deemed to contain the condition that the unit sub-meter provider is required to comply with the *Ontario Fair Hydro Plan Act, 2017* and the regulations made under it.

206x. Section 78.1 of the Act would be amended by adding the following subsection:

Same, limitation re Ontario Power Generation Inc.

(3) The determination of a payment to Ontario Power Generation Inc. under this section shall not include any consideration of amounts related to activities of Ontario Power Generation Inc. carried out in relation to the *Ontario Fair Hydro Plan Act, 2017*.

Same

(3.1) The amounts referred to in subsection (3) include, without limitation, the following:

1. Amounts related to the appointment of Ontario Power Generation Inc. as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

2. Amounts related to the charging of fees for performing duties as the Financial Services Manager.

3. Amounts related to exercising the powers and performing the duties of the Financial Services Manager.

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4. Amounts related to the consolidation of the assets and liabilities for accounting purposes of any special purpose financing entities established under and for the purposes of that Act.

207xx. Subsection 79.16 (3) of the Act would be repealed.

PART IX
COMMENCEMENT AND SHORT TITLE

Short Title - this proposal for legislation would, if approved by the Legislature, have a short title to be determined by Government.

Timing – this proposal for legislation would, if approved by the Legislature, come into force on a date to be established by Government.

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Ernst & Young
222 Bay Street
P.O. Box 251
Toronto ON
M5K 1J7

Tel: +1 416 943 2615
Fax: +1 416 943 3767
ey.com

The Special Committee of the Board of Directors
Ontario Power Generation Inc. (the "Company")
700 University Avenue
Toronto, ON M5G 1X6

May 5 2017

Dear Sirs/Madames:

This letter is being issued to the Special Committee to assist them in their evaluation of management's analysis of the application of International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB")) to the specific transaction described in the Company's memorandum entitled *OPG Accounting Considerations of Ontario Fair Hydro* dated May 2 2017, herein referred to as "the Management Memorandum". We are issuing this letter in our role as auditors of the Company for the year ending December 31, 2017. As the Province consolidates OPG on an IFRS basis, this letter pertains solely to management's IFRS analysis as contained in the Management Memorandum.

We have read the Management Memorandum and we agree with management's analysis therein, subject to all of the assumptions and limitations identified therein. Specifically, we concur that the existing in draft legislation, along with the yet undrafted Regulation and special purpose vehicle (TRUST) documents, and various other agreements assuming they include the required criteria that Management has identified as outstanding in its Appendix A, would be sufficient to support consolidation of the TRUST with OPG Inc.

Additionally, we specifically refer you to the section entitled "Conclusion" in the Management Memorandum, which indicates that their analysis is based on draft legislation as well as their assumptions regarding the terms and conditions of certain contractual arrangements and other documentary evidence that is not yet drafted. Therefore, the Management Memorandum will be required to be updated to reflect the final contents of the legislation and other relevant contractual arrangements and documentary evidence. We will review the updated Management Memorandum once it is available, and update you on our viewpoints once our review of such updated Management Memorandum is completed.

The scope of this letter and any views expressed herein are limited to the transactions, facts, circumstances and assumptions provided to us by management or the Company as described in the Management Memorandum. If such facts, circumstances or assumptions differ, our conclusions may change.

We have not performed an audit or a review of the Management Memorandum. Additionally, we have not performed an audit as of any date or for any period subsequent to December 31, 2016.

The ultimate responsibility for the proper accounting treatment under IFRS and US GAAP rests with the Company.

We have not been asked for, nor do we express, an opinion on the tax consequences of the transactions described herein.

The accounting for such transactions could be affected by actions of the International Accounting Standards Board, the IFRS Interpretations Committee, the Ontario Securities Commission, or other regulatory bodies. Any such actions occurring prior to the finalization of the 2017 IFRS consolidated financial information will be required to be analyzed by management, and such analysis will be reviewed by us in the context of the audit procedures we will perform on the consolidated IFRS financial information for the year ending December 31, 2017.

Our work does not include the provision of legal advice and we make no representations regarding questions of legal interpretation of any possible structure or strategy. We make no representation regarding the sufficiency of our work for any purpose.

This report is intended solely for the information and use of the Special Committee, Board of Directors and management. We understand that a copy of this letter may be provided to the Province of Ontario, the Independent Electricity System Operator, and/or the Ontario Energy Board. It is not intended to be, and should not be, used by anyone other than these specified parties.

This analysis, or portions thereof, should not be referred to or distributed to any other person or entity, other than those noted in the paragraph directly above. It is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document.

Yours sincerely

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Tracy E Brennan
Partner
416-943-2615

May 2, 2017

OPG ACCOUNTING CONSIDERATIONS OF ONTARIO FAIR HYDRO PLAN

Purpose:

The purpose of this document is to summarize the preliminary views of Ontario Power Generation (OPG) on the ability for OPG to consolidate the Financing Entity Trust associated with the Ontario Fair Hydro Plan.

This memo is assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. Note that this assessment is preliminary pending the finalization of the Legislation, the Trust indentures, Regulations, financing structure and other detailed terms, and all related documentary evidence. This assessment will be updated once final documentation is available.

Background:

On March 2, 2017, the Province of Ontario (the Province) announced Ontario's Fair Hydro Plan (the Plan) aimed at reducing electricity bills by 25 percent on average for all residential consumers in the province. As part of the Plan, the Province has proposed financing a portion of the Global Adjustment costs over a longer time period for Regulated Price Plan eligible customers (e.g., residential, farm, small businesses).

On April 13th, the Province requested that OPG consider administering the financing associated with the Plan, because of OPG's participation in the market, regulatory knowledge and the potential ability to consolidate the related financing activities. To undertake this financing, OPG will establish a Financing Entity Trust (the Trust) to finance and administer the Global Adjustment costs through a mixture of external financing and an equity injection from the Ontario Financing Authority. It is expected that OPG will control the Trust for accounting purposes and that its financial position and results will be consolidated within OPG's consolidated financial statements.

Assumptions made to perform accounting analysis which are not yet addressed in Legislation – it is expected that these matters will be addressed in Regulations, Trust documents, and various other agreements:

- The Regulation must require interest, carrying and administrative costs to be paid to the Trust in cash on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs.
- The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.
- The Minister of Energy will have the ability to replace the Financial Services Manger (OPG) if there is a failure to perform. There will be a bifurcation of roles where the Province could not remove OPG as manager/administrator with respect to the existing debt placed by the Trust, but could remove OPG's responsibility/right to prepare the Financing Plan going forward. The ability for the Minister of Energy to remove OPG as the Financial Services Manager should not impact the recoverability of existing intangible assets.

- The calculation of the Fair Allocation Amount will be performed by the Minister of Energy.
- OPG has the ability to appoint and remove the Trustee (or Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust.
- Neither the OEB nor any other party can discretionally reduce the management fee or performance fee except due to a calculation error.
- The margin on the interest rates associated with Tranche B and Tranche C which will be recovered from the ratepayers will be reflective of the risk profile of the debt and the associated market terms.
- The indemnification provided to the Trust by the Minister of Finance on behalf of the Province as described in *Part I – General - Section 5.3 Guarantee, indemnification Protection and assurances* will be subject to terms and conditions in a separate Provincial support agreement. The guarantee is expected to be in place only in the event of a Payment Guarantee Event, such as if the Legislative Assembly of Ontario repeals the Fair Hydro Act or amends the Act in a way that adversely impacts the ability of the Trust to fully recover an intangible asset in order to pay the obligations of the Trust.
- The approval by the Ontario Energy Board of the Financial Services Manager (i.e. OPG's) fees as described in *Part IV – Implementation - Section 14.4 Same, Board Approval* will not allow them to change or limit the management fee structure, but only ensure that it is prudent by ensuring it is calculated in accordance with the Regulations.
- In the event that a different Financial Services Manager is appointed by the Minister of Energy, the IESO is required to continue to make cash payments for interest to the Trust for the existing debt. Principal repayments on existing debt will continue to be repaid by ratepayers to the Trust in accordance with the terms of the issued debt.
- All other items as indicated in *Appendix A.*

Accounting Analysis:

In order to meet the accounting definition of 'control', accounting guidance must be considered. There are no bright lines to determine whether OPG has exposure, or rights, to variable returns from its involvement with the Trust, or whether it has the ability to affect the returns of the Trust through its power over the Trust. Rather, all facts and circumstances are considered when assessing whether an entity has control over another entity.

In order to consolidate the Trust, OPG must be able to demonstrate that it controls the Trust.

Control

An investor controls an investee if and only if the investor has all the following:

a) *power over the investee;*
b) *exposure, or rights, to variable returns from its involvement with the investee; and*
c) *the ability to use its power over the investee to affect the amount of the investor's returns.* [IFRS 10, paragraph 7]

Purpose and design of the investee
When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities. [IFRS 10, paragraph B5]

Criteria	Analysis
Purpose and design of the Trust	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
Relevant activities of the Trust and how decisions are made about those activities	Relevant activities: The relevant activities of the Trust are: • To evaluate and make decisions on financing alternatives, duration, and the strategy to minimize financing costs. • To effectively manage funding obtained through the capital markets and be able to make or lose any spread from financing • To provide funding to the IESO in return for an interest in a future cash flow stream • To obtain funding through the capital markets and other vehicles available to OPG to be able to provide the IESO funding. • To make capital and funding decisions required to meet the Fair Allocation Plan objectives as set out in Legislation • To finance the requirements associated with the short-fall amount • To raise debt, pay bond debt holders, and determine capacity for the Trust to raise additional financing Financing Plan (Legislation: Part IV – Implementation) • OPG's plan for managing the assets of the Trust will be dictated through a 'Financing Plan'. • The Financial Services Manager (i.e. the Trust) shall provide the Financing Plan to the Minister. The Financing Plan is expected to follow Principles as stipulated in the Legislation which indicate that the assumptions must be reasonable and that the Trust has the power to determine what is reasonable and cost-effective. The Trust makes all the decisions in determining the relevant activities as listed above. • OPG can amend the Financing Plan at any time without the approval of the Minister. Fair Allocation Amount (Legislation: Part IV – Implementation) • The 'Fair Allocation Amount' ("FAA") is the amount of the deferral for the reference period and includes finance amounts. The current Legislation dictates that the Minister of Energy is to calculate the FAA. • This does not impact OPG's relevant activities in the Trust as OPG's variable returns are based on financing decisions which are not dictated by the FAA. OPG can choose to accept or reject the purchase of the intangible asset which is based on the Fair Allocation Amount.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
	<u>Decisions made and voting rights of the Trust:</u> OPG has the ability to appoint and remove the Trustee (and if applicable Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust. **[NOT YET ADDRESSED IN CURRENT LEGISLATION]** *Voting of members:* Except as otherwise stated, all decisions of the members (if applicable) shall be made by the Trustee who will be appointed by OPG. <u>Termination Rights</u> OPG cannot be removed from its role in the Trust. The Province has the right to remove OPG as the 'Financial Services Manager' for failure to perform. This will not impact debt that has already been issued for which OPG is already managing through the Trust or the recoverability of existing intangible assets. It the right is exercised, it serves to reduce or eliminate the scope of new business activities of the Trust but it does not affect OPG's ability to control the Trust. Should a new Financial Services Manager be appointed, a separate assessment would be made as to which party if any would control it.
Assessment	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees. For the reasons noted above, OPG has control over the decisions to be made about the relevant activities.

Power over the investee	
Criteria	**Analysis**
Identify whether OPG's rights give it the current ability to direct the relevant activities of the Trust (Substantive rights)	See above for relevant activities of the Trust.
Assessment	OPG has the ability to direct the relevant activities of the Trust. OPG can amend the Financing Plan at any time, without approval from the Minister. Further, if the Minister of Energy chooses not to continue with OPG's current Financing Plan, OPG can withdraw its Financing Plan, without impacting the existing debt and related intangible assets that is already in the Trust. The Province would just appoint a new party to participate in future securitizations and OPG would continue to manage the debt that already exists in the Trust. If future financing transactions are with a different SPV, a separate consolidation analysis would be prepared at that time as to which party if any would consolidate the SPV.

Exposure or rights to variable returns	
Criteria	**Analysis**
Dividends, other distributions of economic benefits from an investee and changes in the value of the investor's investment in that investee [IFRS 10, paragraph B57(a)]	OPG is expected to realize management fees from its activities with the Trust.
Remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee [IFRS 10, paragraph B57(b)]	**[NOT YET ADDRESSED IN CURRENT LEGISLATION]** OPG has exposure and rights to variable returns from the Trust in the form of the following: • The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns. • OPG, through ownership of the most subordinated debt, is exposed to risk of non-collection. Given that the program is expected to run until 2047, this 30 year time period results in uncertainty about the future collection of OPG's amount at risk. OPG and the OFA (5% out of 44% contribution) would be the last parties to get paid in the event that the program stops running due to a change in Government, if electricity demand is not high enough to allow for collection from ratepayers in a timely manner, etc. The end date of 2047 that is prescribed in the Legislation results in uncertainty toward whether this program will continue and whether OPG will have collected its amount at risk at that time. • In the event that there is a market disruption whereby OPG is not able to obtain debt from the financial markets (e.g. due to a recession), the Province will provide funding in the event that OPG wishes to continue purchasing intangible assets from the IESO. This is considered to be a protective right as it does not impact the relevant activities of the Trust, but is designed to protect both parties and does not give either party more or less power over the Trust. It is designed to allow OPG to keep purchasing intangible assets if it wishes to. • Protective rights are typically held to prohibit fundamental changes in the activities of an investee that the holder does not agree with and usually apply only in exceptional circumstances (i.e., upon a contingent event). This is true for this right as it is only applicable if there is a market disruption and the Trust is not able to obtain financing from external markets. Further, the fundamental activities of the Trust would change if it were not able to obtain financing from external markets.
Returns that are not available to	• OPG will have synergistic benefits from combining operating

Exposure or rights to variable returns	
other interest holders. For example, an investor might use its assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the investor's other assets [IFRS 10, paragraph B57 (c)]	functions with the Trust given its extensive knowledge on the market and current regulatory knowledge.
Assessment	To determine which party is the most 'at risk' in the event that the loans default, expected loss rates were obtained from Moody's and DBRS. Using the *Moody's Investors Service – Loss Given Default for Speculative Grade Companies* dated December 4, 2015, the 4-year Idealized Expected Loss ranges from 0.00% for a triple A rated bond to 0.30% for an A3 rated bond. DBRS Expected Loss Ratings give an indication of the expected loss of a loan portfolio. As per a November 2016 publication, the 10-year expected loss rates range from 0.1% for a AAA rated bond to 1.7% for an A (low) rated bond. Given that OPG's subordinated debt is equal to 5% of the total debt, which is higher than the default rates above, 100% of the risk is with both OPG and the OFA since they are the last parties to get paid should there be any default with the debt. OPG is also exposed to variable returns from the Trust from its performance on decisions made on financing alternatives, duration, and the strategy to minimize financing costs through the variable fee component of the management fee. Therefore, OPG has the exposure to variable returns from the Trust.

Ability to use power to affect returns	
Criteria	**Analysis**
Ability of investor to use its power to affect the investor's returns from its involvement with the investee	OPG needs to have both power over the Trust (i.e. as a Principal, not an agent), exposure or rights to the variable returns from the Trust, and the ability to use its power to affect OPG's returns from its involvement with the Trust OPG has the ability to use its power over the relevant activities of the Trust to affect its returns from its involvement with the Trust through the variable fee component.

Ability to use power to affect returns	
	Further, the Trust's ability to use its power to affect returns is in a manner that is consistent with being a principal. See *Appendix B* for Principal-Agent analysis.
Assessment	OPG has the ability to use its power to affect returns of the Trust.

Conclusion:

Based on the current **[May 1, 2017]** draft of the legislation, the conditions to ensure the ability of OPG to consolidate the operations of the Trust have not fully been reflected. As noted in Appendix A, several conditions must be evident in the Regulations, Trust documents, and various other agreements which are not yet drafted and therefore not yet available for our review and assessment. In OPG's assessment, while no current clause of the Legislation would hamper the ability to effect a consolidation within OPG Inc.'s financial statements, there are several key conditions for consolidation that are currently not present within the Legislation. On the assumption that future Regulations, Trust documents and various other agreements fully capture these operating conditions, and that no new conditions that would conflict with OPG's control of the trust are introduced, OPG believes that consolidation of the Trust is supportable.

APPENDIX A:

Terms necessary for OPG to consolidate the Global Adjustment Trust

Note that these are assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. These are subject to change as subsequent drafts of the Legislation are issued.

Legend:

✓ **- Addressed by the Legislation drafted May 1, 2017**

RT – Not addressed by Legislation and must be addressed in Regulations, Trust Documentation or various other agreements

Ω - Will not be addressed in Legislation/Regulations or Trust but is the intended plan

Issue	No.	Requirements
Directive	1 ✓	The Trust must be undertaken by OPG as a business initiative on its merits. A Shareholder Directive is to be limited to direct OPG to investigate the option of establishing a Trust vehicle to administer, finance and operate the Global Adjustment plan and the operation of that Trust and the control, risk and rewards of that Trust will determine its consolidation into OPG as a business enterprise. ***MET - The Province will not direct OPG to participate in the Fair Hydro Plan. A letter was issued from the Minister of Energy to OPG on April 13th requesting OPG's involvement in the implementation of the Fair Hydro Plan. OPG's Board Chair responded to the Minister on April 18th committing OPG to work with the IESO and OEB to develop a plan. OPG will have the option to prepare, implement and amend a financing plan (in accordance with principles set out in legislation) and propose the adoption of such plan as the 'Financing Plan'. OPG will have the right to withdraw its financing plan at any time.***
Trust	2 **RT**	The Trust should not operate in a predetermined way such that OPG does not have decision-making authority over the Trust's ongoing activities after its formation (i.e. should not operate on 'autopilot'). ***OPG will be the sole unit holder of the Trust. All decisions over the relevant activities of the Trust (as described above) will be made by OPG.***
	3 **RT**	OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the Trust. ***OPG will be the sole unit holder of the Trust. The Province will be involved in the Board of Trustees, but OPG is expected to have the majority vote.***

<table>
<tr><th>Issue</th><th>No.</th><th>Requirements</th></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td>4
RT</td><td>The Province cannot have the right to veto OPG's decisions about the relevant activities of the Trust. OPG must have the power over the relevant activities of the Trust and be compensated. The relevant activities of the Trust include (but are not limited to) the evaluation and decisions on financing alternatives, duration, and the strategy to minimize financing costs. OPG must have the power to establish operating and capital budgets of the Trust.

OPG will have the ability to make decisions about the financing alternatives, duration, and the strategy to minimize financing costs. OPG will have the power to establish operating and capital budgets of the Trust with no veto right by the Province.</td></tr>
<tr><td></td><td>5
RT</td><td>OPG must have the power to determine or change operating and financing policies of the Trust, which will affect the variability of risks and returns.

The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.</td></tr>
<tr><td></td><td>6
Ω</td><td>The Province or its agencies must not directly or indirectly fund (through debt or equity) more than 50% of the following:
a. The Trust
b. The most subordinated debt of the Trust

See below for financing structure.

<table>
<tr><th></th><th>Risk Profile</th><th>Source</th><th>% of Total Fundin Requirement</th></tr>
<tr><td>Tranche A Senior Debt</td><td>the least risky</td><td>Capital Markets</td><td>51%</td></tr>
<tr><td>Tranche B Sub Debt</td><td>In between A&C</td><td>OPG via OEFC</td><td>39%</td></tr>
<tr><td>Tranche C Sub Debt</td><td>the most risky</td><td>OPG via OEFC</td><td>5%</td></tr>
<tr><td></td><td></td><td>OPG via Capital Markets</td><td>5%</td></tr>
</table>
</td></tr>
<tr><td></td><td>7
Ω</td><td>OPG must own at least 50% of the most subordinated debt and must be no less than 5% of the debt of the Trust. Such ownership must be financed entirely by OPG through operating cash flows or external debt, without assistance from Provincial sources.

See chart in Point 6 above.</td></tr>
</table>

Issue	No.	Requirements
	8 **RT**	OPG must have the ability to earn variable returns by exercising its authority, which shall be accomplished as follows: a. The cash flow from the restructured asset shall include interest determined based on a relevant benchmark that is appropriate relative to the restructured asset, plus an appropriate margin consistent with the relevant market and other risks ***The cash flow from the restructured asset will include interest income that is equal to the interest expense (i.e. interest expense is passed back to the ratepayers). The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	✓	b. OPG shall have the authority to determine the financing strategy, which will vary the financing costs with the objective of enabling the Trust to achieve a more favourable return compared to the benchmark for interest on the restructured asset ***OPG will determine the financing strategy through the proposal of its 'Financing Plan'. The 'Financing Plan' will only be required to follow general Parameters and Principles as set forth in the Legislation but funding decisions will be made entirely by OPG. The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	Ω	c. The Trust shall establish classes of liabilities (senior, subordinated and the most subordinated). The classes would allow the Trust to delineate financing of lower risk investment and investment that would bear higher residual risk. The delineation would limit OPG's self-funded investment to a reasonable level in order to allow OPG to remain a self-sustaining entity. ***OPG's portion of the most subordinated debt will be limited to a reasonable level. If it is determined that OPG's portion is not at a reasonable level, OPG has the option to withdraw its Financing Plan.***
	RT	c. OPG shall, through its ownership of the most subordinated liability, be able to capture and retain the pricing difference between cost of financing and benchmark for interest on the restructured asset, or any residual risk of restructured asset. The targeted return of the subordinated liability should be reflective of the underlying risks and compensate holders for active management that would be required.

Issue	No.	Requirements
		OPG will be able to capture the pricing difference between cost of financing and benchmark for interest through the performance fee which is described in point 5) above and the 'Exposure or rights to variable returns' section above.
	Ω	d. OPG should participate in the detailed design of the above and the Trust documentation to ensure that it has substantive power and variability, which will allow OPG's Board of Directors to evaluate the opportunity as a business initiative instead of through a shareholder directive. ***OPG will be involved in the Trust documentation.***
	RT	Defined Forced Majeure for emergency events (e.g. unlikely credit market event or disruption where it is not possible to borrow from the market at a reasonable rate), OFA may provide bridge financing beyond the designated percentage for a defined period. ***This will be structured through a separate indemnification agreement. This is not expected to impact consolidation of the Trust because this is seen as a protective right which is only in affect when a contingency arises and not as a result of the relevant activities of the Trust.***
Legislation	9 ✓	The Legislation must require interest, carrying and administrative costs to be paid to the Trust on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs. ***Under Part III – Clean Energy Adjustment – Section 8.3 Terms, of the Legislation, the expectation is that the Legislation will allow for interest payments to be paid to the Trust on a monthly basis in cash. The Trust will not accrue interest to the current intangible asset balances but this interest amount could form part of future intangible assets that are purchased from the IESO.***
	10 RT	The Legislation must dictate the manner in which the restructured asset would be determined, collected, and the period of collection, so that the determination of the restructured asset will not be subject to the Province's decisions on an ongoing basis, but determined based on a formula. Alternatively, the Legislation may allow for an adjustment to the pre-determined deferral formula based on specific parameters that would limit the adjustment to the restructured asset. Adjustments beyond the specific parameters would require approval by the Board of Trustee. **The Regulations are expected to dictate the 'Fair Allocation Plan' which will be based on high level Principles and Parameters of the Plan, including the attribution methodology. The Legislation or Regulation determines the following principles:** • **25% Reduction (June 1, 2017) where the average bill will**

Issue	No.	Requirements
		reduce by 25% including of HST and social programs noted above • **Inflation Period (November 2017 – April 2022) where bill increases are capped at inflation** • **Straight-line Increase Period (May 2022 – April 2027) where bills increased at a straight-line rate (i.e., 8% per year) which is set so that borrowing will not exceed the Trust's capacity.** • **Amortization Period (May 2027 – April 2047) where debt built up over the previous periods is repaid by ratepayers.** **OPG will determine the manner in which the intangible asset, once purchased from the IESO will be collected and the period of collection.** **The recoverability of the existing intangible assets cannot be impacted by the Province.** **Although the Province may determine the Principles and Parameters around the 'Fair Allocation Plan', it does not impact the activities of the Trust once OPG has purchased the intangible asset.**
	11 **RT**	The Legislation must be written to avoid legal or constitutional challenges and be irrevocable to reduce the cost of borrowing and with a specific formula which determines the deferral amount. **See above.**
	12 **RT**	The spirit of the above terms should be reflected in the Trust Indenture Agreement as well as Legislation, wherever possible. ***Trust Indenture and Regulations still outstanding.***

APPENDIX B:

Link between power and returns: principal-agency situations

The third criterion for having control is that the investor must have the ability to use its power over the investee to affect the amount of the investor's returns. When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether the decision-maker is a principal or an agent to determine whether it has control. This is because if the decision-maker has been delegated rights that give it power, the decision-maker must assess whether those rights give it power for its own benefit, or merely power for the benefit of others. As an agent cannot have control over the investee, it does not consolidate the investee. A principal may have control over the investee, and if so, would consolidate the investee.

A decision maker shall consider the overall relationship between itself, the investee being managed and other parties involved with the investee, in particular all the factors below, in determining whether it is an agent:

a) the scope of its decision-making authority over the investee

   As discussed above, OPG has decision-making authority over the Trust and its relevant activities. The Province has no right to determine what sort of funding decisions OPG should make to fund the intangible assets that they will purchase and OPG can choose not to purchase future intangible asset purchases.
   Terms and Conditions to support this point: 1, 2, 3, 4, 5

b) the rights held by other parties (paragraphs B64–B67).

   There are no substantive removal rights held by the Province for debt that already exists in the Trust.

   Terms and Conditions to support this point: 3, 4, 5

c) the remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs B68–B70).

   See section on 'Exposure or rights to variable returns' above.

   Terms and Conditions to support this point: 6, 7, 8, 9

d) the decision maker's exposure to variability of returns from other interests that it holds in the investee (paragraphs B71 and B72).

   See section on 'Exposure or rights to variable returns' above.

   OPG will receive a 44% equity injection from the Province of Ontario, indirectly through the Ontario Financing Authority. Given that currently, the majority (currently 51%) of the Trust debt will be from External Markets and not the Province, it can be argued that OPG did not receive the majority of its interest in the investee as a contribution or loan from the Province. This shows that OPG is a principal, not a de-facto agent.

   Terms and Conditions to support this point: 6, 7, 8, 9

Conclusion: OPG is not an agent for the Province as the arrangement does not provide for the Province to directly absorb any variability associated with the structure. If the Province decides to intervene at a later date due to evolving market conditions, an assessment would be made at that future date.

Analysis on whether OPG is an agent for ratepayers

OPG is not an agent for the ratepayers because OPG has substantive exposure to risk of loss of its own funds. The ratepayers do not have any of their own funds in any of the subordinated tranches and further, no decision making authority is delegated to the ratepayers relating to the relevant activities of the Trust.

Analysis on whether OPG is an agent for the IESO

OPG is not an agent of the IESO because the IESO faces no continuing risk of loss after sale of the intangible asset to OPG.

From: Hindmarch-Watson, Tim (CAB) [Tim.Hindmarch-Watson2@ontario.ca]
To: Felix Fung (MOF) [Felix.Fung@ontario.ca]; James Strang (MOF) [James.Strang@ontario.ca]
Subject: Fw: OFHP - LRC Submission
Date: Sunday, May 07, 2017 15:35:25
Attachment 1: LRC_MinistryApprovalForm OFHP May 7.doc
Attachment 2: GOV2017.089.e01.docx
Attachment 3: OFHA Compendium FINALv04.docx
Attachment 4: OFHP Variance Memo v03.doc

Fyi

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Sunday, May 7, 2017 2:09 PM
To: Hindmarch-Watson, Tim (CAB)
Cc: Moore, Karen (CAB)
Subject: OFHP - LRC Submission

Hi Tim,

Please find attached the final LRC submission. Also attached are the final legislation, compendium and variance memo.

This is Minister signed and hard copies will be delivered first thing on Monday morning.

Thanks,
Martin

Ontario

LEGISLATION AND REGULATIONS COMMITTEE: MINISTRY APPROVAL FORM

+LRC Tracking #: (DLEG-847)
EVista Tracking #: (SUB—DL-2017-00665)

Ministry of Energy

Ontario Fair Hydro Act, 2017
Legislation

Profile at a Glance

Priority: Key
Public Interest: Very High
Key Stakeholder Interest: High
New Costs/Burdens: Yes for Government, Yes for Stakeholders
New Savings/Opportunities: Yes for Stakeholders; No for Government

Proposed Items for Review

1. New legislation titled the Ontario Fair Hydro Act, 2017

Approvals required prior to LRC

	Committee and date	Cabinet Date
Policy	Cabinet approval received March 1	
TB/MBC	TB/MBC approval received March 9	

Deputy Minister _____ Date _____

Minister _____ Date _____

s. 1 Proposal and Context

- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), intended to lower bills on average by 25% for a typical residential consumer, starting in the summer of 2017. About half a million small businesses and farms are also expected to benefit.

- Any rate increases for residential consumers over four years would be held to the rate of inflation.

- These measures include the 8% rebate introduced in January and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

- The OFHP also announced enhancements to a number of existing programs targeted at more vulnerable electricity consumers, including funding some or all of the costs of these programs from the tax base rather than the electricity ratebase.

- OFHP is part of a significant system restructuring that will address long-standing policy challenges and ensure greater fairness.

- To implement OFHP, the Ministry has prepared the Fair Hydro Act, 2017 in close collaboration with key ministries (i.e., Treasury Board, Finance, Attorney General, Cabinet Office), agencies (i.e., OEB, IESO, OPG) and third party financial advisors and local distribution companies (LDCs).
    - The proposed Fair Hydro Act, 2017 would be an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998 and Electricity Act, 1998.

- The proposed OFHP legislation, supporting regulations and amendments to existing legislation (e.g., Electricity Act and Ontario Energy Board Act) will, if passed, enable implementation of the following key components of the Plan:

    A. Refinancing the Global Adjustment (GA) – The proposed legislation outlines how costs would be fairly allocated among eligible consumers over time.

    B. Helping Vulnerable Electricity Consumers – The proposed legislation broadens the Rural or Remote Rate Protection Program (RRRP) by creating a new distribution rate protection component, expands the Ontario Electricity Support Program (OESP) and establishes a new On-Reserve First Nations Delivery Credit. The legislation also allows for these programs to be funded (partially for RRRP) through the tax-base.

A. GA Refinancing

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in clean energy initiatives are allocated fairly among present and future generations of consumers.

- Refinancing the Global Adjustment (GA) would be achieved through the proposed stand-alone legislation, regulations and amendments to existing legislation and regulations.

- Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the GA. These mechanisms are described below.

B. Social Programs

- The proposed Ontario Fair Hydro Plan would help vulnerable electricity consumers by enhancing electricity support programs and shifting program costs onto the tax-base:
    - Enable Rural or Remote Electricity Rate Protection (RRRP) costs to be funded through provincial revenues;
    - Enhance Rate Protection through creation of new tax-base funded Distribution Rate Protection (DRP);
    - Enable Ontario Electricity Support Program (OESP) costs to be moved to tax base;
    - Create a new First Nation On-Reserve Delivery Credit, funded through provincial revenues

s. 2 Approach and Intended Outcomes

A. GA Refinancing

- The Fair Hydro Act, 2017 attempts to balance several key factors including financeability, accounting requirements and legal considerations.

- Following an extensive consultation process with internal and external experts, the proposed legislation strikes a balance between these three factors by:
    - Supporting financeability through a number of features, including enabling a provincial guarantee and provisions intended to provide certainty to investors in order to reduce borrowing costs and attract a wide investor base;

  - Addressing the necessary accounting requirements through mechanisms to record funding, interest and the transfer of regulatory assets to avoid a fiscal impact to the province; and
  - Mitigating legal risk by developing a methodology that attempts to fairly aligns costs and benefits.

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of clean energy initiatives are allocated fairly among present and future generations of consumers.
  - Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The proposed legislation would outline:
  - Roles and responsibilities for the OEB, IESO, OPG and the Province;
  - A detailed Preamble, Purpose and Definitions;
  - Details with respect to cost allocation, rate reduction methodology, implementation and financing;
  - Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
  - Amendments to other acts.

- The associated amendments to existing legislation and regulations include:
  - Electricity Act, 1998: amendments to provide OPG with the authority to establish a special purpose vehicle (SPV) for the investment asset and Ontario Energy Board Act, 1998: amendments to allow for OEB to set rates recognizing GA refinancing.

Preamble and Purpose

- The preamble of the proposed legislation establishes the rationale for the allocation of "clean energy costs" over time. That is, the development of a clean, modern and reliable electricity system has increased costs for ratepayers.

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of these investments are allocated fairly among present and future generations of consumers.
  - Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the Global Adjustment. Note: These mechanisms are described below.

- The legislation also restricts the OEB, Minister of Energy and the Crown from reducing, impairing or ending Clean Energy Adjustments in the future:
  - The Lieutenant Governor in Council may authorize the Ministers of Finance and Energy to enter into guarantees and indemnities related to the Act.

- The proposed legislation aligns eligibility with the Ontario Rebate for Electricity Consumers Act, 2016.

Fair Adjustment

- Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for a typical residential consumer, and to achieve comparable bill reductions for other eligible consumers, for the period July 1, 2017 to April 30, 2018.
    - Under the legislation, the OEB must determine the amount within 15 business days of the legislation receiving Royal Assent.

- The Fair Adjustment also allows the LGIC to make regulations prescribing electricity rates after April 30, 2018.

Clean Energy Adjustment

- The Clean Energy Adjustment is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period.

- The proposed Act outlines:
    - The process for determining the total Clean Energy Adjustment amount;
    - The obligation on individual ratepayers for the repayment of the amount; and
    - The inability to offset or bypass re-collection of the amount.

Fair Allocation Amount

- The Fair Allocation Amount is a calculation and allocation of clean energy costs and clean energy benefits over time.
    - The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager. Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
    - It is expected that the calculation would lead to decreased rates in the near term with upward pressure on rates in the long term.

- Under the legislation the calculation of the Fair Allocation Amount is guided by the principles and purposes of the Act including the proportional allocation of clean energy costs and benefits.

Financial Services Manager

- The legislation appoints OPG as the Financial Services Manager.

Financing Plan

- The Fair Allocation Amount is a calculation and allocation of clean energy costs and clean energy benefits over time.

  - The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager. Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
  - It is expected that the calculation would lead to decreased rates in the near term with upward pressure on rates in the long term.

- Under the legislation the calculation of the Fair Allocation Amount is guided by the principles and purposes of the Act including the proportional allocation of clean energy costs and benefits.

Regulatory Asset

- IESO will have a funding deferral resulting from the reduction in amounts collected during the first four years.

- The legislation enables IESO to record the under-collection of GA in a variance account, and deems the rights associated with this under-collected amount to be a Regulatory Asset.
  - OEB would determine rates to allow IESO to recover under-collection recorded in its variance account in the event the Regulatory Asset is not sold.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust.

Investment Asset

- The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

  - The legislation establishes property rights for the Investment Asset such as the right to collect principal and interest and financing costs in the form of the clean energy adjustment from eligible consumers.

- The Investment Asset may in turn be sold to other investors or group of investors.

- Through the legislation, the Board, Minister and Crown undertake not to hinder the charging and remittance or collection of clean energy adjustments.
  - The Province, through the Minister of Finance and the Minister of Energy may agree to guarantee performance, any debts and obligations and backstop its undertaking.

Amendments to Other Acts

- The legislation stipulates required amendments to existing legislation such as:
  - The Electricity Act, 1998 – to expand the objects of IESO and OPG to enable them to perform their rights and obligations in the proposed Act

- The Ontario Energy Board Act, 1998 – to address license conditions and the determination of regulated payments.

B. Social Programs

- The proposed legislation provides the authority to implement two new rate mitigation programs and expands upon two existing programs.

- To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

- The proposed legislation is intended to provide rate relief and assistance for:

    - **High Distribution Cost Customers**: Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
    - **Low-Income Customers**: Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
    - **First Nation On-Reserve Customers**: On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

Proposed Changes to the Ontario Energy Board Act, 1998 ("OEBA" or "Act")

- The Ontario Energy Board Act, 1998 would be amended to facilitate the roll out, expansion or change in funding of the following programs.

i. Rural or Remote Rate Protection (RRRP)

- RRRP is an existing program currently funded by ratepayers through the regulatory line of the electricity bill. Currently costs $1.58/month for a 750kWh consumer.
- Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province. For R2 customers the enhanced RRRP, or Distribution Rate Protection (DRP), is provided in addition to the RRRP the customers are already eligible for under the existing RRRP.

- Section 79 would be amended to provide the government the ability to fund a portion of the Rural or Remote Rate Protection Program through the tax base by prescribing certain classes of consumers who will be funded through a legislative appropriation.

- This includes the ability to pass regulations respecting the making of rules for the compensation of distributors with the money appropriated flowing from the legislature through the IESO to the various LDCs who would then provide the rate relief directly on consumers' bills.
- Should the legislation pass, Energy proposes to amend O. Reg 442/04 to enable provincial funding to compensate Hydro One for provision of RRRP to its R2 customers.

ii. Expanded RRRP - Distribution Rate Protection

- While the RRRP helps mitigate some of the higher distribution costs for Hydro One R2 customers, there is an opportunity to provide further relief to consumers in relatively high-distribution cost outlier LDCs. This relief would be financed from the tax base.
- Mitigation would be provided by harmonizing distribution rates for prescribed LDCs, as set by the Ontario Energy Board. The mechanism for determining this rate would be set out in regulation.

- The new section 79.3 of the Act would enable Distribution Rate Protection, which satisfies the commitment to expand RRRP.
  - The section includes the power to pass regulations prescribing LDCs, the classes of consumers or consumers designated as distribution rate protected consumers, the maximum amount of the monthly base distribution charge, limitation periods, and the type of information required by the Board and Ministry to implement and administer the program, including financial transactions.

iii. Ontario Electricity Support Program (OESP)

- Section 79.2 would be repealed and replaced in order to provide the government with the ability to shift funding for the OESP (once existing rate-based pooled funding has been depleted) from the rate base to the tax base, and the ability to share information with MCSS to coordinate OESP and social assistance programs. The Ministry has already completed a regulatory amendment that, effective May 1, 2017:
  - Increases the existing OESP credit scales by an additional 50%; and
  - Expands the categories of OESP credits.
  - Provides for OESP to be funded from the tax-base once the IESO's OESP variance account has been depleted.

- The legislative amendments would provide authority to make regulations to replace existing O. Reg. 314/15 to implement these changes.

- The total fiscal impacts to the province from the newly enhanced OESP will amount to: $140 million in 2017-18, $261 million in 2018-19, $325 million in 2019-20 and $375 million in 2020-21.

- Schedule 2 amends the OESP provisions by prescribing the ability to fund the program from the tax base.
    - The section also provides that the Ontario Energy Board or any other entity prescribed in legislation would be responsible for administering the program.
    - In addition, the licenses of LDCs, the IESO, unit-sub meter providers or electricity retailers are deemed to include anything which is necessary to administer and implement the program as may be set out in regulations or by the Board.
    - The section also requires that the Ontario Energy Board continue funding the program using the amounts previously accumulated in the IESO's OESP variance account which is the difference between funds collected through the regulatory charge and expended on OESP to date, until these amounts are depleted and the program shifts to the tax-base.
    - The section provides for broad regulation making power and includes the provision for the creation of different classes of rate assisted consumers and establishing rules for the calculation of the rate assistance to be provided.
    - New provisions also provide the necessary authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers in the future to support increased participation in the OESP program among social assistance clients.

- Note: the intended approach involves proclaiming s.79.2 into force on a future date to be named by proclamation. This would allow time for the funds accumulated in the IESO's OESP variance account to be more fully expended prior to the repeal and replacement of s.79.2.
    - However, the MCSS data sharing provisions, along with ss. Amendments to s. 79.2.1, the new sections 79.3 and 79.4, would come into force upon Royal Assent.
    - The OESP charge has been removed from electricity bills, however a surplus account has been accumulated which the OEB will continue to use until depleted.

iv. First Nations On-Reserve Delivery Credit

- On June 27, 2016, following discussions on Hydro One shares and rates at COO's All Chiefs Conference, the Minister of Energy issued a letter directing the OEB to prepare a report providing "*advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers*".

- The program is premised around the findings in the OEB report on a First Nations Delivery Rate Assistance. The proposed program features include:
    - Eliminating the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, from the bills of prescribed on-reserve customers. Regulations would then prescribe those on reserve consumers which are eligible for the on reserve credit.

  - Continue to provide eligibility to OESP while not disturbing eligibility for the Low Income Energy Assistance Program (LEAP) currently funded by distributors outside of these amendments to the OEBA; and
  - The program would be carried out by the 11 affected LDCs serving on-reserve consumers identified by the OEB in its report, including; Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution.

- The program is anticipated to have a fiscal impact on Government of $20 million, as estimated by the Ontario Energy Board, to implement.

- The new section 79.4 of the Act would establish the First Nation On-Reserve Delivery Credit. The section provides that for all prescribed consumers, living on-reserve, the entirety of their delivery line items will be removed from their bill as a delivery credit.
  - The program would be entirely funded through the tax base.
  - The section includes the power to make regulations prescribing further program details such as eligibility and funding parameters.

v. Ministry of Finance Accountability Provisions

- The social programs all involve the expenditure of tax money to fund the partial or entire program costs. As a result, the Ministry of Finance and Treasury Board Secretariat require that such money be tracked and accounted for throughout the process.

- Therefore, the OEBA has been amended to include new provisions between ss. 79.5 to 79.11 as follows
  - Section 79.5 – imposes information sharing and auditing requirements for the Ministry of Finance.
  - Section 79.6 – Defines the Finance Minister as the Minister responsible for ss. 79.7 to 79.11.
  - Section 79.7 – mandates record keeping, retention and content requirements.
  - Section 79.8 – enables the Minister of Finance to appoint inspectors who may carry out inquiries
  - Section 79.9 – sets out the regime for the recovery of overpayments
  - Section 79.10 – imposes confidentiality requirements on Ministry staff for the collection of information
  - Section 79.11 – creates offences for false or deceptive statements, fraud and the unlawful destruction of records.

s. 3 **Direction and Urgency**

A. GA Refinancing

- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower bills for residential consumers as well as most small businesses and farms. The initiative was announced as starting in the summer of 2017.

- The legislation for GA refinancing requires the OEB to make further rate adjustments no later than fifteen business days after the legislation receives Royal Assent for Regulated Price Plan (RPP) consumers to achieve the full 25% for a typical residential consumer, and for other eligible consumers to also receive a comparable bill reduction.

- The full reduction from the OFHP is expected to be addressed through a July 1st RPP rate adjustment.

B. Social Programs

- The direction for the creation and implementation of the social programs is found in a variety of sources including the Cabinet Minute, throne speech given on the government's efforts to mitigate the high price of electricity in Ontario, and public commitments made by the Minister and other key government spokespeople.

- The program has been announced to commence as of July 1, 2017. This includes both local announcements and organized speeches and press conferences.

s. 4 Impact Assessment and Costs

A. GA Refinancing

- The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.
    - o The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recovered.
    - o The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year.

- It is still possible that the full value of the Regulatory Asset may not be purchased.

- In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

- In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt.
    - The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line.
    - The Ministry of Energy has received an appropriation for $1.1 billion operating asset to support these injections for the fiscal year 2017/18, and will report back through PRRT for future funding. Based on the final fair allocation amount calculation, the equity injections would be required until the period of recovery begins.
    - The injections will be fiscally neutral for the province as they will be offset with the value of shares purchased from OPG.

- OPG will seek to achieve the highest possible credit rating (AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV/Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

B. Social Programs

i. Social Programs

Government Impact

- As approved in the TB/MBC submission of Mach 1st, 2017 and confirmed in Vote-Item 2905-1, the financial impacts on Government of the social programs for the period July 1 2017- March 31 2018 are anticipated to be as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection	344,000,000
Ontario Electricity Support Program	140,000,000
On-Reserve First Nations Delivery Credit	15,000,000

- ENERGY will report back to TB/MBC in fall 2017-18 with an update on out-year projections following analysis on rate applications before the Ontario Energy Board.

Stakeholder Impact

The Schedule 2 social programs will impact Local Distribution Companies and their consumers.

- For example, the Distribution Rate Protection program would involve 8 LDCs, the First Nations On-Reserve Delivery Credit will involve 11 LDCs and the only impacted LDC from the changes to the legacy RRRP program is Hydro One Networks Inc. (the R2 rate class).
- There may be modest impacts on unit sub-meter providers and retailers, due to the requirement to flow financial assistance through to consumers served such entities.

- The compliance costs for LDCs will involve the expenditure of money to alter their billing systems in order to carry out the program. This includes costs to alter the bill presentment and to include a new line on the bill that highlights the First Nations On-Reserve Delivery Credit.

Agency Impact

- The Ontario Energy Board would have a role in continuing to administer the OESP and in setting the harmonized monthly base distribution charge for the purposes of the Distribution Rate Protection Program.

- The Independent Electricity System Operator would be responsible for for flowing the funds used to reimburse/compensate LDCs for the costs of delivering the social programs from the money appropriated for such purposes from the legislature. This requires the IESO to monitor program specific variance accounts and flow the amounts necessary to compensate LDCs for the costs incurred in carrying out the programs.

- The proposal advances the government's overarching goal of reducing the cost of electricity paid by residential customers, especially those facing the highest costs of delivery.

s. 5 Implementation

A. GA Refinancing

- On April 20, 2017, the Ontario Energy Board (OEB) announced new Regulated Price Plan (RPP) rates effective May 1 that include a portion of the bill reduction proposed under the OFHP.

- These new RPP rates will include 50% of the estimated reduction in GA. This reduction in RPP rates, along with the removal of the OESP charge and the existing 8% rebate, will mean that May bills will be 17% lower than they would otherwise have been for an average consumer (15% lower for the typical Toronto Hydro consumer).

- The legislation for GA refinancing requires the OEB to make further rate adjustments no later than fifteen business days after the legislation receives Royal Assent for

RPP consumers to achieve the full 25% for a typical consumer and for other eligible consumers to receive a comparable bill reduction.

- The full reduction from the OFHP is expected to be addressed through a July 1st RPP rate adjustment.

- Regulations will be required to supplement the framework of the legislation to ensure that the OEB can make the required rate adjustments and to enable the financing contemplated by OPG SPV/Trust.

- The regulations are anticipated to be brought forward in mid and late June.

B. Social Programs

- The social programs would be implemented through subsequent regulations to follow that will expand upon the legislative framework to provide actual program specifications.

- The regulations are anticipated to be brought forward by late June, to allow for a July 1st program implementation.

- The efforts required to implement the programs would primarily fall upon the impacted LDCs who would need to adjust their billing systems in order to carry out the program.
    - For the OESP, the legislation contains transitional retroactive application of the provisions to offset any potential lapses in implementation.
    - The transitional retroactivity powers mitigate the risk of LDCs being unable to actualize the necessary OESP-related changes to their billings systems in time for the July 1st roll out and provides the utilities an extra prescribed time period (anticipated to be in the range of three months) to sort out any billing system alterations.
    - For the high-cost distribution rate protection and the on-reserve credit, there are more limited transitional provisions provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided.

C. Legal Considerations

- In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a “low” risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the “short” term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in

order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

- Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:
    - The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
    - If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
    - By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
    - The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

- The bill provides for provincial assurances, guarantees and a statutory cause of action.

- **The provincial assurance provision** is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

- The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

- In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the

Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

- **The guarantee provisions** are intended to backstop the provincial assurance provision and provide that:
    - the Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - the Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted.

A statutory cause of action may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

s. 6 Delivery and Results Tracking

A. GA Refinancing

- The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister. Such update calculations will be required given uncertainty related to electricity demand, interest rates and actual GA costs.

- The legislation establishes a framework for processes once the ratepayer relief is set. There is limited control once the plan is set, which could represent challenges for electricity planning and rate mitigation in future Long-Term Energy Plans.

- Under the legislation, OPG, as the Financial Services Manager, must prepare a Financing Plan and submit it to the Minister.
    - The Financing Plan sets out the funding obligations and amounts related to the financing of the under-collected GA amounts.

B. Social Programs

- As the social programs are funded through the tax-base, and in keeping with normal practice, Treasury Board Secretariat and the Ministry of Finance require that provisions be included that track the flow of tax money and hold all parties accountable for the proper allocation of tax money (proposed new OEBA s. 79.5-79.11).

- The actual implementation of the programs would be required to be shown on the bill (timelines will be in stated in the regulations). This timeline is in accordance with the feedback provided to the Ministry and the Board by affected LDCs.

s.7 Stakeholder Consultations

A. GA Refinancing

- In the development of the proposed legislation, the Ministry of Energy has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors (lawyers and accountants) and third party financiers (i.e., investment dealers).

- In addition, the Ministry hosted LDC workshop sessions on March 16 and April 19, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation.

B. Social Programs

- The Ministry has consulted with Energy agencies such as the Ontario Energy Board and the Independent Electricity System Operator on their respective roles and responsibilities.

- The Chief of Ontario (COO) have publicly supported the introduction of the First Nations Delivery Credit. ENERGY met with COO on April 26, 2017 to discuss implementation.

- The Ministry held working groups with all affected LDCs:
    - The Ministry received several quantitative data submissions from LDCs to help support the program and to buttress the implementation issues flagged by the utilities.
    - The consultations occurred in person and over teleconference.

- The consultations respecting the RRRP, the DRP and the On-Reserve First Nations Delivery Credit revealed concerns from LDCs over the costs of implementation and the timelines and obstacles to implementing the billing system changes.
- The feedback from the OEB helped to shape the estimates for the program costs of the proposed On-Reserve First Nations Delivery Credit as well as implementation timelines for the aforementioned program.

- Other key Ministries such as the Ministry of Finance and Treasury Board Secretariat were consulted as their will be a role for them to play in overseeing the implementation of the program funding.

s.8 Other Jurisdictions and Harmonization

A. GA Refinancing

- The program would not impact upon any other jurisdiction.
- GA refinancing does not harmonize Ontario rules with other jurisdictions and are not comparable to other Canadian jurisdictions.

B. Social Programs

- The program would not impact upon any other jurisdiction.
- The social programs do not harmonize Ontario rules with other jurisdictions and are not comparable to other Canadian jurisdictions.

s. 9 Communications

A. GA Refinancing

- The communications for GA refinancing will be referenced in ongoing announcements related to OFHP broadly, and as necessary targeted communications for specific stakeholder group can be developed.
- Energy has prepared a Communications Snapshot which summarizes the approach to communications.

B. Social Programs

- Energy has prepared a Communications Snapshot which summarizes the approach to communications.
- In respect of the First Nations On-Reserve Delivery Credit, the LDCs will work in collaboration with the Chiefs of Ontario and the Ministry to promote and advertise the availability of the credit to all eligible on-reserve customers.

s. 10 **Contacts and Appendices**

Contacts

	Name	Phone Number
Ministry Policy/Program	Tim Christie/Sunita Chander	5-6708/5-6594
Ministry Legal	Carolyn Calwell	2-8392
Ministry Communications		
Assistant or Deputy Minister's Office		
Cabinet Office Policy		

Appendices

Appendix A: Variance Memo
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Fair Hydro Act, 2017

EXPLANATORY NOTE

The Bill enacts a new Act and makes amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*.

SCHEDULE 1
ONTARIO FAIR HYDRO PLAN ACT, 2017

The Schedule enacts the *Ontario Fair Hydro Plan Act, 2017*. The Act establishes a framework under which the costs and benefits associated with the "clean energy initiative" are to be allocated among present and future consumers of electricity. The "clean energy initiative" is defined in Part I as consisting of the policies of the Government of Ontario related to such matters as eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies.

Under Part II, the Ontario Energy Board is required to determine reduced electricity rates and to determine other adjustments to be made for certain classes of consumers in respect of specified periods of time. For example, for the class of consumers referred to as "regulated rate consumers", the electricity rates payable for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would achieve a 25 per cent reduction in certain costs for a hypothetical member of the class who meets prescribed criteria. Details regarding the determinations are prescribed by regulations.

Part III requires certain electricity consumers to pay an amount in respect of the "clean energy adjustment". The clean energy adjustment is determined by the Financial Services Manager in accordance with rules set out in the Act and the regulations. (Section 18 of the Act appoints Ontario Power Generation Inc. as the Financial Services Manager.) Part III also specifies the roles and responsibilities of electricity vendors and the Independent Electricity System Operator ("IESO") with respect to the collection and remittance of amounts in respect of the clean energy adjustment.

Part IV requires the Minister of Energy to calculate a "fair allocation amount" by taking specified steps in accordance with principles and assumptions set out in the Act. For example, the Act provides that the purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among certain consumers. Part IV also requires the Financial Services Manager to prepare a written

plan entitled the “Financing Plan”, which is to be used to evaluate whether potential funding obligations should be incurred. Principles and limitations regarding the preparation and implementation of the plan are provided.

Part V requires the IESO to determine the “IESO deferral” in accordance with the regulations and to establish and maintain a variance account in which it records the IESO deferral each month. A “regulatory asset” is created under section 25; the IESO has the right to recover the balance recorded in the variance account from certain consumers. The IESO is authorized to transfer a specified portion of the regulatory asset to a financing entity; this transfer results in the creation of the investment asset and the acquisition by the transferee of a corresponding “investment interest”. Various rules respecting the validity and priority of such a transfer are set out.

In Part VI, rules in respect of the “investment asset” are provided. Section 29 provides that the investment asset constitutes a current and irrevocable property right and interest, consisting collectively of various specified rights and interests of investment interest owners. Rules respecting the validity and priority of such a transfer and the granting of a security interest by an investment interest owner are included.

Part VII deals with various miscellaneous matters, including regulation-making authority of the Lieutenant Governor in Council.

The *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* are amended to address various matters relating to the enactment of the new Act. For example, the objects of the IESO and Ontario Power Generation Inc. are expanded to address powers and duties under the new Act.

SCHEDULE 2
AMENDMENTS TO THE ONTARIO ENERGY BOARD ACT, 1998

The *Ontario Energy Board Act, 1998* is amended. Among the amendments:

1. Section 79 of the Act is amended so that compensation for the rate protection provided to certain classes of rural or remote consumers may be funded out of money appropriated by the Legislature, rather than by consumers.

2. Section 79.2 of the Act, which governs the Ontario Electricity Support Program, is repealed and replaced. The program is continued, but will be funded out of money appropriated by the Legislature after the variance account maintained by the Independent Electricity System Operator, formerly established under the Plan, is exhausted, rather than by consumers. There are provisions relating to the sharing, use and disclosure of information relating to the administration of the Ontario Electricity Support Program.

3. Programs are established to aid certain distribution rate-protected residential consumers and on-reserve consumers.

4. Various amendments of a technical and administrative nature are made to support the implementation and oversight of these programs including provisions related to auditing, record-keeping, inspections and inquiries, offences and penalties.

Bill **2018**

An Act to enact the Ontario Fair Hydro Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

Her Majesty, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows:

Contents of this Act

1. This Act consists of this section, sections 2 and 3 and the Schedules to this Act.

Commencement

2. (1) Subject to subsections (2) and (3), this Act comes into force on the day it receives Royal Assent.

Schedules

(2) The Schedules to this Act come into force as provided in each Schedule.

Different dates for same Schedule

(3) If a Schedule to this Act provides that any of its provisions are to come into force on a day to be named by proclamation of the Lieutenant Governor, a proclamation may apply to one or more of those provisions, and proclamations may be issued at different times with respect to any of those provisions.

Short title

3. The short title of this Act is the *Fair Hydro Act, 2017*.

SCHEDULE 1
ONTARIO FAIR HYDRO PLAN ACT, 2017

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Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects. These commitments can only be achieved if costs are shared fairly among consumers, today and in the future.

Electricity rates have risen for two key reasons. First, decades of under-investment in the electricity system resulted in the need to invest more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable. Second, the decision to eliminate Ontario's use of coal and produce clean, renewable power has created additional costs.

The actions taken to achieve a clean, modern and reliable electricity system have resulted in significant costs to residential consumers. The burden of financing these system improvements and funding key programs has unfairly fallen almost entirely on the shoulders of those consumers.

The Government of Ontario is committed to ensuring that the costs of financing these investments and the associated charges to consumers are allocated fairly among present and future generations.

Recognizing that the electricity infrastructure that has been built and the policy decisions that have been made will create benefits for years to come, costs should be allocated fairly over time, so that residential consumers in the future pay their fair share for the benefits that they receive from the investments already made.

PART I
GENERAL

Interpretation

Definitions

1. (1) In this Act,

"Board" means the Ontario Energy Board; ("Commission")

"clean energy adjustment" means the amount determined under section 15 and payable by specified consumers; ("ajustement pour l'énergie propre")

"clean energy benefits" means the value of the benefits determined to be derived by or accruing to specified consumers as a result of the clean energy initiative, including as a result of clean energy costs; ("avantages de l'énergie propre")

"clean energy costs" means the value of the costs allocated to specified consumers as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

(a) the amounts to be paid or reflected by the IESO in adjustments made under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts or amounts for,

(i) renewable energy generation or capacity,

(ii) conservation and demand management,

(iii) energy storage,

(iv) energy efficiency,

(v) natural gas generation and capacity, excluding contracts relating to amounts payable by the IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed,

(b) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(c) such other costs or estimated costs as may be prescribed; ("coûts de l'énergie propre")

"clean energy initiative" means the policies of the Government of Ontario related to,

(a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,

(b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

(c) promoting conservation, demand management and energy efficiency, and

(d) investing in energy infrastructure to ensure a clean, modern and reliable system; (“initiative pour l’énergie propre”)

“electricity vendor” means,

(a) a licensed distributor,

(b) a licensed retailer,

(c) the IESO in circumstances where it directly invoices a specified consumer for electricity used in Ontario, or

(d) such other person as may be prescribed; (“vendeur d’électricité”)

“fair allocation amount” means an amount calculated under section 20; (“French”)

“finance amount” means the finance amount determined in accordance with the regulations; (“French”)

“Financial Services Manager” means the Financial Services Manager appointed under section 18; (“gestionnaire des services financiers”)

“financing entity” means an entity established or caused to be established by the Financial Services Manager as described in subsection 22 (2); (“entité de financement”)

“Financing Plan” means the plan prepared under section 21; (“plan de financement”)

“funding obligation” means a payment obligation incurred by or on behalf of an investment interest owner to fund its ownership of an investment interest or a payment obligation that meets such other criteria as may be prescribed; (“obligation financière”)

“funding rebate” means a payment obligation incurred by the IESO as part of the transfer of the regulatory asset; (“French”)

“IESO” means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; (“SIERE”)

“IESO deferral” means the amount determined under section 23; (“French”)

"investment asset" means the rights and interests described in section 29; ("actif d'investissement")

"investment interest" means,

(a) an ownership interest in the investment asset, and

(b) in circumstances where the ownership interest is transferred, the rights and benefits specified in the agreement under which the interest is transferred; ("participation d'investissement")

"investment interest owner" means a financing entity that has acquired and holds an investment interest; ("propriétaire de l'actif d'investissement")

"licensed distributor" means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system within the meaning of that Act; ("distributeur titulaire d'un permis")

"licensed retailer" means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; ("détaillant titulaire d'un permis")

"Minister" means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; ("ministre")

"Ontario Power Generation Inc." means the corporation incorporated as Ontario Power Generation Inc. under the *Business Corporations Act* on December 1, 1998; ("Ontario Power Generation Inc.")

"prescribed" means prescribed by the regulations; ("prescrit")

"reference period" means,

(a) the period beginning on July 1, 2017 and ending on October 31, 2017, and

(b) during the period beginning on November 1, 2017 and ending on either April 30, 2047 or such later day as may be prescribed,

(i) every six-month period following the period mentioned in clause (a); or

(ii) any period shorter than six months, as may be prescribed; ("période de référence")

"refinancing" means, subject to the regulations, the incurrence of debt in connection with a redemption, repayment or repurchase of a funding obligation; ("refinancement")

"regulation" means a regulation made under this Act; ("règlement")

"regulatory asset" means the right established under section 25; ("actif réglementaire")

"specified consumer" means,

(a) a person who has an account with an electricity vendor for the supply of electricity in Ontario and meets the criteria set out in subsection (2), or

(b) such other person as may be prescribed; ("consommateur déterminé")

"transfer" includes, when used in relation to an investment interest, the assignment, conveyance, disposition or sale of the investment interest; ("transfert")

"true up amount" means a true up amount determined in accordance with the regulations; ("French")

"unit sub-metering" has the same meaning as in the *Energy Consumer Protection Act, 2010;* ("activités liées aux compteurs divisionnaires d'unité")

"unit sub-meter provider" has the same meaning as in the *Energy Consumer Protection Act, 2010;* ("fournisseur de compteurs divisionnaires d'unité")

"variance account" means the variance account established by the IESO under subsection 24 (1). ("French")

Specified consumer

(2) For the purposes of clause (a) of the definition of "specified consumer" in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of not more than 50 kilowatts, or such other amount as may be prescribed.

2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.

3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or has had the

obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.

4. The person's account with the electricity vendor relates to,

    i. a dwelling,

    ii. a property within the meaning of the *Condominium Act, 1998*,

    iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or

    iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.

5. The person satisfies such criteria as may be prescribed.

Transfer of regulatory asset

(3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 26 (3):

1. A reduction in the balance in the variance account.

2. The adjustment of the regulatory asset.

3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Effect of invalidity

2. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if one or more provisions are held to be invalid, the intention of the Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect the validity or enforceability of a funding obligation incurred before the day that the provision is held to be invalid or ceases to be in effect, or any rights or obligations associated with the funding obligation.

Purposes

3. The purposes of this Act are,

(a) to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers;

(b) to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province; and

(c) to align clean energy costs with clean energy benefits, in order to provide fairness for specified consumers over time.

Crown bound

4. This Act binds the Crown.

Protection and assurances

Prohibition

5. (1) No action or omission by the Board, the Minister or the Crown shall be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.

Agreements

(2) The Minister and the Minister of Finance may together, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding the performance of the IESO or electricity vendors under this Act or related transactions.

Guarantee, indemnification

(3) The Lieutenant Governor in Council may by order,

(a) authorize the Minister and the Minister of Finance, acting together on behalf of the Province,

(i) to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and

(ii) to determine terms and conditions of the guarantee or indemnity and the maximum liability for the guarantee or indemnity;

(b) specify terms and conditions that must be included in any guarantee or indemnity given by the Minister and the Minister of Finance; and

(c) specify a maximum liability for the guarantee or indemnity.

PART II
FAIR ADJUSTMENT

Definitions

6. In this Part,

"regulated rate consumer" means a specified consumer who meets the following criteria:

1. The consumer is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1998 for the purposes of subsection 79.16 (1) of that Act.*

2. The consumer would, if the consumer were not subject to this Act, be invoiced the rates determined by the Board under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*. ("French")

Regulated rate consumers, first adjustments

7. (1) Despite any order under subsection 78 (3.1) of the *Ontario Energy Board Act, 1998 and despite section 79.16 of that Act, t*he electricity rates payable by regulated rate consumers for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would result in a hypothetical regulated rate consumer who meets the prescribed criteria being charged an invoice amount that is 25 per cent less than the invoice amount that would have been charged to that consumer under the comparison rates described in subsection (2).

Comparison rates

(2) The comparison rates are the rates that would have been effective May 1, 2017 if they had been determined by the Board *solely using the method prescribed by the regulations made under clause 79.16 (1) (b) of the Ontario Energy Board Act, 1998*, without taking into account any forecasted impact of any other provisions of this Act.

Invoice amounts

(3) The types of amounts to be included or excluded in each invoice amount mentioned in subsection (1) are the types of amounts specified in the regulations.

Other specified consumers, first adjustments

8. (1) For the period beginning on July 1, 2017 and ending on April 30, 2018, the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998 shall, with respect to specified consumers who are not regulated rate consumers, be further adjusted*

*by e*lectricity vendors in accordance with the determinations of the Board under subsection (2).

Board to make determinations

(2) The Board shall, in accordance with the regulations, determine the adjustments to be made by electricity vendors.

Same, regulations

(3) The regulations may specify different adjustments to be made in respect of prescribed classes of specified consumers who are not regulated rate consumers.

Determinations by Board

9. The Board shall make the determinations mentioned in sections 7 and 8 no later than 15 business days after the day this section receives Royal Assent and, regardless of whether the Board makes the determinations before or after July 1, 2017, the determinations shall be effective as of July 1, 2017.

Implementation by electricity vendors

10. (1) As soon as possible after the Board makes determinations under section 9, each electricity vendor shall, in respect of electricity used on or after July 1, 2017, ensure that its invoices reflect the determinations of the Board.

Same

(2) The electricity vendor shall ensure that, if any of its customers who are specified consumers have been invoiced in a manner that does not reflect the determinations of the Board under section 9, the specified consumer receives the difference between the amounts shown on the invoice and the amounts reflecting the Board's determinations, provided as a lump sum credit on the first invoice issued after the electricity vendor has adapted its invoices or by such other means as may be prescribed.

Subsequent adjustments

11. (1) Despite clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998 and s*ubject to subsection (2), the Lieutenant Governor in Council may prescribe the methodology to be applied by the Board after April 30, 2018 for the purpose of determining,

(a) electricity rates for regulated rate consumers; or

(b) adjustments to be applied by electricity vendors to the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998 in respect of prescribed classes of specified consumers who are not regulated rate consumers.*

Limitation

(2) Any prescribed methodology shall have regard to the following:

1. The purposes of this Act.

2. The clean energy costs borne by specified consumers over time.

3. Such other matters as may be prescribed.

Sub-metering

12. (1) This section applies if a specified consumer provides to another person electricity in respect of which a determination of the Board referred to in section 9 or 11 applies.

Same

(2) If an invoice for the electricity is issued to the person by the specified consumer or a unit sub-meter provider providing unit sub-metering for the specified consumer, the amount payable for the electricity by the person who is liable to pay the invoice shall be determined in accordance with the regulations.

PART III
CLEAN ENERGY ADJUSTMENT

Specified consumers to pay

13. (1) Upon receipt of an invoice from an electricity vendor that includes an amount in respect of the clean energy adjustment, a specified consumer shall pay the amount to the electricity vendor as agent of the investment interest owners.

Same

(2) For greater certainty, subsection (1) applies regardless of,

(a) whether the clean energy adjustment was determined in a manner that was inconsistent with this Act; and

(b) whether the amount payable in respect of the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan, including in a manner that failed to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Terms

(3) The payment shall be made in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Indebtedness of specified consumer

(4) An unpaid amount that is required to be paid by a specified consumer under this section constitutes indebtedness of the specified consumer to each investment interest owner to the extent of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer.

Unit sub-metering

(6) A specified consumer who provides electricity through unit sub-metering may collect amounts in respect of the clean energy adjustment payable under this section in accordance with the regulations.

Irrevocability of amount

14. (1) An amount in respect of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness resulting from the clean energy adjustment and is irrevocable upon invoicing the consumer and may not be set off or bypassed.

Exception

(2) Subsection (1) does not apply to the extent that the invoice reflects a clerical, typographical or calculation-related error.

Determination of clean energy adjustment
Financial Services Manager to determine

15. (1) The Financial Services Manager shall determine the clean energy adjustment payable by all specified consumers in respect of each month in a reference period by taking the following steps:

1. Calculate the sum of the following:

    i. The estimated finance amount in respect of the reference period.

    ii. The true up amount in respect of the reference period.

2. Divide the sum calculated under paragraph 1 by the number of months in the reference period.

Regulations re true up amount

(2) The Lieutenant Governor in Council shall, in making regulations with respect to the determination of the true up amount, have regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the finance amount when it is due.

2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

   i. differences between the estimated and actual finance amount for the applicable reference period,

   ii. differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and

   iii. variations in billings due to variations in electricity consumption.

Financial Services Manager to notify Board

(3) The Financial Services Manager shall, in accordance with the regulations, notify the Board of the clean energy adjustment in respect of a reference period and such other information related to the determination of the clean energy adjustment as may be prescribed.

Board to determine rates

(4) Without changing the clean energy adjustment, the Board shall, in accordance with the regulations, determine the rates at which specified consumers are invoiced to recover the clean energy adjustment in respect of the reference period.

IESO to receive amounts

16. (1) The IESO shall, as agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the market rules made under section 32 of the *Electricity Act, 1998 or the regulations*.

Account

(2) All of the following amounts received by the IESO shall, until remitted to or for the benefit of the investment interest owners in accordance with subsection (4), be

deposited promptly into an account established for the purposes of receiving those amounts:

1. Amounts described in subsection (1).

2. Payments made by specified consumers directly to the IESO as electricity vendor under subsection 13 (1).

3. Proceeds of amounts described in paragraphs 1 and 2.

Same, held in trust

(3) All amounts received by the IESO in respect of the clean energy adjustment shall, until remitted to or for the benefit of the investment interest owners, be held in trust by the IESO for the investment interest owners.

IESO to remit

(4) The IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the amounts referred to in subsection (1), to or for the benefit of the investment interest owners in accordance with the regulations.

Electricity vendor to invoice specified consumers

17. (1) Each electricity vendor shall issue an invoice to each of its customers who is a specified consumer for the amount payable by the consumer in respect of the clean energy adjustment, as determined by applying the rate set by the Board under subsection 15 (4) and in accordance with the regulations.

Electricity vendor to report

(2) Each electricity vendor shall, in accordance with the regulations, promptly report to the IESO the total amount invoiced to its customers who are specified consumers in respect of the clean energy adjustment, the amount collected and such other information as may be prescribed.

Electricity vendor to collect

(3) Each electricity vendor shall, as agent of the investment interest owners, collect amounts in respect of the clean energy adjustment from specified consumers in accordance with the regulations.

Pro rating of payments

(4) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

Held in trust

(5) Payments received by an electricity vendor from or on behalf of specified consumers in respect of the clean energy adjustment and all proceeds of the payments shall, until remitted to the IESO for the benefit of the investment interest owners in accordance with subsection (6), be held by each electricity vendor in trust for the benefit of the investment interest owners.

Remittance to IESO

(6) Each electricity vendor shall remit amounts in respect of the clean energy adjustment to the IESO for the benefit of the investment interest owners in accordance with the regulations.

PART IV
IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

18. Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act.

Duties and powers

19. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

Same

(2) The administration of the investment asset may include providing information to the IESO in respect of obligations under Part III and such other activities as may be prescribed.

Fees

(3) Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees in relation to such matters as may be prescribed in accordance with the regulations, which regulations may provide for the ability to recover costs and expenditures and to earn a return.

Same, Board approval

(4) Before establishing fees under subsection (3), the Financial Services Manager shall submit them to the Board for approval in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Minister to calculate fair allocation amount

20. (1) Subject to subsections (2) and (3), before the first funding obligation is incurred the Minister shall calculate a fair allocation amount in respect of each reference period, applying such method as the Minister considers appropriate and in accordance with the following steps:

1. Determine the estimated clean energy costs and estimated clean energy benefits allocated to specified consumers in respect of the reference period.

2. Determine the estimated reduction in the amounts payable by specified consumers as a result of determinations of the Board under Part II in respect of all previous reference periods, including the estimated reduction in clean energy costs described in clause (a) of the definition of "clean energy costs" in subsection 1 (1) that would otherwise have been payable by specified consumers in the absence of this Act.

3. Determine the amount, if any, by which the determination under paragraph 1 exceeds the determination under paragraph 2.

4. Calculate the sum of the amount determined under paragraph 3 and such other amounts as may be prescribed.

Principles

(2) In calculating the fair allocation amount, the Minister shall have regard to the following principles:

1. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among the specified consumers in respect of each reference period.

2. Calculations should be made having regard to the need to align each fair allocation amount with the estimated finance amount payable during the reference period.

3. Estimated clean energy costs allocated to specified consumers in respect of a reference period should be allocated in proportion to the estimated clean energy benefits attributed to the specified consumers in respect of the reference period.

4. Such other principles as may be prescribed.

Assumptions

(3) In calculating the fair allocation amount, the Minister shall make such assumptions as the Minister considers to be reasonable regarding the following:

1. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.

2. The expected number of specified consumers in respect of each reference period.

3. The expected electricity consumption rates in respect of each reference period.

4. Such other assumptions as may be prescribed.

Minister to provide amount to Financial Services Manager

(4) The Minister shall provide the fair allocation amount in respect of each reference period to the Financial Services Manager.

Recalculation

(5) A calculation of the fair allocation amount under this Part may be changed by such person as may be prescribed in accordance with such requirements as may be prescribed.

Same

(6) No change under subsection (5) shall affect any clean energy adjustment that has already been determined under section 15 or any funding obligations that have already been incurred before the change.

Information

(7) The Minister, the IESO, the Financial Services Manager, the Board and electricity vendors shall provide such information as may be prescribed in accordance with the regulations for the purposes of facilitating a change to a calculation of the fair allocation amount.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

21. (1) The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of a refinancing.

Plan to be provided to Minister

(2) The Financial Services Manager shall provide the Financing Plan to the Minister.

Principles

(3) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Funding obligations should be incurred such that, along with any funding obligations already incurred, the estimated finance amount that would, subject to any refinancing, become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period, in each case after reducing the fair allocation amount to reflect determinations of the Board under Part II in respect of the reference period.

2. Incurrences should be implemented in a manner that, in the opinion of the Financial Services Manager, is reasonable, cost effective and that reflects prevailing market terms and conditions.

3. Reasonable assumptions should be made regarding such matters as may be prescribed.

4. Such other principles as may be prescribed.

Limitation

(4) In respect of each reference period from July 1, 2017 to April 30, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment in respect of the reference period unless,

(a) the amounts are payable in respect of a reference period in respect of which the Board has not made any determinations under Part II; or

(b) if the Board has made a determination under Part II in respect of the reference period, the funding obligations incurred would not result in amounts payable in respect of the clean energy adjustment during the reference period in an amount that exceeds the limit determined in accordance with the regulations.

Other reports

(5) The Financial Services Manager shall submit to the Minister such reports and information as the Minister may require from time to time and shall, if required by the Minister to do so, examine, report and advise on any question relating to the Financing Plan.

Amendments to plan

(6) The Financial Services Manager may amend the Financing Plan at any time.

Same

(7) In the event that the Financing Plan is amended, any reference in this Act to the Financing Plan is deemed to be a reference to the plan as amended.

Incurrence of funding obligations

22. (1) The Financial Services Manager shall ensure that funding obligations incurred for the purposes of this Act are incurred in a manner that is consistent with the applicable Financing Plan.

Financing entities

(2) In accordance with the Financing Plan, the Financial Services Manager may establish or cause to be established one or more financing entities that may incur funding obligations.

Prohibition

(3) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, Ontario Power Generation Inc., the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation or other agreement.

Effect of amendment to fair allocation amount

(4) Each funding obligation incurred and each transfer made by a financing entity is deemed to be consistent with the Financing Plan and to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Same

(5) For greater certainty, subsection (4) applies despite the failure of the Financial Services Manager to comply with subsection (1).

PART V
THE REGULATORY ASSET

IESO deferral

23. (1) The IESO deferral for each month, commencing May 1, 2017, shall be determined by the IESO in accordance with the regulations.

Same, retrospective amounts

(2) For greater certainty, the regulations may provide for the IESO deferral to include an amount that was incurred by the IESO on or after May 1, 2017 and before the day this section comes into force.

Electricity vendors to provide information

(3) Electricity vendors shall provide to the IESO such information as the IESO may reasonably request for the purposes of determining the IESO deferral under subsection (1) and such further information as may be prescribed.

Same

(4) The IESO may rely on information provided by electricity vendors for the purposes of the determination under subsection (1).

Variance account to be established, maintained

24. (1) The IESO shall establish and maintain a variance account in which it records the following:

1. The IESO deferral for each month.

2. All payments received by the IESO resulting from the exercise of the right of recovery under section 25 and any transfer under section 26.

3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences on or after May 1, 2017 and before the day this section comes into force.

Recording determinative

(2) Subject to the correction of any obvious error by the IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

Rights of investment interest owner

(3) No change made by the IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 26, affect the rights acquired by the investment interest owner under the transfer.

Regulatory asset established

25. (1) Effective May 1, 2017, the IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

Board to set rates

(2) Subject to subsection (3), the Board shall, from time to time and in accordance with the regulations, determine and set rates payable by specified consumers to allow for the IESO to recover the balance recorded in the variance account.

Limitation

(3) The IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

Transfer of regulatory asset

26. (1) The IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

Agreement

(2) An agreement between the IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to the IESO in an amount equal to the amount of the specified portion.

Effect of payment

(3) Upon receipt by the IESO of the payment by the financing entity,

(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) the IESO shall retain no further right, title or interest in the corresponding investment interest.

Validity of transfer

27. (1) A transfer of a specified portion of the regulatory asset under section 26 constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

Same

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for the IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of the IESO's right to

recover the corresponding amount in the variance account and not merely as a security interest.

Deemed perfection, etc.

(3) At the time a transfer of the regulatory asset is made under section 26, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI
THE INVESTMENT ASSET

Investment asset established

28. (1) The transfer of a specified portion of the regulatory asset under section 26 creates an investment asset or, if it is not the first transfer, adds to the investment asset.

Same

(2) Upon transfer of a specified portion of the regulatory asset under section 26 to a financing entity, the investment asset resulting from the transfer is immediately vested in the financing entity, free and clear of any adverse claim.

Investment asset, irrevocable rights and interests

29. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that is imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, the IESO and other prescribed parties.

3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.

4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge and invoice for the clean energy adjustment.

5. The right to enforce the duties and obligations under this Act of each electricity vendor and the IESO to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by any electricity vendor to recover payment of the clean energy adjustment.

6. All rights of any kind related to any of the other property rights or interests that comprise the investment interest, including any rights to receive funding rebates.

7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether it is invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

Not affected by failure to impose etc. clean energy adjustment

(2) An investment interest is not affected by any failure to impose, attribute, invoice, accrue or collect amounts in respect of the clean energy adjustment.

No set off, etc.

(3) The investment asset shall not be set off,

(a) by a consumer, an electricity vendor, the IESO, an agent of the investment interest owners or an owner in the Province of a distribution system within the meaning of the *Electricity Act, 1998*;

(b) in connection with any default of a person mentioned in clause (a); or

(c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(4) The rights of the investment interest owners to collect and enforce their rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with Part III of this Act.

Collective action required

(5) If one investment interest owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment interest

owner collectively and in coordination with all other investment interest owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment interest owners as a collective in accordance with its terms.

Transfer of investment interest

30. An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

31. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the transferee a valid property right and interest in, to and under the applicable investment interest acquired in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment interest owner's right, title and interest in, to and under an investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected as described in the *Personal Property Security Act*, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer, and the property rights and interests acquired by the investment interest owner shall have priority over any liens in favour of such other persons.

Investment interest owner may grant security interest

32. (1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment interest owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any account of any electricity vendor, an agent of an electricity vendor or other person who may have commingled such revenues or other proceeds with other funds.

Notice required

(7) The secured party shall be entitled to exercise the rights of an investment interest owner only after the secured party has given notice of the enforcement of its security interest to the IESO.

Definition

(8) For the purposes of this section, a security interest is perfected when it is perfected as described in the *Personal Property Security Act.*

PART VII
MISCELLANEOUS

Appointment of agent, invoicing or collection

33. (1) If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Same, not Crown agent

(2) For greater certainty, a person appointed under this section is not an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Board's authority

34. (1) Each electricity vendor, the IESO and the Financial Services Manager shall maintain such accounts and provide such information to the Board as the Board may require for the purposes of carrying out its responsibilities under this Act, in the form and manner and within the time required by the Board.

No hearing required

(2) Despite anything to the contrary in the *Ontario Energy Board Act, 1998*, the Board may exercise any of its responsibilities under this Act without a hearing.

Sequestration

35. (1) A court in the Province may, upon application by an investment interest owner or a secured party, order the sequestration and payment of amounts in respect of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment interest owner or secured party by any person or entity authorized to collect amounts in respect of the clean energy adjustment, including defaults on any required remittance of amounts in respect of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Choice of law

36. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to a transfer under this Act or the creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section 5 shall be the laws of the Province.

Conflict

37. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

38. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required to be taken under the Financing Plan or in relation to the determination of the fair allocation amount.

Liability

39. (1) No action or other civil proceeding shall be commenced against any employee of the Province or Ontario Power Generation Inc. for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under this Act, the regulations under this Act or for any alleged neglect or default in the exercise or performance in good faith of such a power or duty.

Same

(2) Nothing in subsection (1) shall be read as limiting the effect of subsection 19 (1) of the *Electricity Act, 1998* or subsection 11 (1) of the *Ontario Energy Board Act, 1998.*

Same

(3) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.*

References in marketing materials and offering documents

40. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under section 5 unless the prescribed requirements, if any, are satisfied.

Regulations

41. (1) The Lieutenant Governor in Council may make regulations in respect of the following matters:

1. Governing anything that is required or permitted to be prescribed or that is required or permitted to be done by, or in accordance with, the regulations or as authorized, specified or provided in the regulations.

2. Defining, for the purposes of a regulation, words and expressions used in this Act that are not defined in the Act.

3. Governing the incurrence of debt for the purposes of the definition of "refinancing" in subsection 1 (1).

4. Governing the inclusion of information under this Act on or with invoices, which may include requiring notice to be provided by electricity vendors to specified consumers and other prescribed persons regarding the adjustments, including providing for different requirements in different circumstances and for different classes of specified consumers.

5. Governing the inclusion of information about the clean energy adjustment and any other matters provided for under this Act on or with invoices issued to specified consumers, including the form that the information must take and the form of the invoices and the form of any notice to be provided to the specified consumer under this Act.

6. Governing the manner by which invoices or notices provided for under this Act are to be provided to specified consumers and other prescribed persons.

7. Providing for a right of compensation for investment interest owners affected by a breach under section 29 and the manner in which such a right may be enforced under this Act.

8. Prescribing the time within which any action required by this Act may be required to be done.

9. Providing for such other matters as the Lieutenant Governor in Council considers advisable to carry out the purpose of this Act.

Limitation

(2) Despite subsection (1) or any other Act, no regulation under this Act shall have the effect of reducing, impairing, postponing or terminating the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or impairing or postponing the invoicing, collection, remittance or recovery of the clean energy adjustment.

PART VIII
AMENDMENTS TO OTHER ACTS

Electricity Act, 1998

42. (1) Subsection 6 (1) of the *Electricity Act, 1998* is amended by adding the following clause:

(q.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,

(i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*,

(ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities,

(iii) engaging in activities related to the transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,

(A) incurring liabilities in relation to the regulatory asset,

(B) transferring the regulatory asset under section 26 for consideration, and

(C) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

(2) Subsection 25.33 (1) of the Act is amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by the IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*.

(3) Subsection 25.33 (2) of the Act is amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by the IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*.

(4) Clause 25.33 (4) (b) of the Act is amended by adding "or as may be required by a regulation made under this Act or the Ontario Fair Hydro Plan Act, 2017" at the end.

(5) Subsection 25.33 (5) of the Act is amended by adding "or under the Ontario Fair Hydro Plan Act, 2017" at the end.

(6) Section 53.1 of the Act is amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

(1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

Deemed assets, non-subsidiary

(1.3) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is not a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of the financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries shall not form part of the assets and liabilities of the financing entity.

Deemed assets, subsidiary

(1.4) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of that financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries shall not form part of the assets and liabilities of that financing entity.

Definition, financing entity

(1.5) For the purposes of this section,

"financing entity" has the same meaning as in the *Fair Hydro Plan Act, 2017*.

Ontario Energy Board Act, 1998

43. (1) Subsection 70 (2.1) of the *Ontario Energy Board Act, 1998* is amended by adding the following paragraph:

4. The licensee is required to comply with the *Ontario Fair Hydro Plan Act, 2017*.

(2) Section 70 of the Act is amended by adding the following subsection:

Deemed condition of licences, unit sub-meter provider, *Ontario Fair Hydro Plan Act, 2017*

(2.4) Every licence issued to a unit sub-meter provider is deemed to contain the condition that the unit sub-meter provider is required to comply with the *Ontario Fair Hydro Plan Act, 2017* and the regulations made under it.

(3) Section 78.1 of the Act is amended by adding the following subsections:

Same, limitation re Ontario Power Generation Inc.

(3) The determination of a payment to Ontario Power Generation Inc. under this section shall not include any consideration of amounts related to activities of Ontario Power Generation Inc. carried out in relation to the *Ontario Fair Hydro Plan Act, 2017*.

Same

(3.1) The amounts referred to in subsection (3) include, without limitation, the following:

1. Amounts related to the appointment of Ontario Power Generation Inc. as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

2. Amounts related to the charging of fees for performing duties as the Financial Services Manager.

3. Amounts related to exercising the powers and performing the duties of the Financial Services Manager.

4. Amounts related to the consolidation of the assets and liabilities for accounting purposes of any special purpose financing entities established under and for the purposes of that Act.

(4) Subsection 79.16 (3) of the Act is repealed.

PART IX
COMMENCEMENT AND SHORT TITLE

Commencement

44. This Schedule comes into force on the day the *Fair Hydro Act, 2017 receives* Royal Assent.

Short title

45. The short title of the Act set out in this Schedule is the *Ontario Fair Hydro Plan Act, 2017*.

SCHEDULE 2
AMENDMENTS TO THE ONTARIO ENERGY BOARD ACT, 1998

1. (1) Subsection 79 (4) of the *Ontario Energy Board Act, 1998* is repealed and the following substituted:

Liability

(4) All consumers are required, in accordance with the regulations, to contribute towards the amount of any compensation required under subsection (3) that is not otherwise provided under subsection (4.1).

Payments for certain classes

(4.1) Compensation required under subsection (3) may be provided with respect to one or more prescribed classes of consumers who receive rate protection under this section, in a manner provided for in the regulations.

Money appropriated by the Legislature

(4.2) The compensation provided for in subsection (4.1) shall be paid for out of the money appropriated for those purposes by the Legislature.

Information, etc.

(4.3) If provided for in the regulations, the Board, the IESO and distributors, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of the rate protection or of anything else provided for in this section.

(2) Clause 79 (5) (e) of the Act is repealed and the following substituted:

(e) prescribing rules respecting the amounts that must be collected to compensate distributors, taking into account any compensation provided under subsection (4.1), including rules,

(i) respecting the calculation of those amounts,

(ii) respecting the calculation of any off-set to the liability of consumers under subsection (3) having regard to those amounts,

(iii) establishing the time and manner of collection,

(iv) requiring the amounts to be paid in instalments and requiring the payment of interest or penalties on late payments,

(v) prescribing methods of ensuring that the amounts required cannot be bypassed, and

(vi) respecting the distribution of those amounts to consumers;

(e.1) prescribing classes of consumers for the purposes of subsection (4.1), and governing how and when the compensation is to be provided with respect to the rate protection provided to them, including, without restricting the generality of the foregoing, requiring the IESO to receive payments or amounts from the Minister of Energy and to make payments to licensed distributors or to prescribed persons and prescribing how and when payments are to be made;

2. Section 79.2 of the Act is repealed and the following substituted:

Rate assistance

79.2 (1) The Minister shall make provision for rate assistance for rate-assisted consumers having regard to their economic circumstances, and where the Minister makes such provision, shall do so out of the money provided for in subsection (4).

OESP

(2) The program known as the "Ontario Electricity Support Program" in English and "Programme ontarien d'aide relative aux frais d'électricité" in French is continued for the purpose of providing rate assistance to rate-assisted consumers having regard to their economic circumstances.

Administered by Board

(3) The Ontario Electricity Support Program shall be administered by the Board, or when the regulations so provide, by a Minister of the Crown or other entity provided for in the regulations.

Money appropriated by the Legislature

(4) The money required for the purposes of the Ontario Electricity Support Program shall be paid out of the money appropriated for those purposes by the Legislature, once the amounts recorded in the variance account referred to in subsection (5) are no longer sufficient to provide for the funding of the program when taken on their own.

Variance account

(5) The money required for the purposes of the Ontario Electricity Support Program shall be provided out of the credit balance in the variance account maintained by the IESO under the Program as it existed before the coming into force of section 2 of Schedule 2 to the *Fair Hydro Act, 2017* until the amounts recorded in the account are no longer sufficient, when taken on their own, to fund the Program.

Variance account depleted

(6) The IESO shall provide the Ministry of Energy with advance notice, on a timely basis, of the time the IESO estimates that the amounts reflected in the variance account would be less than the amount required to meet its obligations related to funding the Ontario Electricity Support Program for the upcoming month.

How provided

(7) Rate assistance provided under this section shall be provided with respect to consumers prescribed in the regulations, and shall be provided at the times provided for in the regulations and in the amounts and in the manner provided for in the regulations.

Payments with respect to prior use

(8) The regulations may require provision of rate assistance to prescribed classes of rate-assisted consumers with respect to electricity consumed during a period prior to the date of the making of the regulation, but no such rate assistance shall be required under the regulations with respect to electricity consumed before January 1, 2016.

Transitional

(9) The regulations may require the provision of rate assistance for a rate-assisted consumer with respect to a period prior to the date on which the consumer became a rate-assisted consumer if the consumer meets all of the criteria prescribed by the regulations.

Distributors, etc.

(10) A distributor, a unit sub-meter provider and any other person or entity that may be prescribed is entitled to be compensated from the money referred to in subsection (4) or subsection (5), as the case may be, for any lost revenue resulting from the provision of rate assistance under the Ontario Electricity Support Program.

Deemed licence conditions, IESO, settlements, payments, etc.

(11) Every licence issued to the IESO, a distributor or unit sub-meter provider or a retailer of electricity shall be deemed to contain conditions requiring the licensee to do anything necessary to implement and administer the provision of rate assistance under this section as may be required by the regulations or the Board, including requirements with respect to,

(a) making payments to the IESO, distributors, unit sub-meter providers and other persons and entities identified by the regulations;

(b) receiving payments or other amounts from the IESO, distributors, unit sub-meter providers and other persons and entities identified by the Minister;

(c) requiring licensees to pass any rate assistance provided for under this section through to rate-assisted consumers in the manner provided for in the regulations;

(d) engaging in settlement activities;

(e) providing information to and receiving information from the Ministry of Energy, the Board, the IESO, distributors, unit sub-meter providers, retailers of electricity and any other prescribed persons and entities in the time and in the manner provided for by the Board or as may be prescribed; and

(f) entering into agreements or arrangements with licensees and other persons.

Information, etc.

(12) If provided for in the regulations, the Board, the IESO, distributors, retailers of electricity and unit sub-meter providers, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of rate-assistance or of anything else required under this section.

Conflicts, etc.

(13) Where any conflict exists between an order of the Board, a code issued by the Board or a licence condition and this section or a regulation made under this section, this section or the regulation made under this section shall prevail to the extent of the conflict.

Regulations

(14**)** The Lieutenant Governor in Council may make regulations governing anything dealt with in this section and without limiting the generality of the foregoing, may make regulations,

(a) governing anything that is described in this section as being prescribed or as being provided for in the regulations or that is required to be done in accordance with the regulations;

(b) governing the time or times at which rate assistance shall be paid or become payable to rate-assisted consumers;

(c) governing the determination of classes of consumers who are rate-assisted consumers, including providing for different classes of rate-assisted consumers;

(d) requiring that certain costs and expenditures related to the Ontario Electricity Support Program be only incurred with the prior approval of the Minister, and governing those costs and expenditures;

(e) establishing rules for the calculation of the amount of the rate assistance to be provided;

(f) governing payments under this section, including determining the method or methods of calculating the amount of rate assistance to be provided;

(g) setting maximum amounts of the total annual value of rate assistance that may be provided;

(h) requiring a distributor, the IESO or a unit sub-meter provider or other prescribed person or entity to make or receive payments in respect of rate assistance, including requiring them to make or receive payments directly to or from the Ministry of Energy or to receive overpayments directly or indirectly from consumers or other persons entitled to receive the rate assistance and prescribing the circumstances in which such payments are to be made and received and such overpayments are to be received as well as methods for determining the amounts payable or to be received;

(i) requiring the IESO to receive payments from the Minister and requiring the IESO to make payments to the Board, to licensed distributors, to unit sub-meter providers or to prescribed persons, in respect of the rate assistance provided under this section and governing methods for determining the amounts payable;

(j) governing the Board's or other prescribed entity's administration and program-related costs in administering the Ontario Electricity Support Program;

(k) governing transitional matters arising from the changes made to the Ontario Electricity Support Program as a result of the enactment of the *Fair Hydro Financing Plan Act, 2017*.

Retroactivity

(15) A regulation made under this section is, if it so provides, effective with reference to a period before it is filed.

General or particular

(16) A regulation under this section may be general or particular in application, may provide for different classes of persons and entities and may prescribe different rules for different persons or entities or different classes of persons or entities.

Verification of eligibility

(17) Section 11 of the *Ministry of Revenue Act* applies with respect to the Ontario Electricity Support Program as a government assistance program administered by the Board.

Definitions

(18) In this section,

"Government assistance program" has the meaning provided for in subsection 11 (2) of the *Ministry of Revenue Act*; "(programme d'aide gouvernementale)"

"rate-assisted consumer" means a consumer referred to in subsection (7). "(consommateur admissible à l'aide tarifaire)"

3. The Act is amended by adding the following section:

Confidentiality, information sharing, etc.

79.2.1 (1) For the purposes of section 79.2, the Board or the Minister or entity having responsibility for administering the Ontario Electricity Support Program may enter into an agreement with the Minister of Community and Social Services to provide the services to the public listed in subsection (2) on behalf of the Board, Minister or the entity, as the case may be, in relation to the administration of the Ontario Electricity Support Program.

Agreement, etc.

(2) The services that may be included in an agreement referred to in subsection (1) are the following:

1. Providing documents and information about the Ontario Electricity Support Program.

2. Processing applications for the Ontario Electricity Support Program.

Arrangements with others

(3) The Minister of Community and Social Services may arrange with another person or entity to provide, on behalf of that Minister, services that that Minister is authorized to provide under an agreement referred to in subsection (1).

Personal information

(4) The Minister of Community and Social Services is authorized to collect, use, disclose and retain personal information necessary to provide the services authorized by

an agreement referred to in subsection (1), but shall not collect, use, disclose or retain more personal information than is reasonably necessary to provide the services.

Limitation

(5) Except where otherwise authorized under subsection (7), the Minister of Community and Social Services shall not collect, use, disclose or retain personal information provided for in subsection (4) without the consent of the individual to whom the information relates.

Duty to transfer personal information

(6) The Minister of Community and Social Services shall transfer an individual's personal information provided for in subsection (4) into the control of the Board, Minister or entity responsible for administering the Ontario Electricity Support Program promptly after processing an application for the Ontario Electricity Support Program, but may retain such personal information as is reasonably necessary to confirm that an individual has been provided a service.

Use of personal information, etc.

(7) The Minister of Community and Social Services may use personal information maintained by that Minister in connection with the administration of the Ontario Disability Support Program and the program established pursuant to the *Ontario Works Act, 1997*, for the purpose of identifying and contacting individuals eligible for the rate assistance provided under the Ontario Electricity Support Program, and to provide services authorized under an agreement referred to in subsection (1).

Deemed compliance

(8) The use of personal information as allowed by subsection (7) is deemed to comply with section 41 of the *Freedom of Information and Protection of Privacy Act*.

Disclosure of list

(9) In order to assist the Minister of Community and Social Services to identify individuals eligible for rate assistance, the Board or the Minister or entity having responsibility for administering the Ontario Electricity Support Program shall, as soon as practicable after the coming into force of this section, disclose to the Minister of Community and Social Services a list of individuals who are enrolled in the Ontario Electricity Support Program, together with their mailing address and other contact information.

Use of list

(10) The Minister of Community and Social Services may use the information on the list provided under subsection (9) to determine whether an individual who is currently enrolled in the Ontario Disability Support Program or the program established under the *Ontario Works Act, 1997* is also enrolled in the Ontario Electricity Support Program.

Destruction of list

(11) The Minister of Community and Social Services shall destroy the list provided under subsection (9) no later than one year after receiving the list.

Notification about the management of personal information

(12) The Minister of Community and Social Services shall ensure that a notice is published on a website describing,

(a) the purpose for which that Minister collects, uses, discloses and retains personal information in connection with the Ontario Electricity Support Program;

(b) the types of personal information that may be collected, used, disclosed and retained in connection with the Ontario Electricity Support Program, and the circumstances in which the personal information may be collected, used, disclosed and retained in connection with that Program; and

(c) the title, and contact information, including an email address, of an employee who can answer an individual's questions about the use of the personal information under this section.

4. The Act is amended by adding the following sections:

Distribution rate-protected consumers

79.3 (1) The Minister shall provide for distribution rate protection to distribution rate-protected residential consumers having regard to the costs of the distribution of electricity to such consumers with respect to electricity consumed on or after the date prescribed by the regulations.

Money appropriated by the Legislature

(2) The money required for the purposes of the provision of distribution rate protection under this section shall be paid out of the money appropriated for those purposes by the Legislature.

Maximum charge

(3) Despite any order of the Board, or anything else under this Act, where the regulations so provide, a prescribed distributor who distributes electricity to distribution rate-protected residential consumers shall not charge those consumers, or a prescribed class of those consumers, any amount for monthly base distribution charges more than,

(a) the maximum amount for the charge that is provided for in the regulations; or

(b) the amount determined by the Board after applying any calculations, processes or methods provided for in the regulations.

Distributors

(4) A distributor who is prescribed under this section is entitled to be compensated from the money referred to in subsection (2) for lost revenue resulting from the provision of the distribution rate protection to distribution rate-protected residential consumers under this section.

Information, etc.

(5) If provided for in the regulations, the Board, the IESO and distributors, or any of them shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of distribution rate protection or of anything else required under this section.

Limitation periods for distribution rate protection, consumer

(6) Despite any past entitlement of a consumer who is eligible to distribution rate protection under this section, no distribution rate protection is payable to a consumer after a limitation period prescribed by the regulations in respect of the consumer, other than in such circumstances as may be prescribed by the regulations.

Limitation, reimbursement of distributor, etc.

(7) Despite any requirement under this Act to reimburse a prescribed distributor or other person for distribution rate protection provided by them to distribution rate-protected residential consumers under this section, no amounts for reimbursement are payable to the prescribed distributor or other person after a limitation period prescribed by the regulations in respect of the prescribed distributor or other person, where such reimbursement is based on a consumer's past entitlement under this section which has not yet been paid or reimbursed under this section, other than in such circumstances as may be prescribed by the regulations.

Transitional

(8) If, for technical or operational reasons, a distributor referred to in subsection (3) is unable to adapt its invoices to comply with this section and the regulations by the time it issues its first invoice for electricity consumed after the prescribed date in respect of an account of a consumer who is eligible for distribution rate protection under this section,

(a) the distributor shall adapt its invoices as soon as possible and, in any event, no later than a date prescribed in the regulations; and

(b) consumers continue to be entitled to receive the distribution rate protection to which they are entitled under this Act and may receive it as a lump sum credit

on the invoice for the first billing period after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Regulations

(9) The Lieutenant Governor in Council may make regulations,

(a) prescribing consumers or classes of consumers as distribution rate-protected residential consumers for the purposes of this section;

(b) prescribing dates for the purposes of subsections (1) and (8);

(c) prescribing distributors for the purposes of this section;

(d) governing anything that is described in this section as being prescribed or as being provided for in the regulations or that is required to be done in accordance with the regulations;

(e) governing the provision of distribution rate protection by the Minister in respect of distribution rate-protected residential consumers under this section including determining the method or methods of calculating the amount of rate protection to be provided;

(f) requiring the IESO to receive payments from the Minister and to make payments to licensed distributors, or to persons prescribed by the regulations, in respect of the distribution rate protection provided for under this section and prescribing methods for determining the amounts payable to distributors or distribution rate-protected residential consumers in respect of that protection.

Interpretation

(10) In this section,

"distribution rate-protected residential consumer" has the meaning provided for in the regulations; **(French)**

"monthly base distribution charges" has the meaning provided for in the regulations. (frais de distribution mensuels de base)

Delivery credit for on-reserve consumers

79.4 (1) The Minister shall provide a delivery credit to on-reserve consumers who meet the criteria prescribed under this section with respect to electricity consumed on or after the date prescribed by the regulations.

Money appropriated by the Legislature

(2) The money required for the purposes of the provision of the credits required under this section shall be paid out of the money appropriated for those purposes by the Legislature.

Eligible costs

(3) The eligible costs for the delivery credit referred to in subsection (1) are,

(a) the sum of the following charges for which the consumer would otherwise be liable,

(i) all variable and fixed distribution charges,

(ii) all charges based on the retail transmission network service rate,

(iii) all charges based on the retail transmission connection service rate,

(iv) all charges related to losses incurred in the distribution of electricity, except for such amounts that are included in regulatory charges provided for in the regulations, and

(v) any other charges that may be prescribed in the regulations; or

(b) where no separate charges for delivery are provided for by the distributor or other person or entity that may be prescribed in the regulations, the monthly service charge or such other amount as may be prescribed for or in respect of a prescribed distributor.

Delivery credit

(4) A distributor, person or entity shall, unless the regulations provide otherwise, provide the delivery credit referred to in subsection (1) by crediting the account of an on-reserve consumer.

Same

(5) The regulations may require that distributors and any other persons or entities provide a delivery credit to an on-reserve consumer who is entitled to a delivery credit under subsection (1) in such manner or in accordance with such methods as may be prescribed.

Same

(6) A distributor or any person or entity as may be prescribed is entitled to be compensated from the money referred to in subsection (2) for any lost revenue resulting from the provision of the delivery credits under this section.

Information, etc.

(7) If provided for in the regulations, the Board, the IESO and distributors, and other persons or entities, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of the delivery credits or of anything else required under this section.

Limitation periods for delivery credit, consumer

(8) Despite any past entitlement of an on-reserve consumer who is eligible for a delivery credit under this section, no delivery credit is payable to an on-reserve consumer after a limitation period prescribed by the regulations in respect of the on-reserve consumer, other than in such circumstances as may be prescribed by the regulations.

Limitation, reimbursement of distributor, etc.

(9) Despite any requirement under this Act to reimburse a distributor or other persons or entities for delivery credits provided by them to on-reserve consumers under this section, no amounts for reimbursement are payable to the distributor or other persons or entities after a limitation period prescribed by the regulations in respect of the distributor or other persons or entities, where such reimbursement is based on an on-reserve consumer's past entitlement under this section which has not yet been paid or reimbursed under this section, other than in such circumstances as may be prescribed by the regulations.

Transitional

(10) If, for technical or operational reasons, a distributor referred to in subsection (4) is unable to adapt its invoices to comply with this section and the regulations by the time it issues its first invoice for electricity consumed after the prescribed date in respect of an eligible account,

(a) the distributor shall adapt its invoices as soon as possible and, in any event, no later than a date prescribed in the regulations; and

(b) on-reserve consumers continue to be entitled to receive the delivery credit to which they are entitled under this Act and may receive it as a lump sum credit on the invoice for the first billing period after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Regulations

(11) The Lieutenant Governor in Council may make regulations,

(a) governing who is an on-reserve consumer for the purposes of this section and, without limiting the generality of the foregoing, may provide that consumers

who occupy certain areas are on-reserve consumers, and may do so without regard to whether those areas constitute a "reserve" under any other Act or law;

(b) prescribing dates for the purposes of subsections (1) and (10);

(c) governing provision of the delivery credits provided to on-reserve consumers under this section and, without restricting the generality of the foregoing, governing anything that under this section is to be prescribed or provided for in the regulations, or that is to be done in accordance with the regulations;

(d) determining the method or methods of calculating the amount of the delivery credits to be provided by the Minister in respect of on-reserve consumers under this section;

(e) requiring the IESO to make and receive payments to and from the Minister and to make payments to licensed distributors, or to persons prescribed by the regulations, in respect of the delivery credits provided for under this section and prescribing methods for determining the amounts payable to distributors or on-reserve consumers in respect of the credits provided.

Interpretation

(12) In this section,

"on-reserve consumer" has the meaning provided for in the regulations.

Application

79.5 Sections 79.6 through 79.11 apply to the programs provided for under sections 79, 79.2, 79.3 and 79.4 to the extent that they are funded by money appropriated for those purposes by the Legislature.

Definition

79.6 In sections 79.7 to 79.11,

"Finance Minister" means the Minister of Finance or such other member of the Executive Council to whom the administration of those sections is assigned under the *Executive Council Act*.

Records

79.7 (1) Every distributor and every other person prescribed by regulation shall keep at a location in Ontario such records as are necessary to determine and verify compliance with sections 79, 79.2, 79.3 and 79.4 and the regulations associated with them and any records required by those regulations to be kept.

Electronic records

(2) If a person keeps records in an electronic form, the person shall ensure that, from the time the records are first made and for as long as they are required to be retained,

(a) they remain complete and unaltered, apart from any changes or additions made in the normal course of communication, storage or display; and

(b) they are capable of being printed and of being produced in electronically readable format for inspection, examination or audit.

Retention of records

(3) Records required to be kept under subsection (1) shall not be destroyed unless authorization has been given in writing by the Finance Minister.

Offence

(4) Every person who fails to keep records in accordance with this section is guilty of an offence and, on conviction, is liable to a fine of not less than $50 and not more than $5,000.

Inspections and inquiries

79.8 (1) The Finance Minister may appoint one or more inspectors who are authorized to exercise any of the powers and perform any of the duties of a person authorized by the Minister under subsection 31 (1) of the *Retail Sales Tax Act* for any purpose related to the administration and enforcement of sections 79, 79.2, 79.3 and 79.4 of this Act.

Same

(2) Subsections 31 (1), (2), (2.1) and (2.2) of the *Retail Sales Tax Act* apply, with necessary modifications, with respect to the administration and enforcement of sections 79, 79.2, 79.3 and 79.4 of this Act.

Admission of evidence

(3) The Finance Minister, or a person authorized by the Finance Minister, may, for any purpose related to the administration of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them, reproduce from original data stored electronically any information previously submitted as required under those sections or regulations in any form by any person, and the electronically reproduced document shall be admissible in evidence and shall have the same probative force as the original document would have had if it had been proved in the ordinary way.

Inquiry

(4) The Finance Minister may, for any purpose related to the administration of sections 79, 79.2, 79.3 and 79.4 of this Act or the regulations made in association with

them, authorize any person, whether or not the person is an employee in the Ministry of the Finance Minister, to make such inquiry as the Finance Minister considers necessary with reference to anything relating to the administration of this Act or the regulations.

Copies

(5) If a book, record or other document is examined or produced under this section, the person by whom it is examined or to whom it is produced or any officer of the Ministry may make, or cause to be made, one or more copies of it, and a document purporting to be certified by the person to be a copy made pursuant to this section is admissible in evidence and has the same probative force as the original document would have if proved in the ordinary way.

Compliance

(6) No person shall hinder or molest or interfere with any person doing anything that the person is authorized by this section to do or prevent or attempt to prevent any person doing any such thing.

Same

(7) Despite any other law to the contrary, every person shall, unless the person is unable to do so, do everything the person is required by this section to do.

Administration of oaths

(8) Declarations or affidavits in connection with statements of information submitted pursuant to this section may be taken before any person having authority to administer an oath or before any person specially authorized for that purpose by the Lieutenant Governor in Council, but any person so specially authorized shall not charge any fee for doing so.

Application of *Public Inquiries Act, 2009*

(9) Section 33 of the *Public Inquiries Act, 2009* applies to an inquiry under subsection (4).

Recovery of overpayments

Definitions

79.9. (1) In this section,

"inspector" means an inspector referred to in section 79.8; ("inspecteur")

"overpayment" means an amount received by a person in excess of that to which the person is entitled under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them. ("trop-perçu")

Notice of overpayment

(2) If it appears to an inspector that a person has received an overpayment, the Finance Minister may send a written notice to the person advising the person of the following:

1. That the person has received an overpayment.

2. The amount of the overpayment and how it was calculated.

3. The required steps to be taken by the person with respect to the overpayment.

4. The date, not more than six months after the date of the notice, by which these steps must be completed.

5. That the Finance Minister has the authority to assess the person for the amount of the overpayment, plus interest, if the person fails to complete the required steps by the specified date.

Calculation of amount of overpayment

(3) For the purposes of this section, an inspector shall calculate an overpayment or the outstanding balance of an overpayment in the manner and form and using such procedures as the Finance Minister considers adequate and expedient.

Assessment

(4) If a person fails to complete the steps required in a notice under subsection (2) within the time specified in the notice, and any additional time requested by the person and permitted by the Finance Minister, the Finance Minister may assess or reassess the amount of the overpayment, or the outstanding balance of the overpayment, based on the inspector's calculation described in subsection (3).

Penalty

(5) If the Finance Minister makes an assessment or reassessment under subsection (4) and is satisfied that the person's non-compliance with the required steps in the notice was attributable to neglect, carelessness, wilful default or fraud, the Finance Minister may assess a penalty against the person equal to the outstanding balance of the overpayment when the penalty is assessed.

Time limit

(6) The Finance Minister shall not assess or reassess under subsection (4) more than 48 months after the end of the month in which the person received the overpayment.

Exception, where misrepresentation, etc.

(7) Subsection (6) does not apply if the Finance Minister establishes that the person has made a misrepresentation that is attributable to neglect, carelessness or wilful default or has committed any fraud in supplying information under this Act or the regulations or in omitting to disclose information.

Deeming

(8) An amount assessed or reassessed by the Finance Minister under this section is deemed, for the purposes of the administration and enforcement of this Act, to be a debt retirement charge owing and payable, as defined in subsection 85 (1) of the *Electricity Act, 1998*, that has been collected, on the last day of the month in which the person received the overpayment, by the person as a collector appointed under subsection 85.3 (1) of the *Electricity Act, 1998* and, for those purposes,

(a) sections 85.11, 85.12, 85.14, 85.17 and 85.30 of that Act apply with necessary modifications;

(b) in the application of sections 85.11 and 85.14 of that Act and without limiting the generality of clause (a) of this subsection, references to the Financial Corporation are read as references to the Minister of Finance and references to the Minister of Finance are read as references to the Finance Minister as defined in section 79.6 of this Act;

(c) the regulations made under that Act for the purposes of calculating the rate or rates of interest payable under section 85.11 of that Act and the manner of calculating the amount of interest apply with necessary modifications; and

(d) sections 23 and 36, subsections 37 (1), (1.1) and (2) and sections 37.1, 38 and 39 of the *Retail Sales Tax Act* apply with necessary modifications.

Disposition of repaid amounts

(9) If all or part of an overpayment is repaid to the Finance Minister, the Minister of Energy shall make such financial arrangements and payments as may be necessary to ensure that any person entitled to all or part of the overpayment receives the appropriate amount.

Confidentiality

79.10 (1) Except as authorized by this section, no person employed by the Government of Ontario shall,

(a) knowingly communicate or knowingly allow to be communicated to any person any information obtained by or on behalf of the Minister of Energy or

the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; or

(b) knowingly allow any person to inspect or to have access to any record or thing obtained by or on behalf of either Minister for the purposes of this Act.

Testimony

(2) No person employed by the Government of Ontario shall be required, in connection with any legal proceedings,

(a) to give evidence relating to any information obtained by or on behalf of the Minister of Energy or Finance Minister for the purposes of this Act; or

(b) to produce any record or thing obtained by or on behalf of either Minister for the purposes of this Act.

Exception

(3) Subsections (1) and (2) do not apply in respect of,

(a) criminal proceedings under any Act of the Parliament of Canada;

(b) proceedings in respect of the trial of any person for an offence under an Act of the Legislature; or

(c) proceedings relating to the administration or enforcement of this Act or Part V.1 or VI of the *Electricity Act, 1998*.

Communication

(4) A person employed by the Government of Ontario may, in the course of duties in connection with the administration or enforcement of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them,

(a) communicate or allow to be communicated to another person employed by the Government of Ontario in the administration or enforcement of any law or to an employee of the Board information obtained by or on behalf of either Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; and

(b) allow another person employed by the Government of Ontario in the administration or enforcement of any law or an employee of the Board to inspect or have access to any record or thing obtained by or on behalf of either Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

Reciprocal communication

(5) A person who receives information or obtains access to any record or thing under subsection (4) has a duty to communicate or furnish to that Minister on a reciprocal basis any information, record or thing obtained by the person that affects the administration or enforcement of this Act.

Use of information

(6) Any information, record or thing communicated or furnished under this section may be used only for the administration or enforcement of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them or an Act that is administered or enforced by the person receiving the information, record or thing.

Same

(7) The Finance Minister may permit information or a copy of any record or thing obtained by or on behalf of the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them to be given to,

(a) the person from whom the information, record or thing was obtained;

(b) any person by whom an amount is payable or has been paid under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; or

(c) the legal representative of a person mentioned in clause (a) or (b) or the agent of the person authorized in writing in that behalf.

Information

(8) The Finance Minister may permit information or a copy of any record or thing obtained by or on behalf of the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them to be given to any person employed by any government if,

(a) the information, record or thing obtained by that government for the purpose of any Act that imposes a tax or duty are communicated or furnished on a reciprocal basis to the Minister; and

(b) the information, record or thing will not be used for any purpose other than the administration or enforcement of a law that provides for the imposition of a tax or duty.

Offence

(9) Every person who contravenes any provision of this section is guilty of an offence and on conviction is liable to a fine of not more than $2,000.

Offences

False statements, etc., and fraud

79.11 (1) Every person who engages in any of the following acts or omissions is guilty of an offence:

1. Making, participating in, assenting to or acquiescing in the making of a false or deceptive statement in any document or answer required or submitted under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

2. Destroying, altering, mutilating, hiding or otherwise disposing of information or records of any person, for the purpose of evading compliance with sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

3. Making, assenting to or acquiescing in the making of a false or deceptive entry of a material particular in a record of any person required to maintain records for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

4. Omitting to make or assenting to or acquiescing in the omission of an entry of a material particular in a record of any person required to maintain records for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

5. Wilfully evading or attempting to evade, in any manner, compliance with an obligation under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

Penalty upon conviction

(2) A person convicted of an offence under subsection (1) is liable to either or both of the following penalties in addition to any other penalty assessed under this Act:

1. A fine in an amount that is not less than $1,000 and not more than $10,000.

2. Imprisonment for a term of not more than two years.

General offence

(3) Every person who contravenes, by any act or omission, any other requirement imposed under sections 79, 79.2, 79.3 and 79.4 is guilty of an offence and, on conviction, is liable, where no other penalty is provided for the offence, to a fine of not less than $50 and not more than $5,000.

Limitation period

(4) A proceeding to prosecute an offence provided for in this section must be commenced within six years after the date on which the matter of the offence arose.

Payment of fines

(5) Fines imposed on conviction of an offence provided for in this section are payable to the Finance Minister on behalf of the Crown in right of Ontario.

Commencement

5. (1) Subject to subsection (2), this Schedule comes into force on the day the *Fair Hydro Act, 2017* receives Royal Assent.

(2) Section 2 comes into force on a day to be named by proclamation of the Lieutenant Governor.

Fair Hydro Act, 2017

COMPENDIUM

The proposed Bill, the *Fair Hydro Act, 2017*, if enacted, would enact the *Ontario Fair Hydro Plan Act, 2017* and amend various Acts according to the provisions of Schedules 1 and 2 set out in greater detail below.

Schedule 1
Ontario Fair Hydro Plan Act, 2017

Schedule 1 enacts the *Ontario Fair Hydro Plan Act, 2017*. The Act establishes a framework under which the costs and benefits associated with the "clean energy initiative" are to be allocated among present and future consumers of electricity. The "clean energy initiative" describes the policies of the Government of Ontario related to fostering the development of a clean, modern and reliable electricity system.

Part I of the Act sets out the purposes of the Act and includes protections and assurances related to investor interests.

Under Part II of the Act, the Ontario Energy Board is required to determine reduced electricity rates that would achieve a 25% reduction in monthly invoice amounts from July 1, 2017 to April 30, 2018 for a hypothetical "regulated rate consumer" who meets prescribed criteria. The methodology to be applied by the Ontario Energy Board to determine electricity rates after April 30, 2018 would be prescribed by regulations.

Part III of the Act requires "specified consumers" to pay an amount in respect of the "clean energy adjustment". The clean energy adjustment is determined by the Financial Services Manager in accordance with rules set out in the Act and the regulations. Part III also specifies the roles and responsibilities of electricity vendors and the Independent Electricity System Operator ("IESO") with respect to the collection and remittance of amounts in respect of the clean energy adjustment.

Part IV of the Act requires the Minister of Energy to calculate a "fair allocation amount" by taking specified steps in accordance with principles and assumptions set out in the Act. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among specified consumers.

Also under Part IV, Ontario Power Generation Inc. is appointed as the Financial Services Manager. The Financial Services Manager is required to prepare a written "Financing Plan" to evaluate whether potential funding obligations should be incurred to acquire and

finance investment assets (under Part V). Constraints are placed on incurring funding obligations that would result in amounts becoming payable in respect of the clean energy adjustment from July 1, 2017 to April 30, 2021. In accordance with the Financing Plan, the Financial Services Manager may establish financing entities that may incur funding obligations.

Part V of the Act requires the IESO to determine the "IESO deferral" in accordance with the regulations and to establish and maintain a variance account in which it records the IESO deferral for each month. The balance in the variance account becomes a "regulatory asset", which the IESO has the right to recover from specified consumers through rates set by the Ontario Energy Board. The IESO is authorized to transfer a specified portion of the regulatory asset to a financing entity. The transfer results in the financing entity acquiring a corresponding "investment interest". The Act sets out various rules respecting the validity and priority of such a transfer.

In Part VI, the Act provides various rules in respect of the "investment asset" created by the transfer under Part V of a specified portion of the regulatory asset. Part VI provides that the investment asset constitutes a current and irrevocable property right and interest, consisting collectively of various specified rights and interests of investment interest owners. The Act also includes rules respecting the validity and priority of transfers of investment interests and the granting of a security interest in an investment interest by an investment interest owner.

Part VII deals with various administrative and miscellaneous matters, including regulation-making authority of the Lieutenant Governor in Council.

Part VIII includes consequential amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1999* to address various matters relating to the enactment of the new Act.

Schedule 2
Amendments to the Ontario Energy Board Act, 1998

Schedule 2 amends the *Ontario Energy Board Act, 1998*.

Section 79 of the Act is amended so that the rate protection provided to certain classes of rural or remote rate protected (RRRP) consumers may be funded out of money appropriated by the Legislature, rather than by consumers. Consumers would still be required to fund the remaining portion of RRRP not funded through appropriations.

Section 79.2 of the Act, which governs the Ontario Electricity Support Program (OESP), is repealed and replaced on a date to be named by proclamation of the LGIC. Once s.79.2 is proclaimed, the program would be continued, but will be funded out of money

appropriated by the Legislature after the variance account maintained by the IESO is exhausted, rather than by consumers. There are provisions relating to the sharing, use and disclosure of information relating to the administration of the OESP.

New provisions are created in the Act to establish programs to provide rate protection to certain distribution rate-protected residential consumers and a delivery credit to on-reserve consumers.

The Schedule also contains various amendments of a technical and administrative nature to support the implementation and oversight of these programs including provisions related to auditing, record-keeping, inspections and inquiries, offences and penalties.

The Schedule contains regulation-making authority in order to specify the details required to implement the various government-funded.

Ministry of the Attorney General

Legal Services Branch

Ministry of Energy
Ministry of Economic Development and Growth
Ministry of Research, Innovation and Science
Ministry of Infrastructure
Accessibility Directorate of Ontario

56 Wellesley Street West
18th Floor,
Toronto, ON
M7A 2E7

Telephone: (416) 325-1841
Fax: (416) 326-1021

Ministère du Procureur général

Direction des services juridiques

Ministère de l'Énergie
Ministère du Développement économique et de la Croissance
Ministère de la Recherche, de l'Innovation et des Sciences
Ministère de l'Infrastructure
Direction générale de l'accessibilité pour l'Ontario

56, rue Wellesley Ouest
18e étage,
Toronto, ON
M7A 2E7

Téléphone: (416) 325-1841
Télécopieur: (416) 326-1021

PRIVILEGED AND CONFIDENTIAL

Memorandum To: The Honourable Glen Murray
Chair of the Legislation and Regulations Committee

From: Carolyn Calwell
Director, Legal Services Branch

Date: May 5, 2017

Re: Ontario's Fair Hydro Plan
An Act to enact the Ontario Fair Hydro Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

I have examined the draft of the above-referenced item being submitted to Legislation and Regulations Committee on May 10, 2017 and have compared that draft with the policy approved by Cabinet on March 1, 2017.

As a result of this comparison, I am able to advise you that the draft corresponds to the approved policy with the exception of the variances identified on the attached chart.

_____
Carolyn Calwell
Director

Ontario's Fair Hydro Plan
An Act to enact the Ontario Fair Hydro Act, 2017
and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

Minute Item	Approved Policy/Policy Sought to be Approved	Proposed Variance	Degree of Variance	Rationale/Commentary
1.A	Total projected bill increases will be kept in line with Consumer Price Index (CPI) **until the end of 2021.**	Bill increases will be prescribed by regulation for the period May 1, 2018 **to June 30, 2021**.	Low	June 30, 2021 aligns with public communications that rate increases will be held to inflation over the next four years. This regulation making authority would enable the government to keep bill increases in line with CPI.
1.A	Cap bill increases due to repayments at around 10% of the total bill.	Bill increases will not be capped.	High	Consultation with stakeholders and external advisors revealed that a legislated cap would undermine investors' certainty in recovering their investment. However, the debt rating will be impaired if modelling suggests that rates could increase more than 10%, providing a cap in practical terms.

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – March 1, 2017	**Tracking to: Fast Track** LRC at Cabinet – March 10, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan Legislation

I. DECISION BEFORE THE BOARD

Receive a report back on Ontario Fair Hydro Plan implementation, supporting implementation decisions and recommending the proposed Ontario Fair Hydro Plan Act to proceed to LRC and Cabinet for approval.

II. RECOMMENDATIONS:

• Receive a report Ontario Fair Hydro Plan implementation: o Proposed legislation ▪ Note key aspects of proposed legislation ▪ Recommend proposed legislation o Approve up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program to fully recover costs for the public education campaign.	*Board Judgement*
• Direct the Ministry to return to TB/MBC with regulations support implementation prior to going to LRC. • Note outstanding report back requirements, • Direct in-year reporting through quarterly reporting and PRRT planning process on spending to date versus funding allocation for Electricity social programs and Global Adjustment Refinancing	

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Affordability Fund	0.0	0.0	0.0
	Global Adjustment Refinancing*^	0.0	0.0	0.0
	Electricity social programs*	499.0	753.0	829.0
	Ontario Rebate for Electricity Consumers	939.0	882.0	882.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

* Subject to enacting proposed Ontario Fair Hydro Plan legislation.
^ As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget, linked to proposed legislation

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017 the Ministry received TB/MBC approval for additional rate mitigation actions that support up to a 25% electricity bill reduction (including the 8% reduction announced in 2016 for an average household in 2017. The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017. This submission deals with three key elements of the OFHP:

- Refinancing Portion of Global Adjustment (GA) to partially defer RPP eligible ratepayer GA costs (Implementing a non-fiscal impact approach over government funding).
- Expanding, enhancing ratepayer funded electricity social programs and shifting them to being government funded (OESP, RRRP), along with a new government funded On-Reserve First Nations Delivery Credit.
- Expansion of Industrial Conservation Initiative (ICI).

The Ministry was directed to report back to the Board with proposed legislation supporting OFHP implementation, including the following specific direction regarding a non-fiscal mechanism (approach) to refinancing a portion of Global Adjustment costs (Appendix C provides the March 1, 2017 minute):

- Formal accounting opinions from OPG and IESO auditors.
- Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
- Report on the multi-year profile of GA smoothing, identifying specific assumptions.
- Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
- Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

Direction was also given to report back with final details for electricity support programs, as well as programs' effectiveness, efficiency, and sustainability.

The current submission does not address all report back requirements. The proposed legislation would establish the legislative framework, to be followed by further program related details being set by regulations at a later date (Ministry is targeting June 2017).

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two Schedules (Appendix D provides details of each part):

- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment partial refinancing)
- Schedule 2: Legislative amendments for electricity social programs

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment (GA) Refinancing)

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

The Ministry indicates under OFHP, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017 (This includes the 8% Ontario Rebate for Electricity Consumers). In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Reflecting March 2017 approvals (See Appendix C for March 2017 TB/MBC minute), proposed legislation for GA Refinancing is designed to establish a non-fiscal impact mechanism. Minuting indicated proceeding with GA Refinancing requires completed legal, accounting and financing risk assessments.

The proposed approach to GA Refinancing is complex. Appendix D provides proposed legislative details.

- At a high level, the proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future.

    - July 1, 2017, to April 30, 2018, reduces, on average, after-tax electricity costs for "specified consumers" by 25% (inclusive of the 8% rebate and shifting of support program to be government funded).
    - May 1, 2018, to June 30, 2021, electricity rates will be prescribed by regulation with the intention to keep increases in line with the Consumer Price Index (CPI).
    - July 1, 2021, to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs.
    - Through the bill and amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998, expands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to provide for appropriate oversight, put in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the refinanced GA costs.

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG, through a special purpose vehicle (OPG Trust) is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Schedule 2: Legislative amendments for electricity social programs

Electricity social programs becoming government funded under OFHP target residential electricity customers disproportionately affected by increased electricity costs.

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The bill amends the *Ontario Energy Board Act, 1998* for various electricity social programs:

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001. The bill enables the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial appropriations, rather than from electricity.

Appropriated funds would be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the government funding provided.

Distribution Rate Protection (Broadened RRRP)

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

The proposed legislation would enable a broader government funded Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge for consumption on or after July 1, 2017.

If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The legislation contains retroactive application of the provisions to offset any potential lapses in implementation and ensure that consumers receive the benefit following the July 1st effective date through to the final effective date of October 1st, 2017.

On-Reserve First Nations Delivery Credit

The proposed bill would enable the provision of a government funded on-reserve First Nations Delivery Credit (FNDC), which would eliminate the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The program is premised around the findings in an OEB Report submitted to the Ministry on December 29, 2016 providing advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers.

Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program to being government funded, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid

by all Ontario consumers on May 1, 2017. On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will come into effect on May 1, 2017.

The proposed bill would move the recently expanded Ontario Electricity Support Program (OESP) to government funding, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program (ODSP) and Ontario Works (OW) to potentially allow for automatic enrolment procedures to be established.

The Ministry indicates the proposed legislative amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

Expansion of Industrial Conservation Initiative (ICI)

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and “1114”) in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

The Ministry is also undertaking targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants.

- The extent of the impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

Financials

Electricity Social Programs:

March 1, 2017 TB/MBC approvals supporting OFHP included full year projected costs. The 2017 Ontario Budget included refined projected costs shifting expanded/enhanced electricity social programs from ratepayers to being government funded starting in 2017-18, lowering the total amount from $665M to $499M to reflect rollout timing not full year costs. The table below shows expense amounts currently in the PRRT multi-year fiscal plan related to these support programs for the most vulnerable consumers.

Government Funded Social Programs ($million)	2017-18	2018-19	2019-20	2020-22
Rural or Remote Rate Protection (RRRP)	344	472	484	497
Ontario Electricity Support Program	140	261	325	375
On-Reserve First Nations Delivery Credit	15	20	20	20
Total	**499**	**753**	**829**	**892**

GA Refinancing:

The 2017 Budget also includes an investment operating asset of $1.1B related to the Province's equity injection to OPG, enabling the OPG Trust to regularly purchase IESO's regulatory asset through 2017-18. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. The Province's net debt will remain unchanged as the equity investment in OPG would offset the additional Provincial borrowing.

Projected annual amounts of GA deferrals (i.e., the regulatory asset) are shown below and are not part of the province's multi-year fiscal plan (2017 Budget(Assumed to be funded from electricity ratepayers udner the proposed legisation). Appendix E provides analysis of financial models.

($million)	2017-18	2018-19	2019-20	2020-22
GA Refinancing - Residential Bills lowered by 25%	2,534	2,668	2,942	3,420
Interest Portion (5% annually, compounded monthly)	32	162	298	449

Under GA refinancing, ratepayers will incur interest costs and will be added to the GA payments ratepayers make.

- OPG intends to use a Special Purpose Vehicle (OPG Trust) to purchase the "right to collect" assets from the IESO in return for cash. OPG Trust will be structured to finance 51% of its funding requirements through the capital market with the remaining 49% being provided by OPG as subordinated debt. The 49% subordinated debt from OPG will be financed though debt from the capital markets (about 5%) and through equity injections from the Province (44%).

- The proposed legislation does not compel the OPG Trust to purchase 100% of the regulatory asset created by IESO at any given time. IESO have noted that it may need to cover clean energy costs if for some reason the OPG Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. On behalf of IESO, the Ministry is requesting a credit facility for IESO, up to about $3B, and notes the use of this credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO. Appendix F provides more information.

Financial, Accounting, Legal Risk Assessments:

In the March 1, 2017 TB/MBC Minute, refinancing the Global Adjustment to partially defer RPP eligible ratepayer GA costs, was subject to completed legal, accounting and financing risk assessments. Appendix G provides more details from the Ministry.

Financial

The Ministry indicates it has prepared legislation and is working on developing regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure

that the full value of any investment is recoverable.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year.

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

The Ministry indicates the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost.

The Ministry also acknowledges given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term, and the rate of inflation.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The Ministry indicates the following:

- Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations, satisfying accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

KPMG:

- The proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements.
- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.
- The regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG/E&Y:

- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.
- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-

making, funding and ongoing operation.

- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.
- Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.
- Judges can be expected to take a careful look at the government's evidence in support of the re-allocation of Global Adjustment.
- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.
- The provincial assurance provision - Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes. The proposed legislation focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers.
- The provincial guarantee provisions are intended to backstop the provincial assurance provision Legal risk to the province will be assessed as the agreements are negotiated and drafted.
    - The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.
- Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry indicates it retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements.

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. The Ministry indicates Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social,

health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

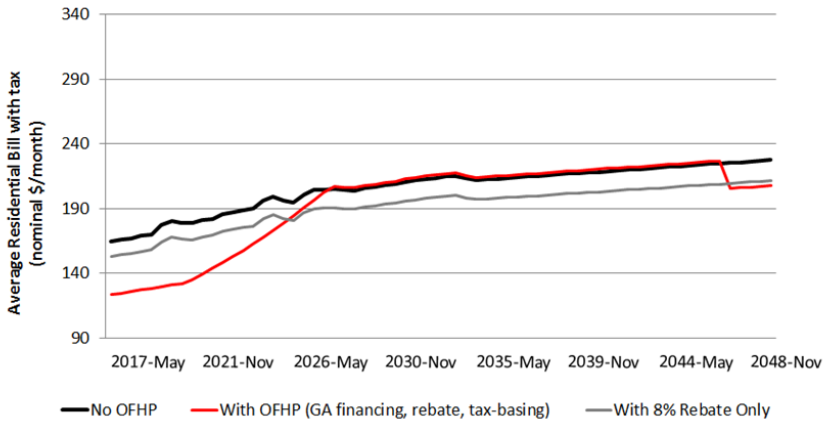
The Ministry's signed submission included external opinions and assessments for Ontario Power Generation (Accounting), KPMG Letter to the Independent Electricity System Operator (Accounting Opinion), Ernst &Young (as auditors) letter to OPG concurring with OPG's description of OPG accounting considerations of OFHP.

TBS staff note external opinions and assessments are supportive of the Ministry's intended plan for implementing Ontario's Fair Hydro Plan, noting the opinions and assessments must be revisited once key implementation details are finalised (e.g. draft legislation, regulations, special purpose vehicle documents, terms of conditions within various other agreements etc). Future reassessments and other factors such as Ontario electricity demand, interest rates in the medium to long-term, and the rate of inflation may contribute to fiscal plan implications emerging over time.

TBS staff also note, while submission details and related discussions have not indicated a non-fiscal mechanism cannot be established, the complexity of the transaction and the time frame involved suggest it is not reasonable, at present, to support a claim of no impact on the province's fiscal plan as the Ontario Fair Hydro Plan is implemented (Appendix H includes a strategic level risk assessment prepared by TBS staff). .

Ultimately, GA Refinancing being a sustainable strategy assumes electricity consumers' willingness to accept later to bear the extra costs of deferring electricity price hikes.

- The following graphic from the Ministry indicates the multi-year profile of GA Refinancing:



The chart above shows the expected multi-year profile under GA Refinancing for each Regulated Price Plan (RPP) period. In the first year, residential bills are projected to be 25 per cent lower as result of the OFHP. In the early years, bills increases are held to the rate of inflation – assumed to be 2% per year in the chart above. From July 1, 2021 onwards, prices increase at a higher rate compared to the first four years on the OFHP.

In the medium to longer term, residential bills exceed what they would have been but for the OFHP. However, in any given year, a typical residential bill under the OFHP cannot exceed what it would have been without OFHP by more than 10 per cent.

Media Procurement Request

The Ministry is requesting approval up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program to fully recover costs for the public education campaign.

The Ministry indicates spending about $1M on media planning and buying for radio and digital media. The Ministry is forecasting $2.5M in 2017-18 (Q clarifying the remaining $1M).

Name of analyst:	James Strang With input from CO, COE, OPCD and OFA	**Phone number:**	416-327-2071
Date:	May 8, 2017	**Log number:**	
Branch / Division:	GGPR, PEMD, COE, OPCD/Treasury Board Secretariat Ontario Financing Authority/ Ministry of Finance		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

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

Receive the report back on proposed legislation supporting implementation of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

i) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

a) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
b) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
c) Shift from electricity consumer funding to funding out of voted appropriations for Ontario Electricity Support Program, and for majority of costs for existing RRRP.
d) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

a) Establishing the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
b) Requirement for future consumers to pay the clean energy adjustment that backs financings
c) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
d) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
e) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights
f) Sets out that security interests can be granted in investment interests in the investment asset

ii) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

iii) Note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments.

iv) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC.

In this regard,

a) Direct the Ministry to include a report on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates
b) Direct the Ministry to report back with final program details for 2017-18 for GA Refinancing and Social Programs, including fiscal plan implications.

Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the broadened program now government funded
- Report on and assessment of impacts of consolidation of LDCs
- Assessment of distribution rates and implications for the program

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

- Identify eligibility criteria, and refinements being made.
- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

…Placeholder for media procurement minute…

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX D: PROPOSED FAIR HYDRO ACT OVERVIEW

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two schedules:

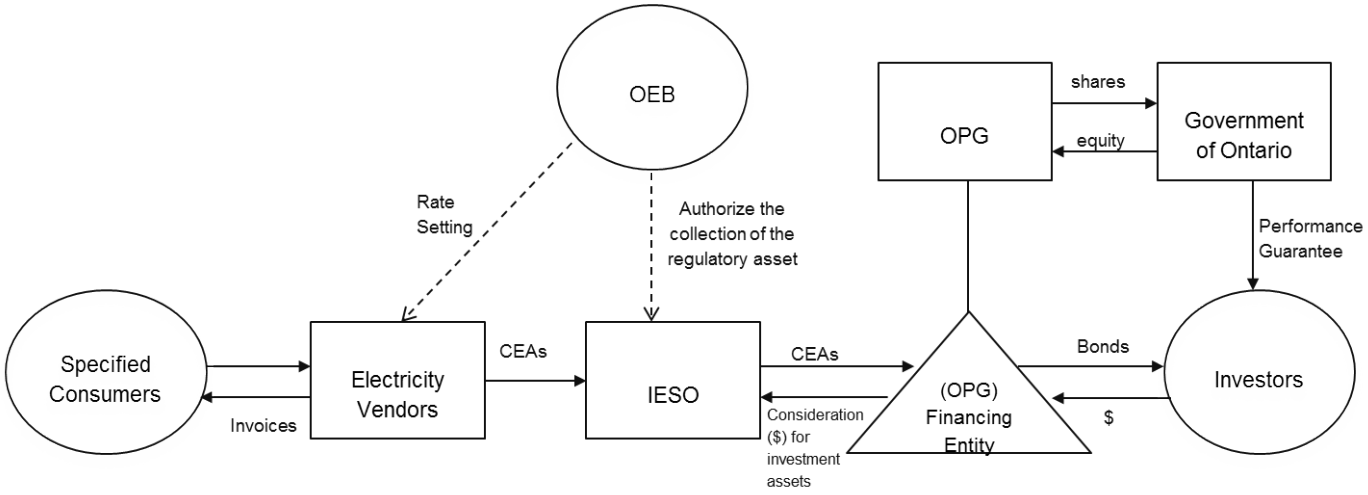
- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Dealing with Global Adjustment (GA) refinancing).
- Schedule 2: Legislative amendments for electricity social programs (See Appendix D1)

The Ministry has provided the following overview of the proposed legislation:

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (GA refinancing).

Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system (Clean Energy Initiative) creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations. The diagram below outlines how the refinancing of GA would be implemented.



Note: CEAs are "clean energy adjustments"

Clean Energy Costs and Benefits:

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (the Global Adjustment provisions) which relate to contracts for:
  - Renewable energy generation or capacity
  - Conservation and demand management, including shortage
  - Energy efficiency
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*
  - Other such costs to be included in "clean energy costs" may be prescribed

- These are the costs to be distributed fairly among the specified consumers through the "fair allocation amount".

Fair Allocation Adjustment:

- Part II establishes that the rate that will be payable by "specified RPP consumers" from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the "comparison rate". The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.
- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).
- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.
- The Minister sets the fair allocation amount.

    - The establishment of the "fair allocation amount" is required to,
        - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods"; and
        - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).
    - The "fair allocation amount" is to have regard to:
        - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the "specified consumers" (in the applicable "reference periods");
        - Reasonable assumptions regarding the time value of money, the number of consumers in the "reference period"; and
        - Expected electricity consumption for the reference period.

Regulatory Asset and Investment Asset:

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets.
- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a "regulatory asset". In simple terms, the regulatory asset is IESO's right to recover the revenues that it has deferred collecting.
- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities. OPG financing entities are not required to purchase the regulatory asset.
- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".
- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

Issuance and Payment of Debt:

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.
- The financings will be backed primarily by the "clean energy adjustments" payable by specified consumers. The "clean energy adjustments" will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the "fair allocation amounts" ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).
- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity's related funding obligations.
- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario's undertakings not to adversely affect the program through subsequent legislation.

Financing Plan:

- The Financing Plan is prepared by the Financial Services Manager (OPG).
- The Financing Plan is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.
- There are rules that apply to the Financing Plan:
  - It must align with the "estimated finance amount" that will become due and payable during a "reference period";
  - It must take into account the "fair allocation" and any "fair adjustment";
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancing, redemption opportunities and liquidity, and similar assumptions).
- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.
- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

Who Does What?

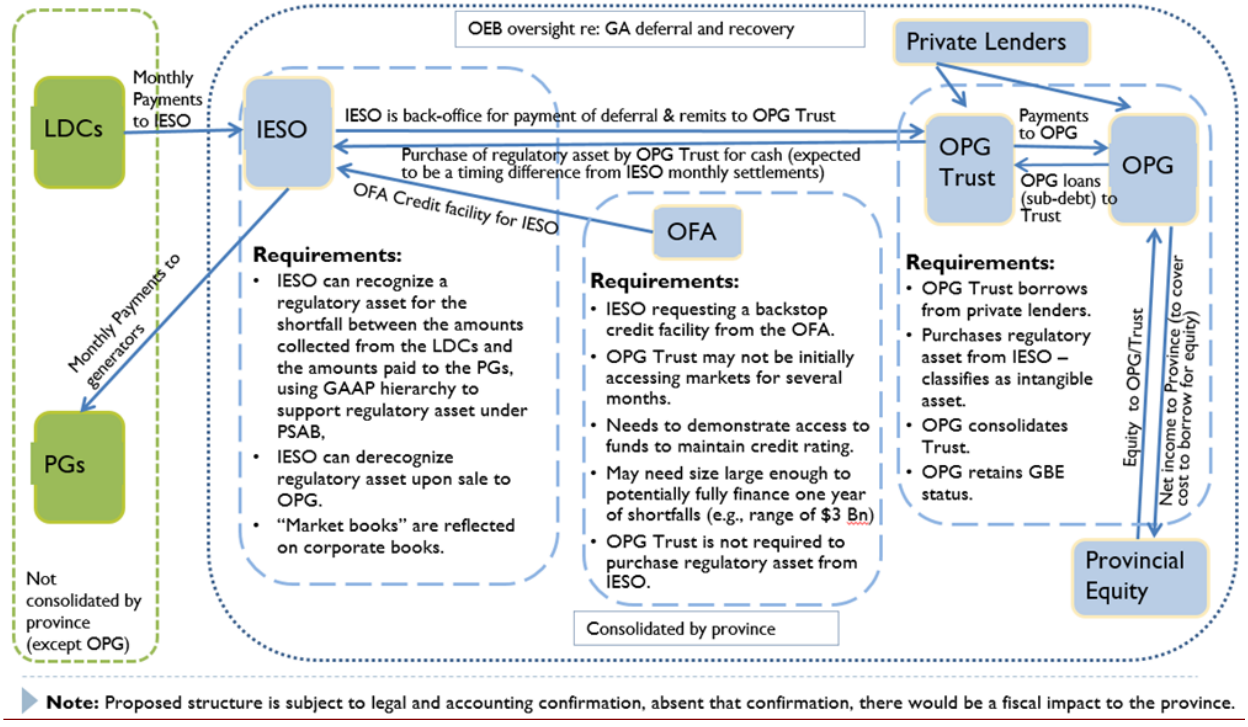
- Minister of Energy – Determine the "fair allocation amount" applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.
- Ontario Power Generation (OPG) – As financial services manager, OPG will be responsible for the following under the Act:
  - Prepare and implement Financing Plan.
  - Establish and administer the financing entities.
  - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.

- Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

- Independent Electricity System Operator (IESO):
  - Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.
  - Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.
  - Coordinates the collection of "clean energy adjustments" from Electricity Distributors.
  - Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.
  - Fund initial interest costs and expenses during the first 4 years.

- Local Distribution Companies (LDCs):
  - Obligation to invoice specified consumers.
  - Collect, as agent of the investment interest owners, "clean energy adjustments" from specified consumers.
  - Hold money received for clean energy adjustments in trust until remittance to the IESO.

- Ontario Energy Board:
  - Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).
  - Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).
  - Review the administrative costs of OPG in connection with the administration of the program.



Schedule 2: Legislative amendments for electricity social programs moving to being government funded

As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:

- Enhancing and providing government funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates
- Enhancing and providing government funding for the Ontario Electricity Support Program (OESP)
- Creating a new First Nation On-Reserve Delivery Credit and providing for government funding

Overview of RRRP and Broadened Distribution Rate Protection:

- Section 79 of the Ontario Energy Board Act would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution cost.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program:

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.
- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.
- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.

- Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
- This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit:

- Energy is proposing legislative amendments that would establish a First Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.
- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

APPENDIX E: ANALYSIS OF FINANCIAL MODELS AND RISKS (UNDER DEVELOPMENT)

Treasury Board Secretariat received two models related to global adjustment refinancing.

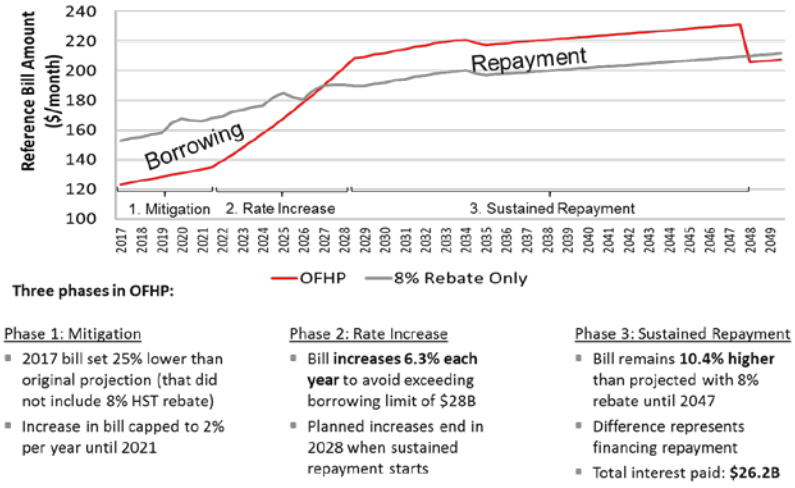
- The model the Ministry of Energy developed and used to support the March 2017 submission
- The financial model that was developed by the Ontario Power Generation (OPG) that provides details regarding the financing of the proposed structure

TBS staff noted the models received are based on high level aggregates and do not allow for running different scenarios that would allow TBS to determine the financial impact of potential changes in variables. In discussions with the Ministry of Energy and OPG, it has been agreed that these scenarios must be developed – both to help creation of a risk-based outlook for the province, as well as to respond to questions that will inevitably arise from the credit rating agencies.

- For example, the current model is based on a static interest rate of 5%. While this assumption is accurate within the current historically low interest rate environment, should interest rates increase above 5% after 2020, residential bills would also significantly increase during the repayment phase of the plan. For instance, if the interest rates increase from 5% to 7% (historical 30 year average) between 2020 and 2024, financing costs would increase by $11.2B (for a total of $37B), requiring much higher price increases in the out-years. Under this scenario, the increases required from 2022 to 2029 would be 7.3% annually (compared to 6.3% per year increases required under the base case) and the bill would remain 12.5% higher (compared to 10.4% in the base case).

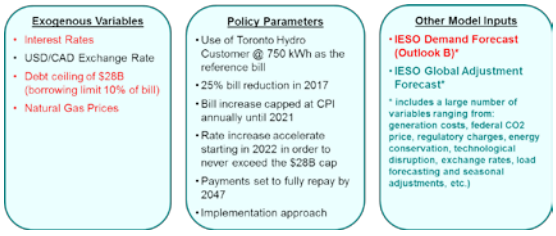
The OFHP can be thought of as having three phases:

The model is a high level and aggregate model, which is build on other independent forecasts (e.g. IESO demand forecast). There are a large number of assumptions built into the model explicitly and implicitly (as a large number of assumptions are embedded into the other forecasts that are used as inputs into this model).



Analysis is currently underway to better understand intergenerational costs and benefits and the impact of GA smoothing on recovery charges that would be allowed under the current Eurig compliance rules.

Depending on the legal determination, if the annual increases in bills or the commodity prices will be subject to caps, additional borrowing/provincial funding may be required.



With the shift of electricity social programs costs moving to being funded by government appropriations (Including the 8% rebate, total costs are forecast to be $1.4B in 2017-18), cost forecasting models/assumptions should also under go sensitivity analysis to inform future funding requests.

APPENDIX F: PROVIDING A CREDIT FACILITY TO IESO

After IESO's review of the proposed legislation, it has indicated to the Ministry and the Ontario Financing Authority (OFA)/MOF that IESO may need to cover clean energy costs if for some reason the Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. IESO noted that the proposed legislation does not compel the Trust to purchase 100% of the regulatory asset at anytime. Also, the establishment of the regulatory asset and purchase by the Trust is expected to take three to six months to implement following the introduction of enabling legislation.

The OFA currently provides a $975 million credit facility to the IESO for other purposes, it is proposed that the OFA provide a new credit facility to the IESO, in an amount of up to about $3 billion.

The use of this new credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO.

Approvals Required for OFA Financing

OFA indicates the recommended TB/MBC minute should note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An order-in-council will be sought to allow the OFA to be able to provide the new credit facility to the IESO, for an amount to be determined as per the requirements of the Fair Hydro Plan.

The following approvals are required by the OFA to accommodate the request to provide financing to the IESO:

1) An Order-in-Council is required for the Minister of Finance to lend to the OFA.
2) A Directive from Minister of Finance is required for the OFA to on-lend to the IESO.
3) An executed credit agreement between the OFA and the IESO.

1. Order-in-Council (OIC)

An OIC is required to authorize the Minister of Finance to lend to the OFA. Ministry of Finance Legal Services Branch would need to be engaged to facilitate the request.

- The existing $975 million credit facility was covered under OIC 675/97 which authorized the Minister of Finance to lend a revolving $2.16 billion to the OFA. This OIC was originally obtained in 1997.

It is understood that upon drafting the OIC (by MOF Legal), the OIC would need final approval from Lieutenant Governor in Council LGIC as required under section 22(1) of the *Capital Investment Plan Act*, 1993.

- The OIC would go through Deputy Minister of Finance, Minister of Finance, Chair of Cabinet for briefing/sign-offs and finally to the LGIC for approval.

To draft the OIC, the following details will be required:

i. Dollar Value of Loan from the Minister of Finance to the OFA
ii. Maturity Date of the Loan
iii. Interest Rate of the Loan

The following are recommended to accommodate IESO's need for financing:

i. Dollar Value of Loan:
   $3 billion, as per request. The OIC would provide the maximum limit of any loan to IESO and it may be advisable to add a cushion and provide an OIC for $3.5 billion.

ii. Maturity Date of the Loan:
OIC maturing March 31, 2048 would provide approximately 30-year term to match the Fair Hydro Plan. It may be advisable to add a cushion and set a maturity date to March 31, 2053 (cushion of 5-years).

iii. Interest Rate of the Loan
Interest rates on the loans from the Minister of Finance to the OFA have typically been a 1) Ontario 90-day t-bill rates, 2) flow-through of the rates charged to the third-party by the OFA and/or 3) the rate charged to the third-party by the OFA less 25bps.

OFA recommends to keep this unchanged to provide consistency with past OICs but also to provide flexibility in the rates that could potentially be charged to IESO, to be determined by the Minister of Finance, by way of the Minister's Directive.

2. Minister's Directive

Once the Minister of Finance has the authority under an OIC, a Minister's Directive can authorize the OFA to lend to IESO. The Directive can outline specific terms and conditions as needed.

3. Executed Credit Agreement

With a Minister's Directive approved, the OFA and IESO can work to execute a credit agreement, subject to any terms and conditions of the Directive and any policy considerations.

APPENDIX G: FINANCIAL, LEGAL, ACCOUNTING RISK ASSESSMENTS

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.
- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.
- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and
- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.
- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG’s capital structure:

- OPG would require monthly “equity injections” from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;
- Funds from the Province would flow from the Ontario Financing Authority (OFA); and
- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.
- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset ”OPG Share Purchase” and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG’s business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy’s concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual ratepayers. Note: The reverse is also true in regards to decreasing demand.
- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted. **A statutory cause of action** may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation.The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

APPENDIX H: OVERVIEW OF RISKS

Prepared by TBS staff, the following chart provides an overview of strategic (versus operational) risks to inform the approval/decision making process regarding the proposed legislation. Each part, GA Partial Refinancing & Electricity social programs, is a separate table.

Global Adjustment Partial Refinancing:

Objective: Provide immediate ratepayer relief by capping rate increases at Consumer Price Index (CPI) for four years and refinancing GA costs over a longer period of time. Develop and implement a financing structure that increases provincial borrowing, but has no impact on annual provincial surplus/deficit.

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA smoothing being allocated to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there would be a negative impact on the province's fiscal plan of $2.5B in 2017-18 and rising. • Rating agencies and investors in Province's debt may view all of the borrowing as an obligation of the Province, which could put pressure on the Province's credit rating and overall borrowing capacity. • Proposed structure may result in negative response from Ontario Auditor General (OAG) due to previous concerns regarding recognition of rate regulated assets and liabilities. The OAG may take this into account when the provincial books are audited. • Initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to justify structure of financial model and be utilized in discussions with the OAG.

Risk	Level of Risk	Risk Response
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.
A legal determination that the Province is spreading the costs of GA financing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Medium **Risk Impact:** High **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and close monitoring of costs and changes in variables built into model. • Analyze the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Moderate **Time Scale:** 12 to 24 months **Rationale** • The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the government to offset a part of the scheduled increases. • Risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.	Risk can be avoided by: • Province providing a potential guarantee for the cost of borrowing – however, would redirect risk back to the Province and negate benefits of proposed financing structure. Risk can be mitigated by: • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • Proposed legislation to enable GA refinancing has been draft with input from third-party financers. Provides a 'narrow' provincial guarantee and ensuring that debt holders have the right of action against a future government to recover the amount outstanding including interest, fees, expenses and any damages.

Electricity social programs (Enhancing Electricity Support & Conservation Programs):

Objective: Shift funding of existing and new electricity support programs (RRRP, OESP, Affordability Fund, First Nations Credit) from rate to tax base.

Risk	Level of Risk	Risk Response
Uncertainty in forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated fiscal impacts for the Province.	**Risk Likelihood:** Possible **Risk Impact:** Major **Timescale:** 12 to 24 months **Rationale:** • The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate. • Fiscal projection is highly dependent on factors which can fluctuate from year to year, including: o electricity usage; o distributions costs; and o consumer consumption patterns that may change due to extreme weather or other factors. • Fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. o Enhanced RRRP may create disincentives from the eligible LDCs towards productivity and performance improvements and/or cause ineligible LDC's to drive up distribution costs to gain access to program.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models.

From:	John Kim
To:	Salman Qadir; Shajee Kathirgamanathan; Gavin He
Subject:	FW: Draft GA Sub debt term sheet - Performance Fee Recommendations
Date:	Wednesday, May 31, 2017 9:23:50 AM
Attachments:	Financing Trust - Performance Fee Recommendation.doc

Saved a couple of these files here:

\\ofina.on.ca\ofadfs\Users\CEF\Hydro 2017\Electricity Prices\Mitigation Proposals\CEFD Rate Mitigation Analysis\OPG Trust

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From: Carlos Yep
Sent: Wednesday, May 31, 2017 9:06 AM
To: Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>; Opal Kandelas <Opal.Kandelas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; 'Montgomery, Kaitlin (MOF)' <Kaitlin.Montgomery@ontario.ca>
Subject: FW: Draft GA Sub debt term sheet - Performance Fee Recommendations

fyi

From: LIU Sheen -TREASURY [mailto:sheen.liu@opg.com]
Sent: Wednesday, May 31, 2017 9:03 AM
To: Carlos Yep <Carlos.Yep@ofina.on.ca>
Cc: LEE John -TREASURY <john.s.lee@opg.com>; RYFA Ken -TREASURY <ken.ryfa@opg.com>; PRESTON Stuart -TREASURY <stuart.preston@opg.com>; HAHN PARKER Janet -TREASURY <j.hahnparker@opg.com>
Subject: RE: Draft GA Sub debt term sheet

Carlos,

Attached for your review please also find the recommended structure of variable performance fee and benchmark relating to GA financing. We can discuss it at our meeting with OFA as well.

Sheen

From: LIU Sheen -TREASURY
Sent: Tuesday, May 30, 2017 4:26 PM
To: 'Carlos Yep'
Cc: LEE John -TREASURY; RYFA Ken -TREASURY; PRESTON Stuart -TREASURY; HAHN PARKER Janet -TREASURY
Subject: Draft GA Sub debt term sheet

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Thanks

Sheen

<< File: Draft Subordianted Debt Term Sheet.doc >>

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FINANCING TRUST – PERFORMANCE FEE TO OPG

BACKGROUND

Ontario Power Generation Inc. (OPG) has been appointed the Financial Services Manager under the Fair Hydro Plan Act, 2017 to, among other things evaluate whether funding obligations should be incurred by the Trust for the purpose of acquiring and financing an investment interest. A performance fee relating to the funding obligations will be meaningful and allow OPG to make decisions that will significantly impact its return. The Act as drafted enables OPG to achieve its accounting objective of consolidation of the Trust with OPG, and the ability to earn a return and take on risk, through its control of the Trust.. The objective therefore is to recommend a reasonable variable performance fee structure for OPG to earn a return from the Trust, and meet the accounting requirement.

ANALYSIS OF ACCOUNTING REQUIREMENT

To support the accounting consolidation, OPG's variable performance return will be accomplished through the followings:

a. The cash flow from the investment asset shall include interest determined based on a relevant benchmark that is appropriate relative to the investment asset, plus an appropriate margin consistent with the relevant market and other risks
b. OPG shall have the authority to determine the financing strategy, which will vary the financing costs with the objective of enabling the Trust to achieve a more favorable return compared to the benchmark for interest on the investment asset
c. The Trust shall establish different classes of debt (senior, subordinated and the most subordinated). The classes would allow the Trust to delineate financing of lower risk investment and investment that would bear higher residual risk. The delineation would limit OPG's self-funded investment to a reasonable level in order to allow OPG to remain a self-sustaining entity.
d. OPG shall, through its ownership of the most subordinated liability, be able to capture and retain the pricing difference between cost of financing and benchmark for interest on the investment asset, or any residual risk of investment asset. The targeted return of the subordinated debt should be reflective of the underlying risks and compensate holders for active management that would be required.

PERFORMANCE FEE ANALYSIS

Based on the accounting requirements, the recommendation is for OPG to establish a variable performance fee structure as follows:

As the Trust may issue both long term bonds and medium term notes, benchmarks based on various terms, will be established on an annual basis, subject to the following methodology:

- Benchmarks will be established as the sum of (1) reference rate, and (2) spread
    - Both reference rate and spread will be term dependant

- For bond/note issuance, reference rate will be GOC rate of equivalent term
- Reference rate will be based on consensus forecast provided by various financial institutions

- Benchmarks will be established based on the weighted average rate of incremental debt issuance at the Trust level
- If the actual weighted average rate is lower than the corresponding benchmark, OPG will realize a gain, otherwise a loss
- Variable performance fee, i.e. gain/loss, is applicable only to OPG's investment in the Trust (5% of the funding requirement), and is capped at benchmark weighted average rate +/-1%

An example illustrating this structure is detailed in Appendix 1

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The illustration is based on the expected Trust debt structure as follows:

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1. Benchmark is to be established at each year end for Trust issuance next year. In this example, assuming the following benchmark is established as of end of Yr 1

		Benchmark
Tranche A	51%	4.25%
Tranche B Sub Debt	39%	5.50%
Tranche C Sub Debt	10%	6.50%
Weighted Average Rate		**5.0%**

2. By the end of Yr 2, OPG will calculate the actual weighted average rate for all incremental issuance for the year. If the actual weighted average rate is lower than the corresponding benchmark, OPG will realize a gain, otherwise a loss.

	Allocation	Benchmark	Actual
Tranche A	51%	4.25%	5.0%
Tranche B Sub Debt	39%	5.50%	5.60%
Tranche C Sub Debt	10%	6.50%	6.60%
Weighted Average Rate		**5.0%**	5.4%
		Loss	0.4%

3. Variable management fee, i.e. gain/loss, is applicable only to OPG's investment (5% of the Trust funding requirement), and is capped at benchmark weighted average rate +/-1%.

   Based on the example above and assume incremental Trust issuance is $2B, OPG will realize loss of variable performance fee of 0.4M ($2B*5%*0.4%)

From:	Carlos Yep
To:	Mike Manning; James Devine; Opal Kandelas; Ken Kandeepan; John Psinas; John Kim; Bruno Amara; "Montgomery, Kaitlin (MOF)"
Subject:	FW: Draft GA Sub debt term sheet - Performance Fee Recommendations
Date:	Wednesday, May 31, 2017 9:05:47 AM
Attachments:	Financing Trust - Performance Fee Recommendation.doc

fyi

From: LIU Sheen -TREASURY [mailto:sheen.liu@opg.com]
Sent: Wednesday, May 31, 2017 9:03 AM
To: Carlos Yep <Carlos.Yep@ofina.on.ca>
Cc: LEE John -TREASURY <john.s.lee@opg.com>; RYFA Ken -TREASURY <ken.ryfa@opg.com>; PRESTON Stuart -TREASURY <stuart.preston@opg.com>; HAHN PARKER Janet -TREASURY <j.hahnparker@opg.com>
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<< File: Draft Subordianted Debt Term Sheet.doc >>

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From: John Kim
To: Bruno Amara
Subject: FW: Draft GA Sub debt term sheet - Performance Fee Recommendations
Date: Friday, June 02, 2017 1:43:22 PM
Attachments: Financing Trust - Performance Fee Recommendation.doc

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This one.

From: Carlos Yep
Sent: Wednesday, May 31, 2017 9:06 AM
To: Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>; Opal Kandelas <Opal.Kandelas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; 'Montgomery, Kaitlin (MOF)' <Kaitlin.Montgomery@ontario.ca>
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From: John Kim
To: John Kim
Subject: FW: Draft TB Sub - Electrictiy Regs
Date: Tuesday, June 13, 2017 8:38:08 AM

In terms of a line….

James' note had a line, etc.

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 5:23 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Emily Kerr <Emily.Kerr@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: Draft TB Sub - Electrictiy Regs

Hi John – The focus on the 14th is only the regs. In terms of the 27th, they are reporting back on 2 additional regs related to OESP and GA. The material is silent on any outstanding issues on indemnities, provincial guarantees, etc as you can see…

Chris

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: June-12-17 4:25 PM
To: Skubel, Chris (TBS)
Cc: Kerr, Emily (OFA); Bruno Amara
Subject: RE: Draft TB Sub - Electrictiy Regs

Thanks for that. That is helpful information for Emily.

As for the report back on the 14th, is it fair to say the focus is on the regs? What about any outstanding issues such as indemnities, Provincial guarantee, etc. What would be the main focus of the 14th TB date and the one on the 27th?

The OFA is also working to provide the IESO with a new credit facility primarily for short to medium term funding needs.

In a nutshell, we're trying to get a sense of the path forward vis-à-vis the two TB dates.

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 3:28 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Emily Kerr <Emily.Kerr@ofina.on.ca>
Subject: RE: Draft TB Sub - Electrictiy Regs

Hi John – Given the Board meeting is tomorrow I don't think ENERGY will take into consideration any of our comments (sadly). It may be more appropriate to flag and concerns/risks/etc. in the assessment note that I am hoping to distribute this evening.

The regulatory amendments related to OESP were previously tracking to Cabinet on June 14th but have now been moved to June 27th (hence no mention in this submission).

Thanks,
Chris

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: June-12-17 3:25 PM
To: Skubel, Chris (TBS)
Cc: Kerr, Emily (OFA)
Subject: RE: Draft TB Sub - Electrictiy Regs

Hi Chris,

We are looking at this - Is there a window for comments or is it more of an FYI that this is final?

My colleague Emily was looking at this and noticed that there is no mention of OESP. Not sure what the reason for that while other programs are mentioned.

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 12:26 PM
To: Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>
Cc: Afshin Malekzadeh (MOHLTC) <Afshin.Malekzadeh@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; James Strang (MOF) <James.Strang@ontario.ca>
Subject: Draft TB Sub - Electrictiy Regs

Hi Everyone – Please find attached a draft TB sub for the electricity regs (that we received this morning) tracking to TB/MBC tomorrow.

We'll share a draft RAN later today.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

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From: John Kim
To: Bruno Amara; Shajee Kathirgamanathan; Salman Qadir
Subject: FW: Draft TB Sub - Electrictiy Regs
Date: Monday, June 12, 2017 3:42:23 PM

Hi,

This was Emily's question more so than ours. Would it be fair to ask Chris to provide coverage on IESO's request for a credit facility and IESO's and OPG's requests for indemnities in their RAN note?

Any thoughts on that?

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 3:28 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Emily Kerr <Emily.Kerr@ofina.on.ca>
Subject: RE: Draft TB Sub - Electrictiy Regs

Hi John – Given the Board meeting is tomorrow I don't think ENERGY will take into consideration any of our comments (sadly). It may be more appropriate to flag and concerns/risks/etc. in the assessment note that I am hoping to distribute this evening.

The regulatory amendments related to OESP were previously tracking to Cabinet on June 14th but have now been moved to June 27th (hence no mention in this submission).

Thanks,
Chris

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: June-12-17 3:25 PM
To: Skubel, Chris (TBS)
Cc: Kerr, Emily (OFA)
Subject: RE: Draft TB Sub - Electrictiy Regs

Hi Chris,

We are looking at this - Is there a window for comments or is it more of an FYI that this is final?

My colleague Emily was looking at this and noticed that there is no mention of OESP. Not sure what the reason for that while other programs are mentioned.

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 12:26 PM
To: Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Nadine Petsche (MOF)

<Nadine.Petsche@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>
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From:	John Kim
To:	Emily Kerr
Cc:	Bruno Amara; Deena Padamadan
Subject:	FW: Draft TB Sub - Electrictiy Regs
Date:	Monday, June 12, 2017 2:07:45 PM
Attachments:	TB Sub_ OFHP Report Back_June 9.docx

Hi Emily,

FYI, and any comments?

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 12:26 PM
To: Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>
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MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

June 13, 2017

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MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back with updates to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

2.0 PURPOSE OF REQUEST

On May 31, 2017, Bill 132, the *Fair Hydro Act, 2017* (*FHA*), which enables Ontario's Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017*, (*OFHPA*) and the implementation of electricity social program-related amendments to the *Ontario Energy Board Act, 1998*, was passed by the legislature.

- The OFHPA will lower bills by 25 per cent for a typical residential consumer, starting July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to half a million small businesses and farms would also benefit.

- OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

  Note: These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on electricity bills for consumers.

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (*OEBA*); and

- Schedule 2 – includes the electricity social program-related amendments to the *OEBA.*

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On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

On May 9, 2017, as part of its *FHA* review, TB/MBC requested that the Ministry report back on key updates and the details of the proposed regulations that would support OFHP.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review a first package of proposed regulation and amendments and on June 27, 2017, a second package of regulations. These are necessary to ensure that the 25 per cent reduction on electricity bills is in place by July 1, 2017.

The new *OFHPA* and the proposed regulations and amendments described throughout, along with the independent accounting analysis, legal support and technical analysis and future financial agreements (i.e., expected to be reached and signed in fall 2017) should together mitigate the financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission and the May 9, 2017 TB submission.

1. Implementation of GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

On March 2, 2017, as part of OFHP, it was announced that a portion of the Global Adjustment (GA) would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Under the *OFHPA* which enables GA Refinancing, electricity bills of typical residential consumers would be reduced by 25 per cent starting in July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

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Proposal

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II of the *Ontario Fair Hydro Plan Act, 2017* which is under Schedule 1 of the *Fair Hydro Act, 2017;* and
- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the Electricity Act, 1998.

On June 27, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation:

- Creating a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Act, 2017*.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- On June 1, 2017, the *OFHPA*, which enables GA refinancing and responds to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission, received Royal assent. Note: The Ministry has also prepared regulations to support implementation (as noted above);

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched third party technical analysis to assist with implementation of GA refinancing.

2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

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These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.

- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.

- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

In addition to amending two existing regulations and introducing two new regulations to roll out the social programs, the Ministry is also making several consequential amendments to other regulations and introducing a new invoicing regulation under the *Fair Hydro Act, 2017*. These changes include:

- Creating a new Invoicing Regulation made under the Ontario Fair Hydro Plan Act, 2017.

- Amending the O. Reg 363/16 (General) under the *Ontario Rebate for Electricity Consumers Act, 2016.*

- Amending O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) made under the *Ontario Energy Board Act, 1998.*

Proposal

The Government introduced legislation and is now developing regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy

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program of the old Ontario Hydro and has existed in its current form since 2001.

The new legislation enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers. The regulation will also prescribe the monthly amount of rate protection available to Hydro One R2 customers through RRRP.

- R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province.

Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher distribution cost LDCs.

The new legislation enables tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. Eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The regulation will set out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers. In future years, this harmonized monthly charge, by design, cannot decrease as it adjusts to reflect the higher of either the lowest rate LDC in the program, or the maximum monthly charge of the previous year, as determined by the OEB.

On-Reserve First Nations Delivery Credit

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The legislative amendments to the *Ontario Energy Board Act, 1998*, are premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a

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delivery charge, for on-reserve residential First Nations customers as prescribed in regulation. Eligibility is restricted to those residential rate class First Nations customers who are members of a band as defined under the *Indian Act* (Canada).

The regulation does not stipulate any process for identifying on-reserve customers eligible for the credit but rather allows LDCs the flexibility to continue using their existing HST exemption processes.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of RRRP available to Hydro One R2 customers for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB currently sets the amount of the charge that recovers the cost of RRRP from all Ontario electricity customers. Once the regulatory mechanism is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. The regulation will also contain transition provisions to bridge the transition from rate payer funding to provincial funding, as well as mechanisms for sharing of information and funding flows. Change to the funding structure of the program does not require any additional implementation risks or efforts.

Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers will be prescribed in regulation. The regulation will prescribe the process by which the Ontario Energy Board would determine a maximum monthly distribution charge for prescribed customers of prescribed high-cost LDCs.

Affected LDCs would be impacted through the efforts required to adjust their billing systems in order to carry out the program. There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three

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month transitional period to begin delivering the rate assistance by no later than October 1, 2017. The regulation will also contain mechanisms for sharing of information and funding flows.

On-Reserve First Nation Delivery Credit

The new regulation will set out the program particulars including eligibility for the program. The regulation limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs.

There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.
11 affected LDCs will need to alter their billing systems to reflect the regulatory requirement to include a First Nations Delivery Credit line item on the bill directly below the delivery charge, or blended rate if applicable.

3.0 KEY CONTEXT

On June 1, 2017, the *Fair Hydro Act, 2017*, the legislation to enable the Ontario Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) received Royal assent. The OFHPA will reduce the electricity bills of typical residential consumers by 25 per cent starting in summer 2017. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

The Ministry's report back and update to TB/MBC focuses on the following OFHP initiatives:

1) Implementation of GA Refinancing:

Under the *OFHPA*, a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Today's electricity consumers have been bearing disproportionate cost responsibility for the investments in developing the clean, modern and

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reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. The legislation recognizes the long-term benefit of clean energy investments to more appropriately allocate costs into the future to account for long-term benefits.

Refinancing a portion of GA would provide significant and immediate rate relief to electricity consumers that have been burdened with the costs of the necessary investments that have been made to decarbonize and modernize the province's electricity infrastructure, by spreading the cost of electricity investments so that they are shared proportionately by future consumers who cause a need for or benefit from the province's multi-billion dollar investments in electricity infrastructure.

To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed the *Fair Hydro Act, 2017* which enables the OFHP under the *Ontario Fair Hydro Plan Act (OFHPA), 2017*, to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: On June 1, 2017, the *OFHPA* received Royal assent.

- Developed supporting regulations which further contribute to the implementation of the OFHP under the legislation;

    - One new regulation and one amendment to existing regulation is due to go to the June 14, 2017 LRC/Cabinet; and

    - A further new proposed regulation is due to go to the June 27,2017 LRC/Cabinet – a draft of this proposed regulation will be available as part of that LRC package.

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched a third party technical analysis project to assist with implementation of GA refinancing.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

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- Creating a new Regulation made Under Part II under the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*:
  - The Ministry of Energy is seeking LRC approval to create a new Regulation under the *Ontario Fair Hydro Plan Act* (*OFHPA*) to support the required calculations to be made by the Ontario Energy Board (OEB) under Part II of that Act (sections 6-12).
  - The proposed regulation outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP)) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.
  - The proposed regulation sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments to the Part II regulation.
  - In addition, the proposed regulation also sets out that customers of unit sub-meter providers (USMPs) would receive a proportionate share of near-term OFHPA reductions.
  - If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.
  - For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary. Note: Consumers not paying RPP would also receive GA refinancing if they meet the other criteria defined in the OFHPA under "specified consumers" in the OFHPA. These include consumers that have opted-out of RPP to sign contracts with electricity retailers or become wholesale consumers and those who are eligible for *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA), but not RPP, such as long-term care homes.
  - In accordance with the *Ontario Fair Hydro Plan Act,* the OEB will determine the adjustment to be made to the GA charge on eligible non-RPP consumers' bills, effective July 1st. Electricity vendors will be expected to ensure the adjustment is reflected on their customers' bills as soon as possible, and to make retroactive payments where necessary.

- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*:

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- The Ministry of Energy is seeking LRC approval to amend O.Reg. 280/14 in response to the *OFHPA* and related regulations.

- The proposed amendments would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its *OFHPA* activities, including the funding, borrowing and financial arrangements contemplated under the *OFHPA*. The IESO would be responsible for selling specified portions of the regulatory asset to OPG's financing entities, and to fund the IESO monthly deferrals which are to commence July 1, 2017, as provided for under section 23 of the OFHPA.

- The additional authority set out in the proposed amendments to O.Reg. 280/14 would enable IESO to borrow amounts to fund the above-noted deferrals related to GA refinancing.

- IESO would be expected to amend its Statement of Borrowing in a manner consistent with the amended regulation, once approved.

- On June 27, 2017, to further support implementation of OFHP, LRC / Cabinet will review a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Plan Act*, 2017.

2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

The government will identify Hydro One R2 customers, by regulation, as having RRRP funded through appropriated funds.

Distribution Rate Protection

The new Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, was established through legislative amendments under the *Fair Hydro Act, 2017*. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

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Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhanced protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

The regulation prescribes eligibility to all First Nation residential rate class customers living on-reserve. First Nations customers are p-prescribed in regulation as account holders who are members of a band as defined by the *Indian Act* (Canada).

There are 11 LDCs identified by the OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 residential customers may be eligible.

The credit will automatically apply to the bills of those customers who have already registered with their LDC as HST exempt. Customers who have yet to register with their LDC will need to identify themselves to their LDC in order to receive the benefit.

Roles and Responsibilities

Rural or Remote Rate Protection

The roles and responsibilities of the Board remain the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The Board would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would once again need to appropriate money from the legislature to cover the costs of administering the program.

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On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers.

4.0 BACKGROUND

Legislation to Implement Ontario's Fair Hydro Plan

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEBA); and
- Schedule 2 – includes the electricity social program-related amendments to the *Ontario Energy Board Act, 1998.*

On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

Legislation to Implement GA Refinancing

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the *Ontario Fair Hydro Plan Act, 2017* outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;
- A detailed Preamble, Purpose and Definitions;
- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;
- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

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The legislation defines the mechanisms and framework that would achieve the refinancing of the GA.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the legislation.

To support the implementation of GA refinancing under the *Fair Hydro Act, 2017*, the Ministry has developed supporting regulations:

- Ontario Regulation made Under Part II of the *Fair Hydro Act, 2017* ("the Part II Reg.") – sets out in detail the methodology that the Ontario Energy Board will use to make determinations under the *OFHPA*.

- Amendment to O. Reg. 280/14 to be made under the *Electricity Act, 1998* ("IESO Eligible Investments and Borrowing Reg.") – provides IESO with the necessary authority related to its OFHPA activities including the funding, borrowing and financial arrangements contemplated under the *OFHPA*.

- Ontario Regulation to be made under the *Fair Hydro Act, 2017* ("the General Reg.") – will provide for the implementation of the roles and responsibilities of the Financial Services Manager and IESO in relation to the refinancing of GA. Note: The General Reg. will be brought forward to LRC/Cabinet on June 27, 2017.

<u>Social Programs</u>

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.

- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.6 million.

- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.

- These customers still have high distribution costs and are often faced with significantly higher than average bills.

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The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Legislative amendments under the Fair Hydro Act broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the majority of the existing RRRP program costs to the tax-base and funding all of the broadened distribution rate protection enhancements from the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

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The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

5.0 TIMING

Under the *OFHPA*, a portion of the GA will be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

On April 20, 2017, OEB announced that it adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing.

If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.

The OEB must make a determination of RPP rates no later than 15 days from June 2nd, 2017, when the legislation received Royal Assent. As stipulated in the Act, these RPP rates would come into effect as of July 1, 2017.

For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

The Part II regulation lays out the methodology for the OEB to calculate electricity rates for consumers eligible for GA refinancing. As such it has not financial impact.

2) Social Programs:

As reported in the TB/MBC submission of May 9, 2017 and as approved in the TB/MBC submission of March 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

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Program	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board. Cost forecasts are subject to some uncertainty surrounding consumer uptake, future consumption levels, and future rates as set by the OEB.

Subsequent to the development of the above financial impacts for RRRP/DRP, Hydro One Networks Inc. submitted a distribution rate application to the OEB for rates effective 2018-2022. ENERGY is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application. Note that final Hydro One rates are not expected until 2018.

Per the Regulations, the Ministry has the authority to request social program costs forecasts from the OEB.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16, April 19, and May 17, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation. The Ministry has also held separate engagements with LDCs in particular to the social programs.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, May 23, and June 1 to discuss implementation.

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8.0 RISK ASSESSMENT AND MITIGATION – UPDATES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• The Ministry, IESO, OPG and other ministries have worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **<u>Update:</u>** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **Update:** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			Update: • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
a Charter challenge on the First Nations On-Reserve Delivery Credit Program			reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the legislation is modelled on frameworks used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

10.0 PERFORMANCE MEASURES

The proposed new regulation under *OFHPA* outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.

The proposed amendments to O. Reg. 280/10 would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its OFHPA activities, including the funding, borrowing and financial arrangements contemplated under the OFHPA

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. This is the primary success metric for these programs. In future report backs, the Ministry will include the presentation of data collected through the IESO reporting portals to demonstrate the impact of these programs on customers. The Ministry

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will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing.

Ontario's Fair Hydro Plan also included a commitment to work with the OEB to drive distribution sector efficiencies within LDCs over the long-term. The Ministry is developing its policy approach to achieving these efficiencies, including potentially through LDC consolidation, through the Long-Term Energy Planning process.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

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From: John Kim
To: Ronald Kwan
Cc: Deena Padamadan
Subject: FW: Draft TB Sub - Electrictiy Regs
Date: Monday, June 12, 2017 2:01:13 PM
Attachments: TB Sub_ OFHP Report Back_June 9.docx

Fyi, and we're reviewing.

Thanks,

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 12:26 PM
To: Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>
Cc: Afshin Malekzadeh (MOHLTC) <Afshin.Malekzadeh@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; James Strang (MOF) <James.Strang@ontario.ca>
Subject: Draft TB Sub - Electrictiy Regs

Hi Everyone – Please find attached a draft TB sub for the electricity regs (that we received this morning) tracking to TB/MBC tomorrow.

We'll share a draft RAN later today.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

June 13, 2017

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MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back with updates to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

2.0 PURPOSE OF REQUEST

On May 31, 2017, Bill 132, the *Fair Hydro Act, 2017* (*FHA*), which enables Ontario's Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017*, (*OFHPA*) and the implementation of electricity social program-related amendments to the *Ontario Energy Board Act, 1998*, was passed by the legislature.

- The OFHPA will lower bills by 25 per cent for a typical residential consumer, starting July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to half a million small businesses and farms would also benefit.

- OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

  Note: These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on electricity bills for consumers.

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (*OEBA*); and

- Schedule 2 – includes the electricity social program-related amendments to the *OEBA.*

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On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

On May 9, 2017, as part of its *FHA* review, TB/MBC requested that the Ministry report back on key updates and the details of the proposed regulations that would support OFHP.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review a first package of proposed regulation and amendments and on June 27, 2017, a second package of regulations. These are necessary to ensure that the 25 per cent reduction on electricity bills is in place by July 1, 2017.

The new *OFHPA* and the proposed regulations and amendments described throughout, along with the independent accounting analysis, legal support and technical analysis and future financial agreements (i.e., expected to be reached and signed in fall 2017) should together mitigate the financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission and the May 9, 2017 TB submission.

1. Implementation of GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

On March 2, 2017, as part of OFHP, it was announced that a portion of the Global Adjustment (GA) would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Under the *OFHPA* which enables GA Refinancing, electricity bills of typical residential consumers would be reduced by 25 per cent starting in July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

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Proposal

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II of the *Ontario Fair Hydro Plan Act, 2017* which is under Schedule 1 of the *Fair Hydro Act, 2017;* and
- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the Electricity Act, 1998.

On June 27, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation:

- Creating a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Act, 2017*.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- On June 1, 2017, the *OFHPA*, which enables GA refinancing and responds to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission, received Royal assent. Note: The Ministry has also prepared regulations to support implementation (as noted above);

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched third party technical analysis to assist with implementation of GA refinancing.

2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

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These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.

- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.

- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

In addition to amending two existing regulations and introducing two new regulations to roll out the social programs, the Ministry is also making several consequential amendments to other regulations and introducing a new invoicing regulation under the *Fair Hydro Act, 2017*. These changes include:

- Creating a new Invoicing Regulation made under the Ontario Fair Hydro Plan Act, 2017.

- Amending the O. Reg 363/16 (General) under the *Ontario Rebate for Electricity Consumers Act, 2016.*

- Amending O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) made under the *Ontario Energy Board Act, 1998.*

Proposal

The Government introduced legislation and is now developing regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy

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program of the old Ontario Hydro and has existed in its current form since 2001.

The new legislation enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers. The regulation will also prescribe the monthly amount of rate protection available to Hydro One R2 customers through RRRP.

- R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province.

Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher distribution cost LDCs.

The new legislation enables tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. Eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The regulation will set out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers. In future years, this harmonized monthly charge, by design, cannot decrease as it adjusts to reflect the higher of either the lowest rate LDC in the program, or the maximum monthly charge of the previous year, as determined by the OEB.

On-Reserve First Nations Delivery Credit

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The legislative amendments to the *Ontario Energy Board Act, 1998*, are premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a

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delivery charge, for on-reserve residential First Nations customers as prescribed in regulation. Eligibility is restricted to those residential rate class First Nations customers who are members of a band as defined under the *Indian Act* (Canada).

The regulation does not stipulate any process for identifying on-reserve customers eligible for the credit but rather allows LDCs the flexibility to continue using their existing HST exemption processes.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of RRRP available to Hydro One R2 customers for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB currently sets the amount of the charge that recovers the cost of RRRP from all Ontario electricity customers. Once the regulatory mechanism is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. The regulation will also contain transition provisions to bridge the transition from rate payer funding to provincial funding, as well as mechanisms for sharing of information and funding flows. Change to the funding structure of the program does not require any additional implementation risks or efforts.

Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers will be prescribed in regulation. The regulation will prescribe the process by which the Ontario Energy Board would determine a maximum monthly distribution charge for prescribed customers of prescribed high-cost LDCs.

Affected LDCs would be impacted through the efforts required to adjust their billing systems in order to carry out the program. There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three

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month transitional period to begin delivering the rate assistance by no later than October 1, 2017. The regulation will also contain mechanisms for sharing of information and funding flows.

On-Reserve First Nation Delivery Credit

The new regulation will set out the program particulars including eligibility for the program. The regulation limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs.

There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.
11 affected LDCs will need to alter their billing systems to reflect the regulatory requirement to include a First Nations Delivery Credit line item on the bill directly below the delivery charge, or blended rate if applicable.

3.0 KEY CONTEXT

On June 1, 2017, the *Fair Hydro Act, 2017*, the legislation to enable the Ontario Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) received Royal assent. The OFHPA will reduce the electricity bills of typical residential consumers by 25 per cent starting in summer 2017. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

The Ministry's report back and update to TB/MBC focuses on the following OFHP initiatives:

1) Implementation of GA Refinancing:

Under the *OFHPA*, a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Today's electricity consumers have been bearing disproportionate cost responsibility for the investments in developing the clean, modern and

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reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. The legislation recognizes the long-term benefit of clean energy investments to more appropriately allocate costs into the future to account for long-term benefits.

Refinancing a portion of GA would provide significant and immediate rate relief to electricity consumers that have been burdened with the costs of the necessary investments that have been made to decarbonize and modernize the province's electricity infrastructure, by spreading the cost of electricity investments so that they are shared proportionately by future consumers who cause a need for or benefit from the province's multi-billion dollar investments in electricity infrastructure.

To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed the *Fair Hydro Act, 2017* which enables the OFHP under the *Ontario Fair Hydro Plan Act (OFHPA), 2017*, to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: On June 1, 2017, the *OFHPA* received Royal assent.

- Developed supporting regulations which further contribute to the implementation of the OFHP under the legislation;

    - One new regulation and one amendment to existing regulation is due to go to the June 14, 2017 LRC/Cabinet; and

    - A further new proposed regulation is due to go to the June 27,2017 LRC/Cabinet – a draft of this proposed regulation will be available as part of that LRC package.

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched a third party technical analysis project to assist with implementation of GA refinancing.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

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- Creating a new Regulation made Under Part II under the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*:
  - The Ministry of Energy is seeking LRC approval to create a new Regulation under the *Ontario Fair Hydro Plan Act* (*OFHPA*) to support the required calculations to be made by the Ontario Energy Board (OEB) under Part II of that Act (sections 6-12).
  - The proposed regulation outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP)) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.
  - The proposed regulation sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments to the Part II regulation.
  - In addition, the proposed regulation also sets out that customers of unit sub-meter providers (USMPs) would receive a proportionate share of near-term OFHPA reductions.
  - If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.
  - For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary. Note: Consumers not paying RPP would also receive GA refinancing if they meet the other criteria defined in the OFHPA under "specified consumers" in the OFHPA. These include consumers that have opted-out of RPP to sign contracts with electricity retailers or become wholesale consumers and those who are eligible for *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA), but not RPP, such as long-term care homes.
  - In accordance with the *Ontario Fair Hydro Plan Act,* the OEB will determine the adjustment to be made to the GA charge on eligible non-RPP consumers' bills, effective July 1st. Electricity vendors will be expected to ensure the adjustment is reflected on their customers' bills as soon as possible, and to make retroactive payments where necessary.

- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*:

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- The Ministry of Energy is seeking LRC approval to amend O.Reg. 280/14 in response to the *OFHPA* and related regulations.

- The proposed amendments would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its *OFHPA* activities, including the funding, borrowing and financial arrangements contemplated under the *OFHPA*. The IESO would be responsible for selling specified portions of the regulatory asset to OPG's financing entities, and to fund the IESO monthly deferrals which are to commence July 1, 2017, as provided for under section 23 of the OFHPA.

- The additional authority set out in the proposed amendments to O.Reg. 280/14 would enable IESO to borrow amounts to fund the above-noted deferrals related to GA refinancing.

- IESO would be expected to amend its Statement of Borrowing in a manner consistent with the amended regulation, once approved.

- On June 27, 2017, to further support implementation of OFHP, LRC / Cabinet will review a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Plan Act*, 2017.

2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

The government will identify Hydro One R2 customers, by regulation, as having RRRP funded through appropriated funds.

Distribution Rate Protection

The new Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, was established through legislative amendments under the *Fair Hydro Act, 2017*. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

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Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhanced protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

The regulation prescribes eligibility to all First Nation residential rate class customers living on-reserve. First Nations customers are p-prescribed in regulation as account holders who are members of a band as defined by the *Indian Act* (Canada).

There are 11 LDCs identified by the OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 residential customers may be eligible.

The credit will automatically apply to the bills of those customers who have already registered with their LDC as HST exempt. Customers who have yet to register with their LDC will need to identify themselves to their LDC in order to receive the benefit.

Roles and Responsibilities

Rural or Remote Rate Protection

The roles and responsibilities of the Board remain the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The Board would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would once again need to appropriate money from the legislature to cover the costs of administering the program.

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On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers.

4.0 BACKGROUND

Legislation to Implement Ontario's Fair Hydro Plan

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEBA); and
- Schedule 2 – includes the electricity social program-related amendments to the *Ontario Energy Board Act, 1998.*

On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

Legislation to Implement GA Refinancing

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the *Ontario Fair Hydro Plan Act, 2017* outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;
- A detailed Preamble, Purpose and Definitions;
- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;
- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

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The legislation defines the mechanisms and framework that would achieve the refinancing of the GA.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the legislation.

To support the implementation of GA refinancing under the *Fair Hydro Act, 2017*, the Ministry has developed supporting regulations:

- Ontario Regulation made Under Part II of the *Fair Hydro Act, 2017* ("the Part II Reg.") – sets out in detail the methodology that the Ontario Energy Board will use to make determinations under the *OFHPA*.

- Amendment to O. Reg. 280/14 to be made under the *Electricity Act, 1998* ("IESO Eligible Investments and Borrowing Reg.") – provides IESO with the necessary authority related to its OFHPA activities including the funding, borrowing and financial arrangements contemplated under the *OFHPA*.

- Ontario Regulation to be made under the *Fair Hydro Act, 2017* ("the General Reg.") – will provide for the implementation of the roles and responsibilities of the Financial Services Manager and IESO in relation to the refinancing of GA. Note: The General Reg. will be brought forward to LRC/Cabinet on June 27, 2017.

<u>Social Programs</u>

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.

- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.6 million.

- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.

- These customers still have high distribution costs and are often faced with significantly higher than average bills.

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The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Legislative amendments under the Fair Hydro Act broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the majority of the existing RRRP program costs to the tax-base and funding all of the broadened distribution rate protection enhancements from the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

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The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

5.0 TIMING

Under the *OFHPA*, a portion of the GA will be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

On April 20, 2017, OEB announced that it adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing.

If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.

The OEB must make a determination of RPP rates no later than 15 days from June 2nd, 2017, when the legislation received Royal Assent. As stipulated in the Act, these RPP rates would come into effect as of July 1, 2017.

For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

The Part II regulation lays out the methodology for the OEB to calculate electricity rates for consumers eligible for GA refinancing. As such it has not financial impact.

2) Social Programs:

As reported in the TB/MBC submission of May 9, 2017 and as approved in the TB/MBC submission of March 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

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Program	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board. Cost forecasts are subject to some uncertainty surrounding consumer uptake, future consumption levels, and future rates as set by the OEB.

Subsequent to the development of the above financial impacts for RRRP/DRP, Hydro One Networks Inc. submitted a distribution rate application to the OEB for rates effective 2018-2022. ENERGY is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application. Note that final Hydro One rates are not expected until 2018.

Per the Regulations, the Ministry has the authority to request social program costs forecasts from the OEB.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16, April 19, and May 17, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation. The Ministry has also held separate engagements with LDCs in particular to the social programs.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, May 23, and June 1 to discuss implementation.

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8.0 RISK ASSESSMENT AND MITIGATION – UPDATES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• The Ministry, IESO, OPG and other ministries have worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **<u>Update:</u>** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **Update:** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			Update: • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
a Charter challenge on the First Nations On-Reserve Delivery Credit Program			reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the legislation is modelled on frameworks used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

10.0 PERFORMANCE MEASURES

The proposed new regulation under *OFHPA* outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.

The proposed amendments to O. Reg. 280/10 would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its OFHPA activities, including the funding, borrowing and financial arrangements contemplated under the OFHPA

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. This is the primary success metric for these programs. In future report backs, the Ministry will include the presentation of data collected through the IESO reporting portals to demonstrate the impact of these programs on customers. The Ministry

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will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing.

Ontario's Fair Hydro Plan also included a commitment to work with the OEB to drive distribution sector efficiencies within LDCs over the long-term. The Ministry is developing its policy approach to achieving these efficiencies, including potentially through LDC consolidation, through the Long-Term Energy Planning process.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

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From: John Kim
To: Bruno Amara
Subject: FW: Draft TB Sub - Electrictiy Regs
Date: Monday, June 12, 2017 12:34:40 PM
Attachments: TB Sub _OFHP Report Back_June 9.docx

Hi Bruno,

Heading out for lunch but let's take a look to see what if any actions are needed.

Thanks,

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 12:26 PM
To: Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>
Cc: Afshin Malekzadeh (MOHLTC) <Afshin.Malekzadeh@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; James Strang (MOF) <James.Strang@ontario.ca>
Subject: Draft TB Sub - Electrictiy Regs

Hi Everyone – Please find attached a draft TB sub for the electricity regs (that we received this morning) tracking to TB/MBC tomorrow.

We'll share a draft RAN later today.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

June 13, 2017

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MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back with updates to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

2.0 PURPOSE OF REQUEST

On May 31, 2017, Bill 132, the *Fair Hydro Act, 2017* (*FHA*), which enables Ontario's Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017*, (*OFHPA*) and the implementation of electricity social program-related amendments to the *Ontario Energy Board Act, 1998*, was passed by the legislature.

- The OFHPA will lower bills by 25 per cent for a typical residential consumer, starting July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to half a million small businesses and farms would also benefit.

- OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

  Note: These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on electricity bills for consumers.

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (*OEBA*); and

- Schedule 2 – includes the electricity social program-related amendments to the *OEBA.*

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On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

On May 9, 2017, as part of its *FHA* review, TB/MBC requested that the Ministry report back on key updates and the details of the proposed regulations that would support OFHP.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review a first package of proposed regulation and amendments and on June 27, 2017, a second package of regulations. These are necessary to ensure that the 25 per cent reduction on electricity bills is in place by July 1, 2017.

The new *OFHPA* and the proposed regulations and amendments described throughout, along with the independent accounting analysis, legal support and technical analysis and future financial agreements (i.e., expected to be reached and signed in fall 2017) should together mitigate the financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission and the May 9, 2017 TB submission.

1. Implementation of GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

On March 2, 2017, as part of OFHP, it was announced that a portion of the Global Adjustment (GA) would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Under the *OFHPA* which enables GA Refinancing, electricity bills of typical residential consumers would be reduced by 25 per cent starting in July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

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Proposal

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II of the *Ontario Fair Hydro Plan Act, 2017* which is under Schedule 1 of the *Fair Hydro Act, 2017;* and
- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the Electricity Act, 1998.

On June 27, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation:

- Creating a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Act, 2017*.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- On June 1, 2017, the *OFHPA*, which enables GA refinancing and responds to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission, received Royal assent. Note: The Ministry has also prepared regulations to support implementation (as noted above);

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched third party technical analysis to assist with implementation of GA refinancing.

2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

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These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.

- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.

- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

In addition to amending two existing regulations and introducing two new regulations to roll out the social programs, the Ministry is also making several consequential amendments to other regulations and introducing a new invoicing regulation under the *Fair Hydro Act, 2017*. These changes include:

- Creating a new Invoicing Regulation made under the Ontario Fair Hydro Plan Act, 2017.

- Amending the O. Reg 363/16 (General) under the *Ontario Rebate for Electricity Consumers Act, 2016.*

- Amending O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) made under the *Ontario Energy Board Act, 1998.*

Proposal

The Government introduced legislation and is now developing regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy

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program of the old Ontario Hydro and has existed in its current form since 2001.

The new legislation enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers. The regulation will also prescribe the monthly amount of rate protection available to Hydro One R2 customers through RRRP.

- R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province.

Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher distribution cost LDCs.

The new legislation enables tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. Eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The regulation will set out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers. In future years, this harmonized monthly charge, by design, cannot decrease as it adjusts to reflect the higher of either the lowest rate LDC in the program, or the maximum monthly charge of the previous year, as determined by the OEB.

On-Reserve First Nations Delivery Credit

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The legislative amendments to the *Ontario Energy Board Act, 1998*, are premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a

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delivery charge, for on-reserve residential First Nations customers as prescribed in regulation. Eligibility is restricted to those residential rate class First Nations customers who are members of a band as defined under the *Indian Act* (Canada).

The regulation does not stipulate any process for identifying on-reserve customers eligible for the credit but rather allows LDCs the flexibility to continue using their existing HST exemption processes.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of RRRP available to Hydro One R2 customers for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB currently sets the amount of the charge that recovers the cost of RRRP from all Ontario electricity customers. Once the regulatory mechanism is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. The regulation will also contain transition provisions to bridge the transition from rate payer funding to provincial funding, as well as mechanisms for sharing of information and funding flows. Change to the funding structure of the program does not require any additional implementation risks or efforts.

Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers will be prescribed in regulation. The regulation will prescribe the process by which the Ontario Energy Board would determine a maximum monthly distribution charge for prescribed customers of prescribed high-cost LDCs.

Affected LDCs would be impacted through the efforts required to adjust their billing systems in order to carry out the program. There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three

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month transitional period to begin delivering the rate assistance by no later than October 1, 2017. The regulation will also contain mechanisms for sharing of information and funding flows.

On-Reserve First Nation Delivery Credit

The new regulation will set out the program particulars including eligibility for the program. The regulation limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs.

There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.
11 affected LDCs will need to alter their billing systems to reflect the regulatory requirement to include a First Nations Delivery Credit line item on the bill directly below the delivery charge, or blended rate if applicable.

3.0 KEY CONTEXT

On June 1, 2017, the *Fair Hydro Act, 2017*, the legislation to enable the Ontario Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) received Royal assent. The OFHPA will reduce the electricity bills of typical residential consumers by 25 per cent starting in summer 2017. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

The Ministry's report back and update to TB/MBC focuses on the following OFHP initiatives:

1) Implementation of GA Refinancing:

Under the *OFHPA*, a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Today's electricity consumers have been bearing disproportionate cost responsibility for the investments in developing the clean, modern and

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reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. The legislation recognizes the long-term benefit of clean energy investments to more appropriately allocate costs into the future to account for long-term benefits.

Refinancing a portion of GA would provide significant and immediate rate relief to electricity consumers that have been burdened with the costs of the necessary investments that have been made to decarbonize and modernize the province's electricity infrastructure, by spreading the cost of electricity investments so that they are shared proportionately by future consumers who cause a need for or benefit from the province's multi-billion dollar investments in electricity infrastructure.

To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed the *Fair Hydro Act, 2017* which enables the OFHP under the *Ontario Fair Hydro Plan Act (OFHPA), 2017*, to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: On June 1, 2017, the *OFHPA* received Royal assent.

- Developed supporting regulations which further contribute to the implementation of the OFHP under the legislation;

    - One new regulation and one amendment to existing regulation is due to go to the June 14, 2017 LRC/Cabinet; and

    - A further new proposed regulation is due to go to the June 27,2017 LRC/Cabinet – a draft of this proposed regulation will be available as part of that LRC package.

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched a third party technical analysis project to assist with implementation of GA refinancing.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

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- Creating a new Regulation made Under Part II under the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*:
  - The Ministry of Energy is seeking LRC approval to create a new Regulation under the *Ontario Fair Hydro Plan Act* (*OFHPA*) to support the required calculations to be made by the Ontario Energy Board (OEB) under Part II of that Act (sections 6-12).
  - The proposed regulation outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP)) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.
  - The proposed regulation sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments to the Part II regulation.
  - In addition, the proposed regulation also sets out that customers of unit sub-meter providers (USMPs) would receive a proportionate share of near-term OFHPA reductions.
  - If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.
  - For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary. Note: Consumers not paying RPP would also receive GA refinancing if they meet the other criteria defined in the OFHPA under "specified consumers" in the OFHPA. These include consumers that have opted-out of RPP to sign contracts with electricity retailers or become wholesale consumers and those who are eligible for *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA), but not RPP, such as long-term care homes.
  - In accordance with the *Ontario Fair Hydro Plan Act,* the OEB will determine the adjustment to be made to the GA charge on eligible non-RPP consumers' bills, effective July 1st. Electricity vendors will be expected to ensure the adjustment is reflected on their customers' bills as soon as possible, and to make retroactive payments where necessary.

- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*:

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- The Ministry of Energy is seeking LRC approval to amend O.Reg. 280/14 in response to the *OFHPA* and related regulations.

- The proposed amendments would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its *OFHPA* activities, including the funding, borrowing and financial arrangements contemplated under the *OFHPA*. The IESO would be responsible for selling specified portions of the regulatory asset to OPG's financing entities, and to fund the IESO monthly deferrals which are to commence July 1, 2017, as provided for under section 23 of the OFHPA.

- The additional authority set out in the proposed amendments to O.Reg. 280/14 would enable IESO to borrow amounts to fund the above-noted deferrals related to GA refinancing.

- IESO would be expected to amend its Statement of Borrowing in a manner consistent with the amended regulation, once approved.

- On June 27, 2017, to further support implementation of OFHP, LRC / Cabinet will review a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Plan Act*, 2017.

2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

The government will identify Hydro One R2 customers, by regulation, as having RRRP funded through appropriated funds.

Distribution Rate Protection

The new Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, was established through legislative amendments under the *Fair Hydro Act, 2017*. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

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Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhanced protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

The regulation prescribes eligibility to all First Nation residential rate class customers living on-reserve. First Nations customers are p-prescribed in regulation as account holders who are members of a band as defined by the *Indian Act* (Canada).

There are 11 LDCs identified by the OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 residential customers may be eligible.

The credit will automatically apply to the bills of those customers who have already registered with their LDC as HST exempt. Customers who have yet to register with their LDC will need to identify themselves to their LDC in order to receive the benefit.

Roles and Responsibilities

Rural or Remote Rate Protection

The roles and responsibilities of the Board remain the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The Board would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would once again need to appropriate money from the legislature to cover the costs of administering the program.

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On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers.

4.0 BACKGROUND

Legislation to Implement Ontario's Fair Hydro Plan

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEBA); and
- Schedule 2 – includes the electricity social program-related amendments to the *Ontario Energy Board Act, 1998.*

On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

Legislation to Implement GA Refinancing

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the *Ontario Fair Hydro Plan Act, 2017* outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;
- A detailed Preamble, Purpose and Definitions;
- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;
- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

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The legislation defines the mechanisms and framework that would achieve the refinancing of the GA.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the legislation.

To support the implementation of GA refinancing under the *Fair Hydro Act, 2017*, the Ministry has developed supporting regulations:

- Ontario Regulation made Under Part II of the *Fair Hydro Act, 2017* ("the Part II Reg.") – sets out in detail the methodology that the Ontario Energy Board will use to make determinations under the *OFHPA*.

- Amendment to O. Reg. 280/14 to be made under the *Electricity Act, 1998* ("IESO Eligible Investments and Borrowing Reg.") – provides IESO with the necessary authority related to its OFHPA activities including the funding, borrowing and financial arrangements contemplated under the *OFHPA*.

- Ontario Regulation to be made under the *Fair Hydro Act, 2017* ("the General Reg.") – will provide for the implementation of the roles and responsibilities of the Financial Services Manager and IESO in relation to the refinancing of GA. Note: The General Reg. will be brought forward to LRC/Cabinet on June 27, 2017.

<u>Social Programs</u>

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.

- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.6 million.

- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.

- These customers still have high distribution costs and are often faced with significantly higher than average bills.

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The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Legislative amendments under the Fair Hydro Act broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the majority of the existing RRRP program costs to the tax-base and funding all of the broadened distribution rate protection enhancements from the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

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The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

5.0 TIMING

Under the *OFHPA*, a portion of the GA will be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

On April 20, 2017, OEB announced that it adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing.

If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.

The OEB must make a determination of RPP rates no later than 15 days from June 2nd, 2017, when the legislation received Royal Assent. As stipulated in the Act, these RPP rates would come into effect as of July 1, 2017.

For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

The Part II regulation lays out the methodology for the OEB to calculate electricity rates for consumers eligible for GA refinancing. As such it has not financial impact.

2) Social Programs:

As reported in the TB/MBC submission of May 9, 2017 and as approved in the TB/MBC submission of March 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

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Program	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board. Cost forecasts are subject to some uncertainty surrounding consumer uptake, future consumption levels, and future rates as set by the OEB.

Subsequent to the development of the above financial impacts for RRRP/DRP, Hydro One Networks Inc. submitted a distribution rate application to the OEB for rates effective 2018-2022. ENERGY is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application. Note that final Hydro One rates are not expected until 2018.

Per the Regulations, the Ministry has the authority to request social program costs forecasts from the OEB.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16, April 19, and May 17, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation. The Ministry has also held separate engagements with LDCs in particular to the social programs.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, May 23, and June 1 to discuss implementation.

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8.0 RISK ASSESSMENT AND MITIGATION – UPDATES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• The Ministry, IESO, OPG and other ministries have worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **<u>Update:</u>** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **Update:** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			Update: • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
a Charter challenge on the First Nations On-Reserve Delivery Credit Program			reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the legislation is modelled on frameworks used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

10.0 PERFORMANCE MEASURES

The proposed new regulation under *OFHPA* outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.

The proposed amendments to O. Reg. 280/10 would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its OFHPA activities, including the funding, borrowing and financial arrangements contemplated under the OFHPA

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. This is the primary success metric for these programs. In future report backs, the Ministry will include the presentation of data collected through the IESO reporting portals to demonstrate the impact of these programs on customers. The Ministry

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will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing.

Ontario's Fair Hydro Plan also included a commitment to work with the OEB to drive distribution sector efficiencies within LDCs over the long-term. The Ministry is developing its policy approach to achieving these efficiencies, including potentially through LDC consolidation, through the Long-Term Energy Planning process.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

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From: John Kim
To: John Kim
Subject: FW: Draft TB Sub - Electrictiy Regs
Date: Tuesday, June 13, 2017 8:38:08 AM

In terms of a line….

James' note had a line, etc.

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 5:23 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Emily Kerr <Emily.Kerr@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: Draft TB Sub - Electrictiy Regs

Hi John – The focus on the 14th is only the regs. In terms of the 27th, they are reporting back on 2 additional regs related to OESP and GA. The material is silent on any outstanding issues on indemnities, provincial guarantees, etc as you can see…

Chris

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: June-12-17 4:25 PM
To: Skubel, Chris (TBS)
Cc: Kerr, Emily (OFA); Bruno Amara
Subject: RE: Draft TB Sub - Electrictiy Regs

Thanks for that. That is helpful information for Emily.

As for the report back on the 14th, is it fair to say the focus is on the regs? What about any outstanding issues such as indemnities, Provincial guarantee, etc. What would be the main focus of the 14th TB date and the one on the 27th?

The OFA is also working to provide the IESO with a new credit facility primarily for short to medium term funding needs.

In a nutshell, we're trying to get a sense of the path forward vis-à-vis the two TB dates.

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 3:28 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Emily Kerr <Emily.Kerr@ofina.on.ca>
Subject: RE: Draft TB Sub - Electrictiy Regs

Hi John – Given the Board meeting is tomorrow I don't think ENERGY will take into consideration any of our comments (sadly). It may be more appropriate to flag and concerns/risks/etc. in the assessment note that I am hoping to distribute this evening.

The regulatory amendments related to OESP were previously tracking to Cabinet on June 14th but have now been moved to June 27th (hence no mention in this submission).

Thanks,
Chris

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: June-12-17 3:25 PM
To: Skubel, Chris (TBS)
Cc: Kerr, Emily (OFA)
Subject: RE: Draft TB Sub - Electrictiy Regs

Hi Chris,

We are looking at this - Is there a window for comments or is it more of an FYI that this is final?

My colleague Emily was looking at this and noticed that there is no mention of OESP. Not sure what the reason for that while other programs are mentioned.

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 12:26 PM
To: Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>
Cc: Afshin Malekzadeh (MOHLTC) <Afshin.Malekzadeh@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; James Strang (MOF) <James.Strang@ontario.ca>
Subject: Draft TB Sub - Electrictiy Regs

Hi Everyone – Please find attached a draft TB sub for the electricity regs (that we received this morning) tracking to TB/MBC tomorrow.

We'll share a draft RAN later today.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

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From:	Carlos Yep
To:	Ken Kandeepan; John Psinas; Mike Manning; George Sakura; John Kim; "Kaitlin.Montgomery@ontario.ca"
Cc:	Bruno Amara; Adam Prokop
Subject:	FW: EXTERNAL - Benchmarking and Performance for the Trust manager - Accounting example Gain/Loss
Date:	Monday, May 15, 2017 8:11:00 AM
Attachments:	Example to OFA.xls

FYI

-----Original Message-----
From: LIU Sheen -TREASURY [mailto:sheen.liu@opg.com]
Sent: Friday, May 12, 2017 4:16 PM
To: Carlos Yep <Carlos.Yep@ofina.on.ca>
Subject: RE: EXTERNAL - Benchmarking and Performance for the Trust manager

Carlos,

As requested, attached please find the examples. Please review and let me know if you have any question.

Sheen

-----Original Message-----
From: Carlos Yep [mailto:Carlos.Yep@ofina.on.ca]
Sent: Friday, May 12, 2017 3:01 PM
To: LIU Sheen -TREASURY
Subject: RE: EXTERNAL - Benchmarking and Performance for the Trust manager

Sheen
When you get a chance can you give some examples - assuming 2 scenarios with immediate rate shocks (1)rates +50bps and (2) rates -50bps

-how the benchmark would be applied
-how are any gains or losses calculated for OPG, trust and the rate payer levels -how performance would be calculated

thanks
Carlos

-----Original Message-----
From: LIU Sheen -TREASURY [mailto:sheen.liu@opg.com]
Sent: Thursday, May 04, 2017 4:45 PM
To: Carlos Yep <Carlos.Yep@ofina.on.ca>
Subject: FW: EXTERNAL - Benchmarking and Performance for the Trust manager
Importance: High

Hi Carlos,

John Lee wants to discuss the benchmark concept with our CFO late today. Can you please confirm that Mike is ok with the higher level concept, i.e. the section before your comments in yellow?

Thanks

Sheen

-----Original Message-----
From: Carlos Yep [mailto:Carlos.Yep@ofina.on.ca]
Sent: Monday, April 24, 2017 1:49 PM
To: LIU Sheen -TREASURY
Subject: EXTERNAL - Benchmarking and Performance for the Trust manager

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Sheen
I have attached some of my comments on your initial variable return benchmark note.
Regards
Carlos

_____

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Trust Capital Structure		Benchmark		0.50%	Scenario 1 Actual
Tranche A	51%	4.25%			4.8%
Tranche B Sub Debt	39%	5.50%			6.0%
Tranche C Sub Debt	10%	6.50%			7.0%
Weighted Average Rate		**5.0%**			5.5%
			Gain/(Loss)		-0.5%
			Issue amount ($M)		**2,000**
Trust			**Revenue**	Interest	109
				performance based fee	-0.5
			Expense		-109
			EBT		0
OPG			**Revenue**	Interest	109
				performance based fee	-0.5
			Interest Expense		-55
			Other Expense (incl. admin etc)		???

Note:

1. statements ignor all other expenses such as administratvie costs
2. Gain/Loss will be applied to rate payers bills: total revenue with gain/loss factored in will be reflected in co

Scenario 2 Actual	
3.8%	
5.0%	
6.0%	
4.5%	
0.5%	
89	
0.5	
-90	
0	
89	
0.5	
-44	
???	

OPG Capital Strucutre

Equity	**44%**
Debt	**56%**
OPG External Debt	**5%**

llection amount/rate payers bills

From: John Kim
To: Bruno Amara
Subject: FW: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
Date: Tuesday, June 13, 2017 9:38:56 AM

From: Waterston, Michael (MOF) [mailto:Michael.Waterston@ontario.ca]
Sent: Monday, June 12, 2017 3:19 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>
Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: RE: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan

Thanks Ann. It appears from the emails below that external legal counsel will be asked to provide a legal opinion on the application of the PILs regime.

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: June 12, 2017 3:13 PM
To: Langleben, Ann (MOF)
Cc: Waterston, Michael (MOF); Lewis, Robin (MOF); Klassen, Daniela (MOF); Kim, John (OFA)
Subject: Re: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan

Hi Ann,

I'm in a meeting right now. Not sure about a comfort letter's impact. I'd need to consult. And the view and experience of our IR folks may not reflect the particularities of this planned financing entity.

Ron

On Jun 12, 2017, at 2:55 PM, Langleben, Ann (MOF) <Ann.Langleben@ontario.ca> wrote:

> Hi Michael, not sure if this has been forwarded to you or someone in your Branch. I just wanted you to be aware.
>
> CCTB involvement in this issue relates to a potential exemption for the entity. We are hindered in our ability to create one, since the structure has not been finalized and the options are still quite broad.
>
> Ron, we met with Sriram and he has asked me to contact you about whether a "comfort letter" regarding the tax issue would be sufficient for the credit rating agencies. If you have a minute later today, perhaps we can connect by phone (unless there is a straightforward answer).
>
> ---
>
> **From:** RYFA Ken -TREASURY [mailto:ken.ryfa@opg.com]
> **Sent:** June-12-17 12:22 PM
> **To:** Nelms, Scott (MOF); LEE John -TREASURY; WONG Leslie -LAWDIV; SHAH Ameet -FIN

& C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA); MAUTI John -FIN & C CTRL; JORDA Jenny -FIN & C CTRL
Subject: RE: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan

During today's call there was a general reference to potential credit rating agency concerns. That concern may not have come across clearly enough and here is some perspective on the specific concern. Given that this structure is very unique in the Canadian environment the credit rating agency will likely request a legal opinion – tax neutrality or run flat for tax – establishing that any activity of the financing entity will not result in a tax liability that would rank ahead of security holders.

-----Original Appointment-----
From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: Wednesday, June 07, 2017 3:09 PM
To: Nelms, Scott (MOF); LEE John -TREASURY; RYFA Ken -TREASURY; WONG Leslie -LAWDIV; SHAH Ameet -FIN & C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA)
Subject: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
When: Monday, June 12, 2017 11:00 AM-12:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: 416-212-8013 Passcode 4075747# (SN MC 6665#)

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From:	John Kim
To:	Bruno Amara
Subject:	FW: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
Date:	Tuesday, June 13, 2017 9:40:11 AM

From: Ronald Kwan
Sent: Monday, June 12, 2017 4:01 PM
To: Ann Langleben (MOF) <Ann.Langleben@ontario.ca>
Cc: Michael Waterston (MOF) <Michael.Waterston@ontario.ca>; Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: Re: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan

Hi Ann,

What would be the content and level of commitment in a comfort letter?

We have at times provided a "comfort letter" in different contexts (non-tax), but they are not binding and any commitments are subject to final approval.

Ron

From: Ronald Kwan
Sent: June 12, 2017 3:12:36 PM
To: Ann Langleben (MOF)
Cc: Michael Waterston (MOF); Robin Lewis (MOF); Daniela Klassen (MOF); John Kim
Subject: Re: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan

Hi Ann,

I'm in a meeting right now. Not sure about a comfort letter's impact. I'd need to consult. And the view and experience of our IR folks may not reflect the particularities of this planned financing entity.

Ron

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Ron, we met with Sriram and he has asked me to contact you about whether a "comfort letter" regarding the tax issue would be sufficient for the credit rating agencies. If you have a minute later today, perhaps we can connect by phone (unless there is a straightforward answer).

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Sent: June-12-17 12:22 PM
To: Nelms, Scott (MOF); LEE John -TREASURY; WONG Leslie -LAWDIV; SHAH Ameet -FIN & C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA); MAUTI John -FIN & C CTRL; JORDA Jenny -FIN & C CTRL
Subject: RE: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan

During today's call there was a general reference to potential credit rating agency concerns. That concern may not have come across clearly enough and here is some perspective on the specific concern. Given that this structure is very unique in the Canadian environment the credit rating agency will likely request a legal opinion – tax neutrality or run flat for tax – establishing that any activity of the financing entity will not result in a tax liability that would rank ahead of security holders.

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From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: Wednesday, June 07, 2017 3:09 PM
To: Nelms, Scott (MOF); LEE John -TREASURY; RYFA Ken -TREASURY; WONG Leslie -LAWDIV; SHAH Ameet -FIN & C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA)
Subject: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
When: Monday, June 12, 2017 11:00 AM-12:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: 416-212-8013 Passcode 4075747# (SN MC 6665#)

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From:	Ronald Kwan
To:	John Kim
Subject:	FW: Follow up to Friday"s Teleconference
Date:	Wednesday, May 03, 2017 12:56:33 PM

Hi John,

Any comments?

Ron

From: Ken Kandeepan
Sent: May-03-17 11:57
To: 'Kim Marshall' <Kim.Marshall@ieso.ca>; 'Veinot, Cindy (TBS)' <Cindy.Veinot@ontario.ca>
Cc: Mike Manning <Mike.Manning@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; 'Anthony Martinello' <Anthony.Martinello@ieso.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: Follow up to Friday's Teleconference

Hi All

I understand the Friday teleconference was value-added and while I was unable to participate, John Psinas was kind enough to provide me with a detailed briefing.

The interest impact was a point of discussion, with Anthony expressing concern that IES may experience a significant fiscal burden, especially if there are material delays between the time the regulatory asset is set up and its subsequent purchase by the Trust.

My understanding of the model is that all interest incurred on funding the regulatory/investment asset should be capitalized, regardless of the entity incurring the interest expense. As such, any interest incurred by IESO, from the time a particular chunk of the regulatory/investment asset is set up, to the time it is acquired by the Trust should be capitalized by adding the interest to the purchased value of the asset.

This will ensure that the regulatory asset is valued accurately and upon consolidation with IESO, the Province will receive an offset for the interest expense it incurs on the debt required to fund the credit facility extended to IESO for the funding the regulatory asset. In this context, Mike's stated preference that any credit facility extended by the Province for this specific purpose be separate from existing provincial facilities available to the IESO makes sense.

On the other hand based on a discussion I had with Ron Kwan yesterday, IESO has expressed a strong preference for the regulatory asset be acquired on a monthly basis by the Trust, thus making the above discussion somewhat moot, however, delays may be inevitable and as such we should have a resolution for this issue.

Thanks

Ken K

From: Bruno Amara
To: Ronald Kwan
Cc: Deena Padamadan; Salman Qadir; Gavin He; John Kim
Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx
Date: Monday, May 01, 2017 6:39:31 PM
Attachments: GA - IESO Role and Financing v4 - extract v9_Markup2.pptx

---

Ron

Looked good to me. I had a couple of minor wording suggestions slide 1 and 2.

Bruno

From: Ronald Kwan
Sent: Monday, May 01, 2017 6:21 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi John,

How about this?

Ron

From: John Kim
Sent: May-01-17 17:42
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron,

Some edits. As discussed, I am not sure if we can say definitively what OPG Trust is expected to do.

John

From: Ronald Kwan
Sent: Friday, April 28, 2017 3:18 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Thanks Bruno.

I changed it to Energy's PW.

Ron

From: Bruno Amara
Sent: April-28-17 15:14
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron

We're fine with additional edits. See attached.

Thanks
Bruno

From: Ronald Kwan
Sent: Friday, April 28, 2017 2:53 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi,

I made a few more edits.

Ron

From: Ronald Kwan
Sent: April-28-17 14:11
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Bruno,

I had been thinking, to make it easier for Energy, to simply work with their version of the flow chart from the March CabSub.

That said, their version may have been updated since then anyways, but they could take out suggestions in.

I also added reworked some parts of the text slide, and dropped some detail, as it was rather dense – may still be!

Thanks,
Ron

From: Bruno Amara
Sent: April-28-17 11:28
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron

Attached are the updated slides per you request.

Thanks
Bruno

DRAFT

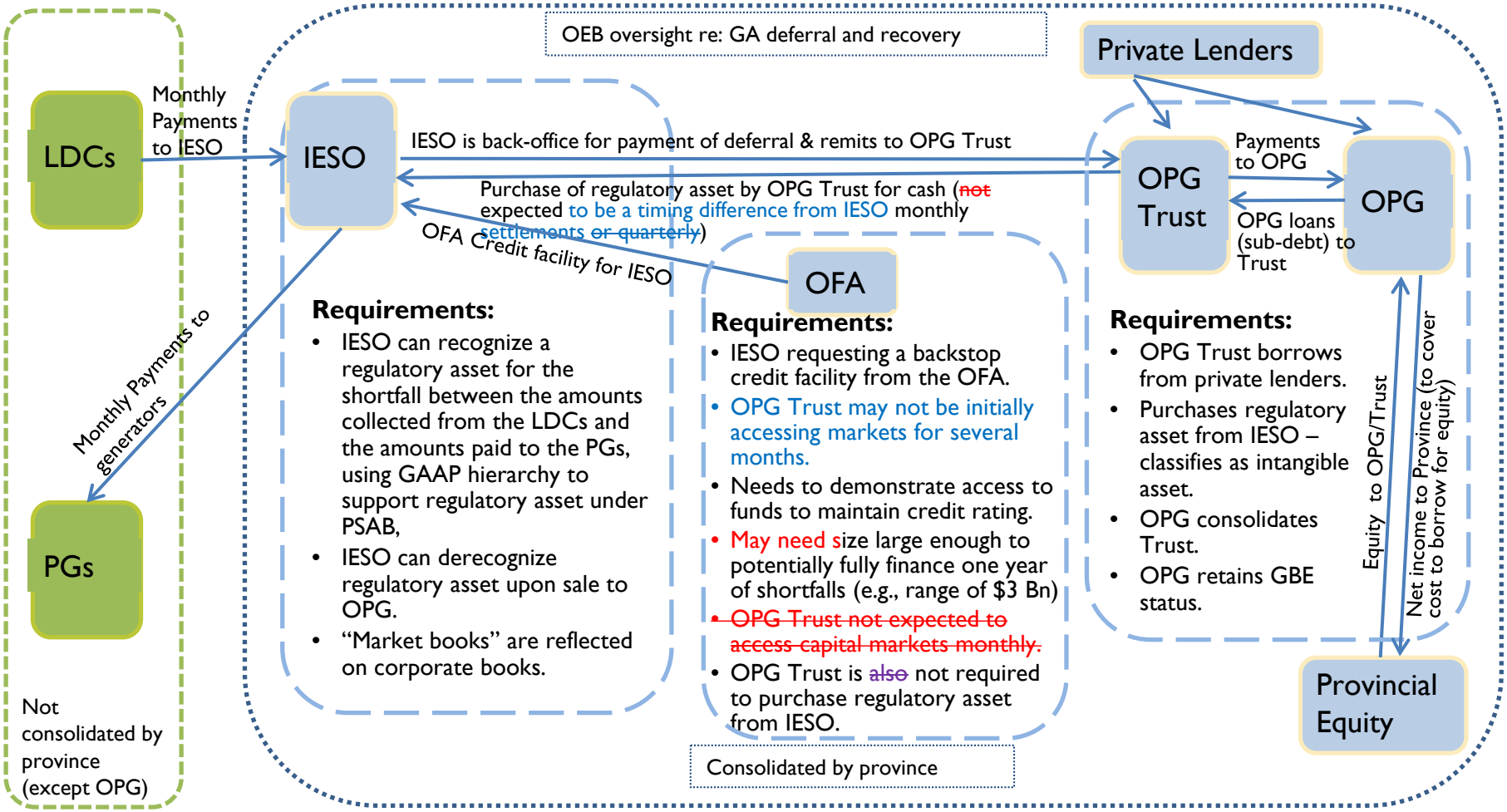
GA Financing Plan: Role of IESO

Corporate and Electricity Finance Division
April 28, 2017

DRAFT

GA Smoothing – Proposed Structure

- The following diagram provides an overview of the proposed GA smoothing structure, as well as interactions between sector entities and elements required to meet accounting objectives.



Note: Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

IESO Financing Requirements

- IESO will need to ensure that it continues to have the funds available to provide payments to generators on a monthly basis as part of the IESO settlements process, while recoveries from LDCs for Regulated Price Plan (RPP) / Fair Hydro Plan eligible customers will be lower.
- IESO has an existing credit facility from the OFA; however, a new or expanded facility is being requested.
- IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period.
  - OPG Trust is not expected to access public capital markets for several months after the start of the FHP, and may be purchasing the asset with a lag vs monthly settlements. Also, OPG Trust is not ~~nor is it~~ required to purchase the regulatory asset.
  - IESO will need a credit facility for interim financing.
  - IESO may require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.
- Based on Ministry of Energy's GA deferral plan, it is estimated that approximately $2.5-3.0 billion need to be deferred per year for over first 10 years, equal to approximately $200-250 million per month, on average.[1]
  - The size of the credit facility required to backstop IESO could be $2.5 to $3.0 billion ~~per year~~. [TBC]
- The monthly and annual amount being deferred and the resulting monthly amounts can be substantially different than forecast based on various factors, such as seasonality or electricity usage, as well as potential changes to electricity costs from OEB rate decisions, with IESO estimating deferral amounts as high as $400 million per month.
- Other factors that may increase IESO's financing requirements:
  - IESO will also incur financing charges that will need to be refinanced.
  - The financing and administration costs that OPG Trust incurs will need to be paid.
- There is an accounting risk on how OFA financing of the IESO requirements would be treated.
  - Even if IESO is allowed to recognized the Regulatory Asset, there is a risk as to whether this recognition will be permitted under the accounting standards (PSAS) upon consolidation with the Province.

[1] Based on Ministry of Energy's annual GA deferral amounts, assuming the monthly deferral is equally-weighted.

From:	Strang, James (TBS)
To:	Veinot, Cindy (TBS); Didem Proulx (MTCU); John Kim; Paul Kaufman (MOHLTC)
Cc:	Nina Arbabzadeh (EDU); Patrick Laughton (MOF); Felix Fung (MOF); Hosick, Sarah (TBS); Helder Marcos (MCSS); Nadine Petsche (MOF)
Subject:	FW: LRC/CBN- Fair Hydro Plan Legislation- Draft 2- No Materials
Date:	Tuesday, May 02, 2017 8:27:58 PM
Attachments:	DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V2-Clean.docx

latest cab note - based on no materials

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From: Hindmarch-Watson, Tim (CAB)
Sent: May 2, 2017 6:18 PM
To: Strang, James (TBS)
Subject: Fw: LRC/CBN- Fair Hydro Plan Legislation- Draft 2- No Materials

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Hindmarch-Watson, Tim (CAB) <Tim.Hindmarch-Watson2@ontario.ca>
Sent: Tuesday, May 2, 2017 4:03 PM
To: Schlaepfer, Martin (ENERGY)
Subject: LRC/CBN- Fair Hydro Plan Legislation- Draft 2- No Materials

Hi Martin:

As discussed, this is what is going forward at the moment.

Cheers:

Tim Hindmarch-Watson
Policy Advisor
Justice, Resource and Environmental Policy
Policy and Delivery Division
Cabinet Office
416-325-4618

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy

DRAFT Ontario Fair Hydro Plan [TBC]

Cabinet (info)	TB/MBC	Cabinet	Announcement	TB/MBC	Cabinet	Introduction
Feb 15, 2017	March 1, 2017	March 1, 2017	March 2, 2017	May 9, 2017	May 10, 2017	May 11, 2017

Summary of Proposal

The proposed legislation contains no variance from Cabinet direction [TBC].

Context for Decision:

This proposal follows Cabinet direction to the Ministry of Energy to take the necessary steps to implement electricity price mitigation initiatives that would provide additional rate relief to Ontario electricity ratepayers.

The proposed legislation, the *Ontario Fair Hydro Plan Act, 2017*, if enacted, enables approaches to fairly allocate the costs of the Global Adjustment (GA) amongst specified current and future electricity rate payers, and help the most vulnerable Ontarians through enhancements to electricity support programs through government funding. To fully implement the initiative, the Ministry of Energy will be seeking future approvals for regulations identified in the proposed bill.

The proposed legislation:

1. Establishes a framework to finance a portion of the GA costs in order to reduce costs for electricity ratepayers in the near term and spread the costs of the GA more fairly across ratepayers between July 1, 2017 and April 30, 2047, or a later date as may be prescribed:
    - July 1, 2017 to April 30, 2018, reduces, on average, after-tax electricity costs for “specified consumers” by 25% (including the 8% rebate implemented Jan 1, 2017).
    - May 1, 2018 to April 30, 2022, electricity rates will be set by Order in Council (OIC) with the intention to keep increases in line with the Consumer Price Index (CPI) (See page 17- Fiscal Pressure).
    - May 1, 2022 to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs, around 10% of total electricity costs [TBC]. (See page 14- Future Impacts to Electricity Rates)

- Through the bill and amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998, e*xpands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to provide for appropriate oversight, put in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the deferred GA costs. (See page 19- OPG Mechanism)

2. Expands electricity support programs for the most vulnerable consumers and moves program costs from the rate base to the tax base. The bill amends the *Ontario Energy Board Act, 1998* to:
    - Move the recently expanded Ontario Electricity Support Program (OESP) to government funding, transition the program to be administered by the Crown, and to enable information exchange between the Ontario Disability Support Program to potentially allow for scoped automatic enrolment procedures to be established;
    - Enable a broadening of the Rural or Remote Electricity Rate Protection (RRRP), including the ability to prescribe a harmonizing of distribution costs for customers with the highest distribution rates (currently targeted for Local Distribution Companies (LDC) with the highest distribution charges) and moving the program to be government funded; and,
    - Require the establishment of a government funded program to provide a First Nation delivery credit to prescribed on reserve customers.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price, helping to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, fixed generation costs, such as renewables, gas and nuclear contracts, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:
    - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable per unit charge that is approved by the OEB.
    - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up

about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable per unit charge and a fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.

- Line Loss: The costs to recover electricity that is lost as heat when it is delivered over a power line.

- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One –** Customer service types are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. The more customers there are in the area, the lower the cost to serve. R1 customers are considered 'medium density' customers and R2 are considered 'low density customers.'
- **Ontario Power Generation (OPG) –** A business corporation owned by the Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to comment on various items.
- **Independent Electricity System Operator (IESO) –** An independent corporation and agency of the Ministry of Energy that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Special Purpose Vehicle (SPV) –** A Special Purpose Vehicle (SPV) sometimes referred to as a Special Purpose Entity (SPE) is an offbalance sheet vehicle (OBSV) comprised of a legal entity created by the sponsor or originator, typically a major investment bank or insurance company, to fulfil a temporary objective of the sponsoring firm. SPVs can be viewed as a method of disaggregating the risks of an underlying pool of exposures held by the SPV and reallocating them to investors willing to take on those risks. This allows investors access to investment opportunities which would not otherwise exist, and provides a new source of revenue generation for the sponsoring firm. (Source: PWC)
- **Security Interest –** A security interest is a type of property interest created by agreement or by operation of law over assets to secure the performance of an obligation, usually the payment of a debt. It gives the beneficiary of the security interest certain preferential rights in the disposition of secured assets.

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. On March 2, 2017, the Ontario government announced Ontario's Fair Hydro Plan, and since then, there has been increased media attention and public pressure for the government to bring forward the legislation which would enact the commitments made in the Plan. The government has committed to implement further rate relief measures by the summer 2017. On April 20, 2017, the OEB announced that, starting in May, electricity rates would be 17% lower than would have otherwise been without the 8% rebate (OREC), the anticipated move of OESP costs to government funding, and a portion of the reductions estimated under Ontario's Fair Hydro Plan based on a comfort letter sent from the Minister of Energy.

What is the expected cost to government?

The total cost of the proposal is $3B [TBC] in 2017/18, $499M funded through the fiscal plan and $2.5B to eventually be recovered through the electricity rate base.

TABLE 1: Cost Impact ($M)	2017-18	2018-19	2019-20	2020-21
Moving Social Programs to Government-Funded (details provided in the chart below)	499	753	829	892
GA Financing (Assumes funded from the electricity rate base)*	2,534	2,668	2,942	3,420
Cumulative Total	4,133	3,421	3,771	4,312

***Note:** GA Financing includes equity injection from the province to OPG. $1.1B in 2017-18 (requires appropriations)

The bill establishes a structure in which the IESO records the GA cost recovery deferral as a regulatory asset (regulated by the OEB). The IESO may then sell the regulatory asset, at which time it becomes an investment asset. The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation. Under this structure, OPG, acting as the "Financial Services Manager," would therefore take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from the IESO. The OPG would finance these purchases through a combination of an equity investment by the Province flowed through the OFA [TBC] ($1.1 B in 2017-18; See Table 1) and external private sector financing. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs.

The estimate for the combined impact of the support programs for the most vulnerable consumers would begin in 2017/18 and is expected to be $499M in 2017/18, growing to $753M in 2018/19 and rising. This investment has been factored into the 2017 Ontario Budget's fiscal plan. These estimates are based on variable inputs such as program uptake and future energy consumption of various consumer groups, and are therefore subject to change.

TABLE 2: Fiscal Impact ($M)	17-18	18-19	19-20	20-21
RRRP Enhancements*	344	472	484	497
OESP Enhancements	140	261	325	375
First Nations On-Reserve Delivery Credit	15	20	20	20
Total	499**	753	829	892

Notes:
***** Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate base.
** Value adjusted from $665 million to reflect July 2017 implementation.
******* OFHP also includes programs, no part of the legislative package, Affordability Fund $100M in 2016-17, and the Ontario Rebate for Electricity Consumers, $$939M in 2017-18.

There is inherent risk in the financial estimates given the number of variables that are included in the calculations (e.g. cost of borrowing, electricity demand and electricity market conditions and accounting assumptions). In addition, under the proposal, electricity prices would increase around 10% [TBC] above forecast residential monthly bills from 2028 to 2047 (See page 13- Expected Impacts on Electricity Costs). The public may expect that the government is committed to reducing or holding constant the absolute cost of electricity for consumers in the longer term. Under the mechanism, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future (See page 17- Fiscal Pressure).

What are the key steps to deliver this proposal?

- May 11, 2017 - introduce legislation.
- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of the Fair Hydro Plan.
- Information postings of proposed regulations.
- June 2017- Energy to bring regulations to TB/MBC.
- June 2017- Energy to bring regulations to LRC/Cabinet.
- July 1st, 2017- the remaining Fair Hydro Plan reductions and programs would take effect. Programs that are not established on this day for technical implementation issues will have benefits that are retroactively applied to customers once program is operational in individual LDCs.

How will the changes be communicated?

On March 2, 2017, the Premier announced the Fair Hydro Plan, which would lower electricity bills by 25 per cent for all residential customers including many small businesses and farms. Communications was sustained through minister announcements, local MPP echoes, a radio campaign, and a webpage that features all the programs and initiatives the government is taking to reduce electricity costs.

On May 11, 2017, there will be a news release to announce the introduction of legislation to implement the Fair Hydro Plan. Phase two of the marketing campaign will start this summer and will include radio and television.

A robust issues management plan will be developed to mitigate the GA financing risks.

Notes and Recommendation from LRC

LRC item direct to Cabinet.

Cabinet Office Analysis

The proposed legislation allows for the implementation of the main elements of Ontario's Fair Hydro Plan announced March 2 to provide further rate relief to Ontario electricity ratepayers. The Global Adjustment (GA) smoothing proposal will provide, on average, 25% in electricity rate relief (including the 8% announced in 2016) to "specified consumers" (i.e., residential and other eligible farm and small businesses under the Regulated Price Plan (RPP)) between July 1, 2017 and April 31, 2018 ("The Fair Adjustment"). Electricity rates would then change by amounts prescribed in the regulations under the bill, with the intention to keep rate increases in line with Consumer Price Index (CPI) between May 1, 2018 and April 30, 2022. Additional relief will be provided to Ontarians most in need through enhancements to electricity support programs through government funding.

1. Refinancing the Global Adjustment

The proposed legislation establishes the framework to defer some of the current Global Adjustment (GA) costs to future ratepayers by recognizing the longer term benefit of these assets to the electricity system. The methodology is based on the assumption that some generation assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets, and that they will also reduce the need to finance the development of new generation assets in the future. Similarly, conservation costs are recovered through the GA on an annual basis while conservation initiatives can provide benefits to the electricity system over many years.

According to a legal opinion by former Supreme Court Justice Binnie, the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations leaves the process more susceptible to constitutional challenge and could jeopardize the regulatory nature of the cost deferral charges (the "clean energy adjustment"), and risk it being deemed an unlawful tax. The bill has been drafted to mitigate this risk and clearly articulates the desire to fairly attribute intergenerational costs and benefits of the "clean energy initiative." In addition the bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court (See page 16- Legal Risk).

The bill establishes a structure in which the Independent Electricity System Operator (IESO) records the GA cost recovery deferral as a “regulatory asset” (regulated by the Ontario Energy Board (OEB)), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time (“the Fair Adjustment” and “IESO deferral”). “Specified consumers” would receive, on average, a 25% reduction in electricity rates from July 1, 2017 to April 30, 2018. The IESO may then sell the regulatory asset, at which time it becomes an “investment asset.” The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or “financing entities”) may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

The Minister, following the principles in the bill, would regularly calculate the “Fair Allocation Amount” to ensure a proper match of the allocation of the intergenerational costs and benefits in relation to each on the next 60 six month “reference periods.” The financings will be backed primarily by the clean energy adjustments payable by specified consumers. The “clean energy adjustments” will track the actual payment obligations incurred by the financing entities when they become due and payable. OPG, in its role as the Financial Services Manager will calculate the aggregate clean energy adjustment payable in each month of the reference period, and to ensure intergenerational fairness, these amounts will be managed to align with the fair allocation amounts determined by the Minister. The OEB would set the rates at which the clean energy adjustment could be collected from specified consumers. Starting in May 2022, to recoup the costs associated with the fair adjustment, consumers would be invoiced the Clean Energy Adjustment on their electricity bills through existing IESO and Local Distribution Companies (LDC) processes, which will be channeled through to pay each financing entity’s related funding obligations.

OPG is planning to create a SPV or Trust to finance the GA smoothing. To maintain the integrity of the structure, OPG must have the ability to appoint and remove the Trustee (or Board of Trustees) of the SPV/Trust, with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the SPV/Trust. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. OPG will have the ability to direct the financing of the SPV/Trust and both benefit from its financing strategy and be at risk as a result of it.

Once the OPG Trust/SPV has purchased the regulatory asset, which is under no obligation to do, it will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG’s debt would be funded through a combination of an equity investment by the Province through the OFA [TBC] (See page 4: Table 1) and external financing through sale or securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG (to offset the interest on debt).

The legislation also provides that no action or omission by the OEB, the Minister, or the Crown is effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay the clean energy adjustment. Additionally, to support the program, the

Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be to achieve the highest rated securities, although that will largely depend on issues such as the strength of the Ontario's undertakings not to adversely affect the program through subsequent legislation.

The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time, but could be as high as $2-3B annually [TBC]. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future.

Key elements of this component of the bill include:

Specified Consumers:

- The defined group of consumers to whom the "Fair Adjustment" applies. Primarily residences, farms and small businesses under the RPP.

Fair Adjustment

- The adjustment to rates, starting on July 1, 2017, to ensure intergenerational fairness.
- July 1, 2017- April 30, 2018- 25% average reduction in rates for "specified consumers."
- May 1, 2018- April 30, 2022- the bill allows for rates to be set by regulation (See page 17- Fiscal Pressure).

Fair Allocation Amount

- Principles established in the bill require proper match over time between the costs of providing facilities for clean electricity generation and conservation "clean energy costs" and the consumers who benefit from these investments in the system.
- The Minister sets the fair allocation amount, and is required to:
    - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods" (typically every 6 months); and
    - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers)(Page 16- Legal Risk; See page 17- Fiscal Pressure).

Clean Energy Adjustment

- Determined by Financial Services Manager (OPG), the clean energy adjustment is the amount that will be recovered from consumers in the future to pay

principle, interest, transaction costs and administrative costs associated with the fair adjustment and consistent with the fair allocation amount.

- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- July 1, 2017- April 30, 2022- OPG to internally capitalize the costs related to the fair adjustment, which will result in increased financing costs during this time.
- May 1, 2022- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing IESO and LDC processes.
- In accordance with the regulations, the OEB to set the rate at which specified consumers are invoiced to recover the clean energy adjustment.

Regulatory Asset and Investment Asset

- A regulatory asset is created as IESO defers its right collect a portion of the rates that it would have otherwise would have received from customers/LDCs if not for the implementation of the Fair Adjustment.
- Subject to OEB approval, IESO records the funding shortfall as a regulatory asset, as IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until May 1, 2022.
- The Financing Plan contemplates the Financial Services Manager (OPG) establishing financing entities (OPG Trust/SPV) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset for the investment asset owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests including by dividend or undivided interest, consistent with the Financing Plan. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 5 years (May 1, 2022) the IESO has the right to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority (OFA) (See page 17- Fiscal Pressure).
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Financing Plan

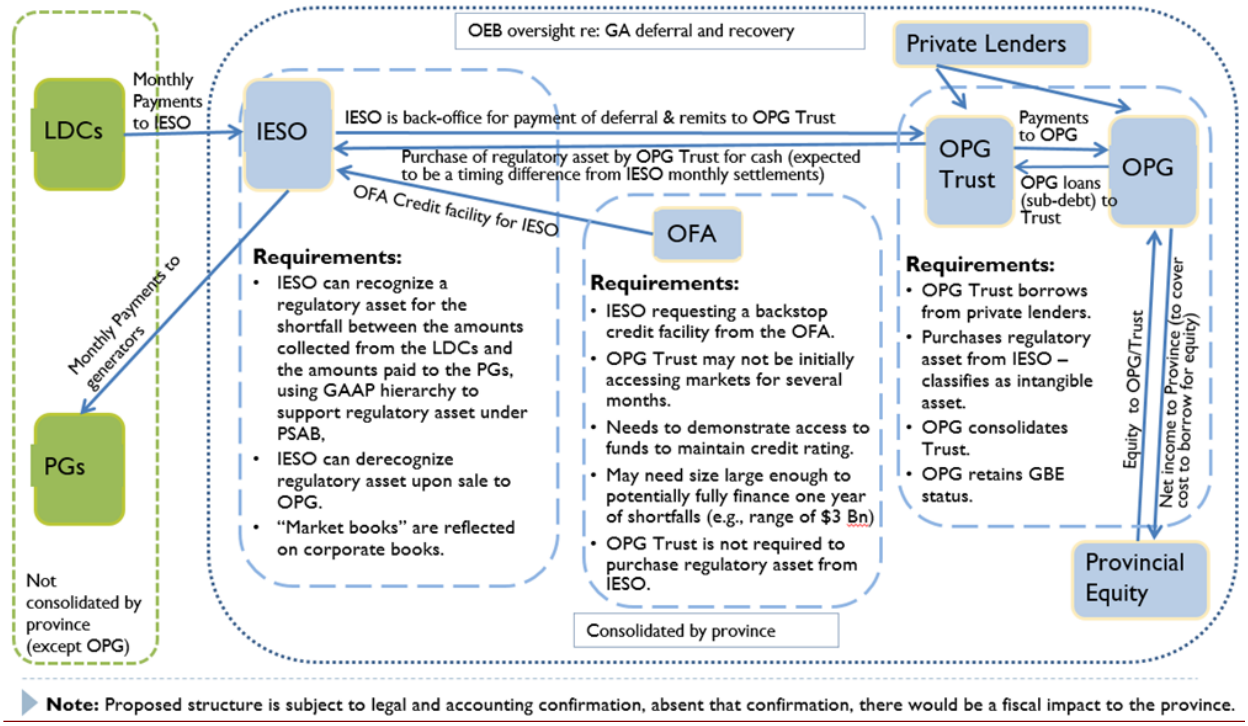
- In practical terms, the Financing Plan is intended to show how debt (with varying degrees of incurrence dates, maturities, interest rates) will be used over time.

- Prepared by the Financial Services Manager (OPG) the Financing Plan is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.
- Provided to the Minister Energy who may remove the Financial Services Manager if the Financing Plan is not consistent with the principles of the bill and the Financial Services Manager has been given the opportunity to address the Minister's concerns.

Crown Undertaking (Guarantee or Backstop)

- The bill provides that no action or omission of the Crown, the OEB, or the Minister would be effective to reduce, impair, or postpone or terminate the obligations of specified consumers to pay the clean energy adjustment.
- The Ministers of Energy and Finance together, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill, including agreements regarding the performance of the IESO or electricity vendors under the bill.
- The Ministers of Energy and Finance together, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.

Figure 1: Financing Structure



External Opinions

The proposed structure has been extensively reviewed by KPMG (Energy advisor and IESO auditor), and the firm has provided an accounting opinion confirming the validity of the structure under Public Sector Accounting Board (PSAB) standards [TBC]. This opinion can be made public [TBC] to support the government's rational for the plan. In addition, MAG and Blakes are confident that, depending on the size of the deferral attempted, the structure is constitutionally sound [TBC]. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism. If the government intends to keep rate increases to the pace of CPI from 2018 to 2022, this may require recourse to the fiscal plan to maintain constitutionality of the GA deferral mechanism structure.

For clarity, the below requirements were required to be met to ensure the structure was defensible. Based on the opinions received, Energy is confident that these requirements have been met: [TBC]

- IESO requirements :
  - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB;
  - IESO can derecognize regulatory asset upon sale to OPG;
  - "Market books" are reflected on corporate books; and,
  - OEB to act as regulator.
- OPG requirements:
  - OPG Trust/SPV purchases regulatory asset from IESO – classifies as intangible asset;
  - OPG consolidates Trust/SPV; and
  - OPG retains GBE status.

However, despite the fact that the structure has satisfied the legal, fiscal, and accounting requirements outlined in the policy submission, there remain some fundamental risks that the province would need to accept:

- The structure is unique in Canada and possibly the world, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the Unites States, but officials are currently unaware of any example that would compare to the size, complexity, or fluidity of what is proposed;
- Complexity of the structure and length of deferral/recovery increases risk and decrease transparency;
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan;
- Government would not know the price of private borrowing that would be required for the OPG Trust to work and will have limited control over OPG's direct

operations as the Financial Services Manager. While removal of the Financial Services Manager is provided for in the bill, in practice this may prove problematic once the system is operational; and,

- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and therefore its saleability. This could in turn, decrease the amount of rate reduction achievable under this mechanism.

2. Enhancing electricity supports for vulnerable Ontarians and shifting costs from rate payer funded to government funded:

Moving the Ontario Electricity Support Program (OESP) to the tax base:

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The program was launched in January 2016 and has had roughly 30% enrolment. Consistent with Cabinet direction, the program was recently expanded to increase the existing benefit scales by 50% and provide additional credits to more households.

Under the expanded program the basic OESP benefit scale increased from $30-$50 to $45-$75 a month and the enhanced OESP benefit scale would increase from $45-$75 to $68-$113 a month for eligible consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to allow for the program to transition from the rate base to the tax base, and become administered by a Ministry or other entity as may be prescribed. The cost to the fiscal plan would be $186M in 2017/18. The bill provides further amendments designed to allow information sharing between the Ontario Disability Support Program (ODSP) and the entity responsible for OESP. The intention is that this information sharing will allow for automatic enrolment of individuals that are already enrolled under the ODSP, but it is currently unknown to what extent this will significantly impact the enrolment under the program.

RRRP Enhancement (Delivery Charge Relief):

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. Currently, RRRP is a $241.9M program paid for by the ratepayers. For an average residential customer, the cost of supporting RRRP is roughly $1.58 per month. For other customers, the cost to support the RRRP can range from $65 for a greenhouse to $8,000 for a medium industrial.

In 2016 the OEB made a ruling that all LDCs need to move to fixed distribution charges. The OEB found that fixed distribution charges would establish a more equitable way to recover the costs of providing distribution service, and provides greater revenue stability for distributors, which will position them for technological change in the sector, remove any disincentive to promote conservation, and help with their investment planning.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a distribution rate protection program and the ability to cap the distribution charges of

prescribed distributors. The intention is to bring forward regulations for this to apply to the 8 LDCs with the highest distribution costs (Hydro One (R1 and R2 rate classes), Northern Ontario Wires, Lakeland Power (Parry Sound service territory), Chapleau Public Utilities Commission, Sioux Lookout, InnPower, Atikokan Hydro and Algoma Power). The amendments also establish that the existing and now expanded RRRP program will be moved to be government funding.

The intention is to draft regulations permitted under this section of the bill to harmonize the fixed distribution rates to the lowest distribution cost of the LDCs mentioned above at $38/month (which is the forecast rate for Northern Ontario Wires). If the costs of another LDC moved above these in the future, a regulation change would be required so that LDC can receive the same RRRP support. These enhancements are expected to benefit approximately 800,000 customers in Ontario.

Targeted RRRP consumers would see additional savings on their monthly bill that would vary based on their consumption level. The cost to the fiscal plan is expected to be $344M in 2017/18, $243M [TBC] of which is a transfer of existing programs to the tax base. If the legislation and required regulations are passed, the program would become active as of July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

<u>On-reserve First Nations Delivery Credit</u>

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances. In this instance, historic grievances relate to lands affected by energy developments.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a tax base funded delivery credit program for on-reserve customers with the details to be prescribed in the regulations. The intention is to enact regulations that would eliminate the delivery charge for all on-reserve First Nation household customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate.

Eligible recipients would be automatically enrolled in the program (~21,500 customers) and receive an average monthly benefit of $85. The program will cost approximately $20M annually and provides for a July 1, 2017 effective date. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Expected Impacts of the Proposal on Electricity bills:

The impact of proposed legislation to an eligible customer's bill in July 2017 is an average 25% decrease combined with the 8% from ORECA effective Jan. 1, 2017), followed by an increase in price over time. Between May 2018 and April 2022 electricity rates will be set by regulation with the intention that rate increases would be kept in line with CPI. Customers that are eligible for the RRRP enhancements and, OESP and the First Nations On-Reserve Delivery Credit will see further reductions in their electricity rates beyond the average 25% cited above.

Table 3: Projected Impacts on Electricity Bills [TBC- ENERGY to update]

Residential (750 kWh/month)	Actual 2016	2017	2018	2019	2020	2021
Total Bill (includes HST)	**158**	**164**	**167**	**170**	**181**	**178**
Total Bill (excludes HST)	140	145	148	150	160	158
Impact of GA Financing		-26	-26	-26	-32	-28
Impact of Tax-Basing Social Programs		-2	-2	-2	-3	-3
Subtotal		117	120	122	125	127
8% rebate		-9	-10	-10	-10	-10
HST		15	16	16	16	17
Revised Bill (includes HST)	**158**	**123**	**126**	**128**	**131**	**133**
Year-over-Year Change		-22%	2%	2%	2%	2%
Change from Forecast		**-25%**	**-25%**	**-25%**	**-28%**	**-25%**

Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	**160**	**165**	**160**	**162**	**173**	**169**
Class B Revised Total (excludes HST)	**160**	**162**	**157**	**159**	**170**	**166**
Year-over-Year Change		1%	-3%	1%	7%	-2%
Change from Forecast		-2%	-2%	-2%	-2%	-2%

Large Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class A Total (excludes HST)	**90**	**91**	**93**	**88**	**95**	**96**
Class A Revised Total (excludes HST)	**90**	**88**	**90**	**84**	**92**	**93**
Year-over-Year Change		-2%	2%	-6%	9%	1%
Change from Forecast		-4%	-4%	-4%	-4%	-4%

Notes: *Based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing. [TBC]*

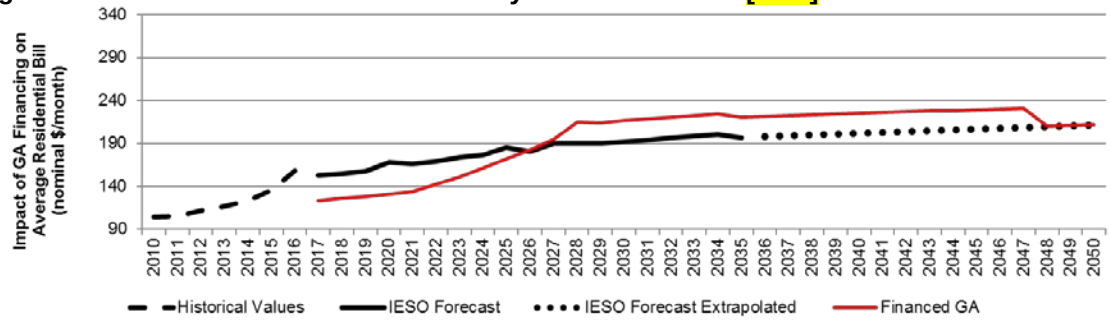
Risks and Considerations:

Future Impacts to Electricity Rates

Borrowing money to defer GA costs for ratepayers would lower costs in the short term but result in substantial debt and higher electricity prices in the future. Based on the GA deferral portion of the plan, electricity prices would increase to about 10% [TBC] above the actual cost of electricity over the recovery period (peaking at 13% [TBC]). The proposal may create the expectation that the government is committed to reducing or

holding constant the cost of electricity for consumers. The government would not have the ability to control this portion of electricity rates in the future outside of recourse to the fiscal plan.

Figure 2: Forecast and Historical Electricity Rates 2010-2050 [TBC]



Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at a maximum of 13% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. [TBC]

The government may be criticized for creating a new debt structure which could be compared to the previous debt retirement charge (DRC). The debt retirement charge was removed from residential bills in January 2016 and was removed for remaining customers in April 2018.

Future repayment cost estimates are based on a static assumed interest rate of 5%, and forecast electricity market conditions and demand levels. GA smoothing assumptions are also based on a static Toronto Hydro average customer's residential bill at 750 kWH per month. This "fictional rate regulated consumer's" bill is primarily comprised of system costs and the commodity cost for electricity. Should the system costs for a Toronto Hydro customer's bill increase, the commodity price would need to be reduced accordingly to align with the 25% reduction commitment and require more borrowing. Declining demand levels due to conservation, technology adoption, and self-generation would increase the costs borne by remaining customers to decease the debt associated with GA financing. IESO forecasted demand has historically been over-projected which also increases the risk of the static demand assumption. To partly mitigate against the risk that increased self-generation poses, the bill provides that the Clean Energy Adjustment may not be "set-off." In other words, it would exist as a separate and distinct component of the bill that could not be reduced by methods such as net-metering. Lastly, should interests rates increase above 5% after 2020, residential bills would also significantly increase during the repayment phase of the plan. All of these factors increase the risk that the province would have to absorb some of the debt in the future.

Not all generating assets will continue operations at the end of their contract. If the Fair Allocation Amount is not properly designed, future rate payers will be paying the cost for assets that are no longer in use, which would be unconstitutional, unless legislatively authorised as a tax (See page 16- Legal Risk). High capital costs, equipment obsolescence or surplus capacity / low demand conditions mean that some generators

will shut down at the end of their contract. Future ratepayers would be paying for these assets that no longer produce power in paying down the deferred GA and accumulated interest costs, and it would need to be justified that these assets are still providing some kind of benefit to the system after they cease operation.

Accounting and Provincial Credit Rating and Borrowing

The significant amount of additional provincial borrowing needed to refinance the GA and associated risks and fiscal costs (interest rates, repayment timelines) could put pressure on the Province's credit rating and overall borrowing capacity.

The complexity of the structure and length of deferral (i.e., recovery of debt) increase the overall risk of the proposal and decrease transparency to the public. The structure of the GA deferral was designed to result in an (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit. However, depending on funding to OPG from the Province, an increase in interest on debt and an increase on income from OPG will result. The structure is also contingent on the size of the GA deferral that is seen as possible, which, as previously mentioned, increases the likelihood of pressures on the fiscal plan in the near future. (See page 17- Fiscal Pressure)

Rating agencies and investors in the Province's debt may view all of the borrowing (whether by the Province directly or the OPG Trust) as an obligation of the Province. Depending on the magnitude of the debt incurred, the Province's borrowing cost may be impacted.

The Ontario Auditor General (OAG) has been briefed on the proposal and has had access to the March 1, 2017 policy submission for Ontario's Fair Hydro Plan. While the auditors of OPG and IESO have provided their assessments and the Office of the Provincial Controller Division (OPCD) has been engaged, the OAG has historically raised concern with "rate regulated accounting" and may take this into account when the provincial books are audited (i.e., it may impact whether the OAG qualifies the provincial books).

Based on early assessments, only a maximum of 18% rate relief [TBC] can be justified by amortizing contracts over the useful life of the underlying assets. Reducing electricity rates up to or beyond this amount is dependent on increased borrowing. All of the deferral is dependent on increased borrowing.

Legal Risk – constitutionality of financing the GA

The current GA amount paid by consumers is a regulatory charge. One of the requirements of a valid regulatory charge (as opposed to a tax) is that the person paying the charge either benefits from the regulatory scheme or causes the need for regulation. In principle, refinancing a portion of the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Former Supreme Court Justice Binnie has provided legal analysis of this proposal, stating that the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations could jeopardize the nature of this being a regulatory charge.

A proposal for refinancing the GA that appears to cross-subsidize near-term consumers at the expense of long-term consumers by back-loading costs more than if costs were spread equally over the estimated lifespan of generation and conservation assets presents a moderately high risk (more likely than not) of constituting a tax. If the government fails to establish that the relevant electricity generating assets will continue to provide benefits over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax). Were the charge characterized as a tax, in the event of a challenge, it would be struck down by a court as unconstitutional and consumers would be entitled to recover their payments. This risk could be eliminated, either up front or retroactively, by the imposition of a valid tax.

The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

The bill has been drafted to mitigate the constitutional risk of the proposal and clearly articulates the desire to balance the costs and benefits of assets across generations. The bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. In addition, external consultant Navigant [TBC] has provided an interim report on the costs and benefits of the long lived assets which supports the previous conclusions regarding the size of the GA deferral that would be supportable. This is further supported by the conclusions of OPG's independent analysis of the question [TBC].

MAG and Blakes are confident that the structure is constitutionally sound, but, as identified above, emphasize that this will be highly dependent on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment for 2017-18 is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep rate increase in line with CPI by this mechanism.

In addition, the structure of the GA refinancing means that the infrastructure included as part of the clean energy adjustment (i.e. amortized over 30 instead of 20 years) will need to be in service over the entire 30 year amortization period or provide benefits to the system in some way over the whole period. In practice this may mean that the government will have limited ability to alter the generation mixture included under the clean energy costs, including natural gas generation facilities, which may at some point

be seen as inconsistent with the province's commitments to reduce greenhouse gasses. This risk has been mitigated in the bill, by allowing for prescribed natural gas generation contracts to be excluded from the clean energy costs calculation. Consideration to this dynamic will be needed as the ministry brings forward the Province's next LTEP and embedded initiatives such as Market Renewal.

Fiscal Pressure

This proposal aligns with the 2017 Budget fiscal plan, but involves significant ongoing risks. Parts of the proposal do not include a scheduled review period or an end date, resulting in an ongoing fiscal pressure, which may increase in the out years, and could only be removed by a legislative amendment.

The cost projections in this proposal are highly sensitive to interest rates and other assumptions:

- The proposal assumes GA refinancing does not have a fiscal impact because the associated legal authority and accounting treatment requirements are met. If the costs of GA refinancing were accounted for as an expense to the fiscal plan, the fiscal impact would be significant ($2.5B in 2017-18 [TBC], and escalating annually; See Table 1).

- The term and timing of the GA refinancing are highly dependent on the IESO's forecast of GA costs and actual interest rates.

The extent of fiscal pressures is also dependent on other factors (i.e., OAG could qualify Ontario's books or issue an adverse opinion). Due to the complexity and size of the proposal, the government has commissioned external opinions on the legal, fiscal, and accounting requirements. Energy's advisor and IESO auditor, KPMG, has provided an accounting opinion that the principles of the structure are sound, and this opinion can be released publicly when desired [TBC]. This opinion may not change the likelihood of a contrary opinion by the OAG, but does provide a tool for government to point to in justifying its decisions.

There is also a risk that credit rating agencies and the market may take an alternate view as to the size of the GA deferral that is possible before becoming unconstitutional. If the fair adjustment and fair allocation amount exceeds this analysis, it may increase the perceived risk of the investment asset and therefore its financeability/saleability, which would result in reduced market uptake and reduce the amount of near term rate reduction that would be achievable under this mechanism. This is why the increases in electricity rates between May 2018 and April 2022 are to be set by regulation as opposed to legislating that they increase by CPI. It may not be possible to legally hold the rate reductions to increase by CPI, and if the government wanted to hold to this commitment, the difference would need to come out of the tax base, which has not been forecasted nor included in the fiscal plan. Each percentage point of reduction that the structure cannot provide would result in an approximate $150M [TBC] cost to the tax base annually.

Further, if the IESO is not able to sell the regulatory asset (i.e., the OPG SPV is unable to get financing to purchase it), then the IESO would require financing from an alternative source. The IESO has requested a backstop credit facility from the OFA. This would be associated with a fiscal impact risk.

There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Legislative Officers

The Ontario Auditor General (OAG) has expressed views on rate regulated accounting, which will likely be raised again upon the implementation of this suite of initiatives. The OAG was provided copies of the Cabinet Submission seeking policy approval for Ontario's Fair Hydro Plan and has been briefed by officials from the Ministry of Energy. The OAG will have opportunities to publicly state her views through the Public Accounts committee in the summer of 2018 and in her pre-election report.

The Financial Accountability Officer (FAO) has not been consulted on this proposal and is expected to have an opinion on how this proposal may impact the state of the province's finances. [ENERGY to update]

OPG Mechanism:

There are several risks associated with the proposed OPG mechanism:

- Accountability
    - Bill attempts to balance the independence of the OPG trust with regulatory oversight and the market's need for certainty in recovering the GA financing that it provides.
    - Accountability to the government or the public, amount of government control of the entity, including future rate increases.
- New structure
    - The Structure is complex and involves:
        - IESO as originator of the regulated asset and responsible for flow of funds;
        - OEB as regulator of the new mechanism;
        - OPG responsible for financing and managing the mechanism; and
        - The Province providing ongoing equity capital infusions to OPG and backstop.
    - The addition of financial agency to the current operational obligations of OPG is not the current expertise of OPG. However, OPG has experience managing large financial assets and liabilities through the jointly managed Ontario Nuclear Funds as well as its own pension fund. In addition, this

new role could possibly dilute OPG's focus on current high priority responsibilities (i.e., electricity generation and nuclear refurbishment).

- This financing structure would be unique to Canada – uniqueness reduces likelihood of all risks being known/mitigated. Highly specialized expertise would be required.
- There is a risk that at the next opportunity to review the OPG compensation framework, they make the case that there is no national comparator for this aspect of their work and they should therefore receive further exemptions from the rules (OPG nuclear executives do not need to find national comparators for compensation determination).
- It is unknown what the magnitude of transaction, administrative, and consultant costs that OPG would incur would be. OEB would review OPG's cost as the Financial Services Manager to ensure all are appropriate and can be recovered from the rate base.

- Debt
  - Opportunity for significant shifting of the Ontario's electricity sector over the lifespan of the repayment (30 years). Through sector/policy/government position shifting, possibility of new entity/structure abandoning debt and Ontario having to take a write down.
  - Risk transfer / portion of debt that Ontario would be responsible for would be the higher risk portion.
  - Repayment plan and impact on rate payers highly dependent on interest rates
- The public could claim that the government is simply putting off a problem and making it worse for future generations. The complexity of the structure may be seen as government attempting to cover up its actions.

<u>Program Design and Implementation</u>

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change.

- Program design will require an evaluation of whether the existing programs are effective and achieving their outcomes (e.g. the OESP has a current uptake of 30% and program changes are proposed in advance of an increased effort to reach 100% uptake)
- The OESP matrix no longer follows the Low Income Measure (LIM) which creates inconsistencies between how programs are applied and may put pressure other provincial programs to increase funding amounts.

<u>Benefits for all Consumer Classes</u>

Ontario's Fair Hydro Plan includes some benefits for all consumer classes as well as targeted benefits to those with the greatest need. It is likely that the government will be

criticized for providing benefits to those who may not be in need (e.g., wealthy cottage communities, etc.).

Connection to the Province's Next Long-Term Energy Plan

Ontario produces and publishes a Long-Term Energy Plan (LTEP) every three to four years, with the next LTEP scheduled for release in the summer of 2017. LTEP principles that will guide decision-making are affordability, reliability, clean energy, community and Indigenous engagement, and conservation. Through extensive consultation with the public, stakeholders and Indigenous partners through the fall of 2016, the Ministry has identified key priorities, and, Ontario's Fair Hydro Plan combined with new policy or program announcements in the LTEP, will provide the comprehensive future planning perspective for Ontario's energy sector.

Stakeholder Considerations:

General public (including residential and small businesses) – Likely support a proposal that is projected to provide up to 25% in rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but likely to question the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications.

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral on the remainder of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to Cap & Trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous

communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generation as part of the "Clean Energy Adjustment."

Solar PV sector – May react negatively to price relief as it can be seen to undercut the affordability of distributed renewable generation assets such as solar PV, and undermines the economic arguments behind net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

Delivery:

If passed, the legislation will enable the price mitigation measures to begin to take effect on July 1, 2017. The 2017 LTEP will be released to the public in the summer 2017 [TBC] and would reinforce/integrate with Ontario's Fair Hydro Plan. Regulations are required under the major components of the legislation in order to fully implement the initiative and clarify program details.

1. Refinancing Global Adjustment assets in order to defer ratepayer costs / Mechanism to defer GA costs

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

2. Enhancing Social and Conservation Programs

OESP Enhancements

Changes to regulation will be required to establish and define the parameters for the proposed changes. The financial flow-through mechanism would likely be modeled after processes used for the OREC (8% rebate). The amendments made in this bill allow for a transition period where the program continues to draw on the existing IESO variance account until the account can no longer maintain the program. IESO is required to notify the Ministry of Energy when it expects the variance account to be depleted (likely sometime in the fall). At this time

The proposed changes will take time to implement as they would require changes to the central system and the LDCs' billing systems. The OEB and their central service provider will need to work with LDCs, MOF, and the CRA on the changes to this program (delivery mechanism, funding source, application system, eligibility).

RRRP Enhancement

Regulations would be required to establish the details of the program. OEB estimates that the implementation would take at least six months after finalizing regulations. For this reason it is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st which will put an immediate pressure on the OEB and LDCs as implementation is required no later than October 1, 2017. A mechanism will need to be created to ensure that all parties are aligned in the yearly forecasting and costing of the program.

On-Reserve First Nations Delivery Credit

The OEB would need to work with the LDCs to identify the eligible on-reserve consumers. A communications plan could include public release of the OEB report and a commitment to working with the LDCs on implementation details.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Once available, the rebate would appear on customer's electricity bills as a reduction in, or credit for, their delivery line.

There is a risk that either non-status Indigenous communities without reserves or Metis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Linkages:

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer-fall 2017. These plans identify needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The Ontario Rebate for Electricity for Electricity Consumers Act, 2016, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was

also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB expired on December 31, 2015.

Debt Retirement Charge – On January 1, 2016 the government ended the electricity Debt Retirement Charge (DRC) on residential users earlier than planned, and put in place the low-income targeted OESP, effective 2016. For all other consumers the DRC is was removed by April 2018.

Industrial Conservation Initiative – Ministry of Energy program implemented in January 2011 to help large industrial consumers reduce their electricity costs by reducing electricity consumption in peak periods. As part of the Fair Hydro Plan, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all electricity consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – approved as part of Ontario's Fair Hydro Plan, and under development, the Affordability Fund is intended to expand access to conservation funding to targeted consumers that do not currently qualify as low-income for the purposes of the Home Assistance Program (HAP).

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings. **Note:** Funding electricity support programs through the tax-base rather than the rate base will also provide saving to Class A and B consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON)- is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed that the government consult on and develop options to mitigate the impact of carbon pricing and resulting increased utility costs on residential tenants. The mitigation is proposed because tenants do not usually have the opportunity to make

changes to their building envelope (e.g. windows, insulation) or major appliances that would allow them to address utility costs themselves. On April 24, 2017, the government introduced the Rental Fairness Act, 2017 which, if passed, would remove above-guideline rent increases for utilities, to protect tenants from carbon costs and encourage landlords to make their buildings more energy efficient.

Proposed Cabinet Minute

Approval of draft bill for introduction

Cabinet approved version XX-XX of this draft legislation for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.

From: John Kim
To: Ronald Kwan
Cc: Deena Padamadan; Bruno Amara
Subject: FW: LRC/CBN- Fair Hydro Plan Legislation- Draft 2- No Materials
Date: Tuesday, May 02, 2017 8:29:07 PM
Attachments: DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V2-Clean.docx

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Fyi.

-----Original Message-----
From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: May-02-17 8:28 PM
To: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>
Cc: Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Felix Fung (MOF) <Felix.Fung@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Helder Marcos (MCSS) <Helder.Marcos@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>
Subject: FW: LRC/CBN- Fair Hydro Plan Legislation- Draft 2- No Materials

latest cab note - based on no materials

_____
From: Hindmarch-Watson, Tim (CAB)
Sent: May 2, 2017 6:18 PM
To: Strang, James (TBS)
Subject: Fw: LRC/CBN- Fair Hydro Plan Legislation- Draft 2- No Materials

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Hindmarch-Watson, Tim (CAB) <Tim.Hindmarch-Watson2@ontario.ca>
Sent: Tuesday, May 2, 2017 4:03 PM
To: Schlaepfer, Martin (ENERGY)
Subject: LRC/CBN- Fair Hydro Plan Legislation- Draft 2- No Materials

Hi Martin:

As discussed, this is what is going forward at the moment.

Cheers:

Tim Hindmarch-Watson
Policy Advisor
Justice, Resource and Environmental Policy Policy and Delivery Division Cabinet Office
416-325-4618

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy

DRAFT Ontario Fair Hydro Plan [TBC]

Cabinet (info)	TB/MBC	Cabinet	Announcement	TB/MBC	Cabinet	Introduction
Feb 15, 2017	March 1, 2017	March 1, 2017	March 2, 2017	May 9, 2017	May 10, 2017	May 11, 2017

Summary of Proposal

The proposed legislation contains no variance from Cabinet direction [TBC].

Context for Decision:

This proposal follows Cabinet direction to the Ministry of Energy to take the necessary steps to implement electricity price mitigation initiatives that would provide additional rate relief to Ontario electricity ratepayers.

The proposed legislation, the *Ontario Fair Hydro Plan Act, 2017*, if enacted, enables approaches to fairly allocate the costs of the Global Adjustment (GA) amongst specified current and future electricity rate payers, and help the most vulnerable Ontarians through enhancements to electricity support programs through government funding. To fully implement the initiative, the Ministry of Energy will be seeking future approvals for regulations identified in the proposed bill.

The proposed legislation:

1. Establishes a framework to finance a portion of the GA costs in order to reduce costs for electricity ratepayers in the near term and spread the costs of the GA more fairly across ratepayers between July 1, 2017 and April 30, 2047, or a later date as may be prescribed:
    - July 1, 2017 to April 30, 2018, reduces, on average, after-tax electricity costs for “specified consumers” by 25% (including the 8% rebate implemented Jan 1, 2017).
    - May 1, 2018 to April 30, 2022, electricity rates will be set by Order in Council (OIC) with the intention to keep increases in line with the Consumer Price Index (CPI) (See page 17- Fiscal Pressure).
    - May 1, 2022 to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs, around 10% of total electricity costs [TBC]. (See page 14- Future Impacts to Electricity Rates)

- Through the bill and amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998, e*xpands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to provide for appropriate oversight, put in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the deferred GA costs. (See page 19- OPG Mechanism)

2. Expands electricity support programs for the most vulnerable consumers and moves program costs from the rate base to the tax base. The bill amends the *Ontario Energy Board Act, 1998* to:
    - Move the recently expanded Ontario Electricity Support Program (OESP) to government funding, transition the program to be administered by the Crown, and to enable information exchange between the Ontario Disability Support Program to potentially allow for scoped automatic enrolment procedures to be established;
    - Enable a broadening of the Rural or Remote Electricity Rate Protection (RRRP), including the ability to prescribe a harmonizing of distribution costs for customers with the highest distribution rates (currently targeted for Local Distribution Companies (LDC) with the highest distribution charges) and moving the program to be government funded; and,
    - Require the establishment of a government funded program to provide a First Nation delivery credit to prescribed on reserve customers.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price, helping to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, fixed generation costs, such as renewables, gas and nuclear contracts, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:
    - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable per unit charge that is approved by the OEB.
    - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up

about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable per unit charge and a fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.

- Line Loss: The costs to recover electricity that is lost as heat when it is delivered over a power line.

- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One –** Customer service types are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. The more customers there are in the area, the lower the cost to serve. R1 customers are considered 'medium density' customers and R2 are considered 'low density customers.'
- **Ontario Power Generation (OPG) –** A business corporation owned by the Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to comment on various items.
- **Independent Electricity System Operator (IESO) –** An independent corporation and agency of the Ministry of Energy that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Special Purpose Vehicle (SPV) –** A Special Purpose Vehicle (SPV) sometimes referred to as a Special Purpose Entity (SPE) is an offbalance sheet vehicle (OBSV) comprised of a legal entity created by the sponsor or originator, typically a major investment bank or insurance company, to fulfil a temporary objective of the sponsoring firm. SPVs can be viewed as a method of disaggregating the risks of an underlying pool of exposures held by the SPV and reallocating them to investors willing to take on those risks. This allows investors access to investment opportunities which would not otherwise exist, and provides a new source of revenue generation for the sponsoring firm. (Source: PWC)
- **Security Interest –** A security interest is a type of property interest created by agreement or by operation of law over assets to secure the performance of an obligation, usually the payment of a debt. It gives the beneficiary of the security interest certain preferential rights in the disposition of secured assets.

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. On March 2, 2017, the Ontario government announced Ontario's Fair Hydro Plan, and since then, there has been increased media attention and public pressure for the government to bring forward the legislation which would enact the commitments made in the Plan. The government has committed to implement further rate relief measures by the summer 2017. On April 20, 2017, the OEB announced that, starting in May, electricity rates would be 17% lower than would have otherwise been without the 8% rebate (OREC), the anticipated move of OESP costs to government funding, and a portion of the reductions estimated under Ontario's Fair Hydro Plan based on a comfort letter sent from the Minister of Energy.

What is the expected cost to government?

The total cost of the proposal is $3B [TBC] in 2017/18, $499M funded through the fiscal plan and $2.5B to eventually be recovered through the electricity rate base.

TABLE 1: Cost Impact ($M)	2017-18	2018-19	2019-20	2020-21
Moving Social Programs to Government-Funded (details provided in the chart below)	499	753	829	892
GA Financing (Assumes funded from the electricity rate base)*	2,534	2,668	2,942	3,420
Cumulative Total	4,133	3,421	3,771	4,312

***Note:** GA Financing includes equity injection from the province to OPG. $1.1B in 2017-18 (requires appropriations)

The bill establishes a structure in which the IESO records the GA cost recovery deferral as a regulatory asset (regulated by the OEB). The IESO may then sell the regulatory asset, at which time it becomes an investment asset. The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation. Under this structure, OPG, acting as the "Financial Services Manager," would therefore take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from the IESO. The OPG would finance these purchases through a combination of an equity investment by the Province flowed through the OFA [TBC] ($1.1 B in 2017-18; See Table 1) and external private sector financing. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs.

The estimate for the combined impact of the support programs for the most vulnerable consumers would begin in 2017/18 and is expected to be $499M in 2017/18, growing to $753M in 2018/19 and rising. This investment has been factored into the 2017 Ontario Budget's fiscal plan. These estimates are based on variable inputs such as program uptake and future energy consumption of various consumer groups, and are therefore subject to change.

TABLE 2: Fiscal Impact ($M)	17-18	18-19	19-20	20-21
RRRP Enhancements*	344	472	484	497
OESP Enhancements	140	261	325	375
First Nations On-Reserve Delivery Credit	15	20	20	20
Total	499**	753	829	892

Notes:
***** Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate base.
** Value adjusted from $665 million to reflect July 2017 implementation.
******* OFHP also includes programs, no part of the legislative package, Affordability Fund $100M in 2016-17, and the Ontario Rebate for Electricity Consumers, $$939M in 2017-18.

There is inherent risk in the financial estimates given the number of variables that are included in the calculations (e.g. cost of borrowing, electricity demand and electricity market conditions and accounting assumptions). In addition, under the proposal, electricity prices would increase around 10% [TBC] above forecast residential monthly bills from 2028 to 2047 (See page 13- Expected Impacts on Electricity Costs). The public may expect that the government is committed to reducing or holding constant the absolute cost of electricity for consumers in the longer term. Under the mechanism, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future (See page 17- Fiscal Pressure).

What are the key steps to deliver this proposal?

- May 11, 2017 - introduce legislation.
- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of the Fair Hydro Plan.
- Information postings of proposed regulations.
- June 2017- Energy to bring regulations to TB/MBC.
- June 2017- Energy to bring regulations to LRC/Cabinet.
- July 1st, 2017- the remaining Fair Hydro Plan reductions and programs would take effect. Programs that are not established on this day for technical implementation issues will have benefits that are retroactively applied to customers once program is operational in individual LDCs.

How will the changes be communicated?

On March 2, 2017, the Premier announced the Fair Hydro Plan, which would lower electricity bills by 25 per cent for all residential customers including many small businesses and farms. Communications was sustained through minister announcements, local MPP echoes, a radio campaign, and a webpage that features all the programs and initiatives the government is taking to reduce electricity costs.

On May 11, 2017, there will be a news release to announce the introduction of legislation to implement the Fair Hydro Plan. Phase two of the marketing campaign will start this summer and will include radio and television.

A robust issues management plan will be developed to mitigate the GA financing risks.

Notes and Recommendation from LRC

LRC item direct to Cabinet.

Cabinet Office Analysis

The proposed legislation allows for the implementation of the main elements of Ontario's Fair Hydro Plan announced March 2 to provide further rate relief to Ontario electricity ratepayers. The Global Adjustment (GA) smoothing proposal will provide, on average, 25% in electricity rate relief (including the 8% announced in 2016) to "specified consumers" (i.e., residential and other eligible farm and small businesses under the Regulated Price Plan (RPP)) between July 1, 2017 and April 31, 2018 ("The Fair Adjustment"). Electricity rates would then change by amounts prescribed in the regulations under the bill, with the intention to keep rate increases in line with Consumer Price Index (CPI) between May 1, 2018 and April 30, 2022. Additional relief will be provided to Ontarians most in need through enhancements to electricity support programs through government funding.

1. Refinancing the Global Adjustment

The proposed legislation establishes the framework to defer some of the current Global Adjustment (GA) costs to future ratepayers by recognizing the longer term benefit of these assets to the electricity system. The methodology is based on the assumption that some generation assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets, and that they will also reduce the need to finance the development of new generation assets in the future. Similarly, conservation costs are recovered through the GA on an annual basis while conservation initiatives can provide benefits to the electricity system over many years.

According to a legal opinion by former Supreme Court Justice Binnie, the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations leaves the process more susceptible to constitutional challenge and could jeopardize the regulatory nature of the cost deferral charges (the "clean energy adjustment"), and risk it being deemed an unlawful tax. The bill has been drafted to mitigate this risk and clearly articulates the desire to fairly attribute intergenerational costs and benefits of the "clean energy initiative." In addition the bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court (See page 16- Legal Risk).

The bill establishes a structure in which the Independent Electricity System Operator (IESO) records the GA cost recovery deferral as a “regulatory asset” (regulated by the Ontario Energy Board (OEB)), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time (“the Fair Adjustment” and “IESO deferral”). “Specified consumers” would receive, on average, a 25% reduction in electricity rates from July 1, 2017 to April 30, 2018. The IESO may then sell the regulatory asset, at which time it becomes an “investment asset.” The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or “financing entities”) may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

The Minister, following the principles in the bill, would regularly calculate the “Fair Allocation Amount” to ensure a proper match of the allocation of the intergenerational costs and benefits in relation to each on the next 60 six month “reference periods.” The financings will be backed primarily by the clean energy adjustments payable by specified consumers. The “clean energy adjustments” will track the actual payment obligations incurred by the financing entities when they become due and payable. OPG, in its role as the Financial Services Manager will calculate the aggregate clean energy adjustment payable in each month of the reference period, and to ensure intergenerational fairness, these amounts will be managed to align with the fair allocation amounts determined by the Minister. The OEB would set the rates at which the clean energy adjustment could be collected from specified consumers. Starting in May 2022, to recoup the costs associated with the fair adjustment, consumers would be invoiced the Clean Energy Adjustment on their electricity bills through existing IESO and Local Distribution Companies (LDC) processes, which will be channeled through to pay each financing entity’s related funding obligations.

OPG is planning to create a SPV or Trust to finance the GA smoothing. To maintain the integrity of the structure, OPG must have the ability to appoint and remove the Trustee (or Board of Trustees) of the SPV/Trust, with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the SPV/Trust. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. OPG will have the ability to direct the financing of the SPV/Trust and both benefit from its financing strategy and be at risk as a result of it.

Once the OPG Trust/SPV has purchased the regulatory asset, which is under no obligation to do, it will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG’s debt would be funded through a combination of an equity investment by the Province through the OFA [TBC] (See page 4: Table 1) and external financing through sale or securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG (to offset the interest on debt).

The legislation also provides that no action or omission by the OEB, the Minister, or the Crown is effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay the clean energy adjustment. Additionally, to support the program, the

Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be to achieve the highest rated securities, although that will largely depend on issues such as the strength of the Ontario's undertakings not to adversely affect the program through subsequent legislation.

The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time, but could be as high as $2-3B annually [TBC]. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future.

Key elements of this component of the bill include:

Specified Consumers:

- The defined group of consumers to whom the "Fair Adjustment" applies. Primarily residences, farms and small businesses under the RPP.

Fair Adjustment

- The adjustment to rates, starting on July 1, 2017, to ensure intergenerational fairness.
- July 1, 2017- April 30, 2018- 25% average reduction in rates for "specified consumers."
- May 1, 2018- April 30, 2022- the bill allows for rates to be set by regulation (See page 17- Fiscal Pressure).

Fair Allocation Amount

- Principles established in the bill require proper match over time between the costs of providing facilities for clean electricity generation and conservation "clean energy costs" and the consumers who benefit from these investments in the system.
- The Minister sets the fair allocation amount, and is required to:
    - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods" (typically every 6 months); and
    - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers)(Page 16- Legal Risk; See page 17- Fiscal Pressure).

Clean Energy Adjustment

- Determined by Financial Services Manager (OPG), the clean energy adjustment is the amount that will be recovered from consumers in the future to pay

principle, interest, transaction costs and administrative costs associated with the fair adjustment and consistent with the fair allocation amount.

- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- July 1, 2017- April 30, 2022- OPG to internally capitalize the costs related to the fair adjustment, which will result in increased financing costs during this time.
- May 1, 2022- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing IESO and LDC processes.
- In accordance with the regulations, the OEB to set the rate at which specified consumers are invoiced to recover the clean energy adjustment.

Regulatory Asset and Investment Asset

- A regulatory asset is created as IESO defers its right collect a portion of the rates that it would have otherwise would have received from customers/LDCs if not for the implementation of the Fair Adjustment.
- Subject to OEB approval, IESO records the funding shortfall as a regulatory asset, as IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until May 1, 2022.
- The Financing Plan contemplates the Financial Services Manager (OPG) establishing financing entities (OPG Trust/SPV) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset for the investment asset owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests including by dividend or undivided interest, consistent with the Financing Plan. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 5 years (May 1, 2022) the IESO has the right to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority (OFA) (See page 17- Fiscal Pressure).
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Financing Plan

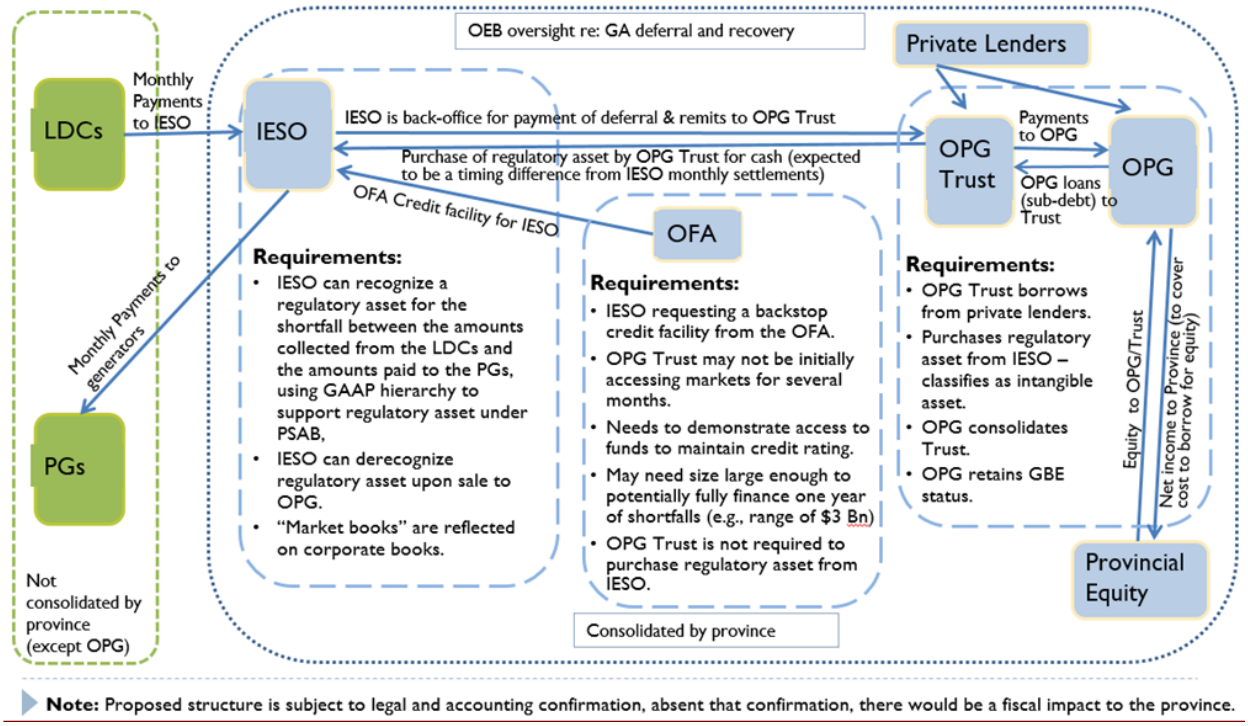
- In practical terms, the Financing Plan is intended to show how debt (with varying degrees of incurrence dates, maturities, interest rates) will be used over time.

- Prepared by the Financial Services Manager (OPG) the Financing Plan is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.
- Provided to the Minister Energy who may remove the Financial Services Manager if the Financing Plan is not consistent with the principles of the bill and the Financial Services Manager has been given the opportunity to address the Minister's concerns.

Crown Undertaking (Guarantee or Backstop)

- The bill provides that no action or omission of the Crown, the OEB, or the Minister would be effective to reduce, impair, or postpone or terminate the obligations of specified consumers to pay the clean energy adjustment.
- The Ministers of Energy and Finance together, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill, including agreements regarding the performance of the IESO or electricity vendors under the bill.
- The Ministers of Energy and Finance together, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.

Figure 1: Financing Structure



External Opinions

The proposed structure has been extensively reviewed by KPMG (Energy advisor and IESO auditor), and the firm has provided an accounting opinion confirming the validity of the structure under Public Sector Accounting Board (PSAB) standards [TBC]. This opinion can be made public [TBC] to support the government's rational for the plan. In addition, MAG and Blakes are confident that, depending on the size of the deferral attempted, the structure is constitutionally sound [TBC]. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism. If the government intends to keep rate increases to the pace of CPI from 2018 to 2022, this may require recourse to the fiscal plan to maintain constitutionality of the GA deferral mechanism structure.

For clarity, the below requirements were required to be met to ensure the structure was defensible. Based on the opinions received, Energy is confident that these requirements have been met: [TBC]

- IESO requirements :
  - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB;
  - IESO can derecognize regulatory asset upon sale to OPG;
  - "Market books" are reflected on corporate books; and,
  - OEB to act as regulator.
- OPG requirements:
  - OPG Trust/SPV purchases regulatory asset from IESO – classifies as intangible asset;
  - OPG consolidates Trust/SPV; and
  - OPG retains GBE status.

However, despite the fact that the structure has satisfied the legal, fiscal, and accounting requirements outlined in the policy submission, there remain some fundamental risks that the province would need to accept:

- The structure is unique in Canada and possibly the world, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the Unites States, but officials are currently unaware of any example that would compare to the size, complexity, or fluidity of what is proposed;
- Complexity of the structure and length of deferral/recovery increases risk and decrease transparency;
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan;
- Government would not know the price of private borrowing that would be required for the OPG Trust to work and will have limited control over OPG's direct

operations as the Financial Services Manager. While removal of the Financial Services Manager is provided for in the bill, in practice this may prove problematic once the system is operational; and,

- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and therefore its saleability. This could in turn, decrease the amount of rate reduction achievable under this mechanism.

2. Enhancing electricity supports for vulnerable Ontarians and shifting costs from rate payer funded to government funded:

Moving the Ontario Electricity Support Program (OESP) to the tax base:

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The program was launched in January 2016 and has had roughly 30% enrolment. Consistent with Cabinet direction, the program was recently expanded to increase the existing benefit scales by 50% and provide additional credits to more households.

Under the expanded program the basic OESP benefit scale increased from $30-$50 to $45-$75 a month and the enhanced OESP benefit scale would increase from $45-$75 to $68-$113 a month for eligible consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to allow for the program to transition from the rate base to the tax base, and become administered by a Ministry or other entity as may be prescribed. The cost to the fiscal plan would be $186M in 2017/18. The bill provides further amendments designed to allow information sharing between the Ontario Disability Support Program (ODSP) and the entity responsible for OESP. The intention is that this information sharing will allow for automatic enrolment of individuals that are already enrolled under the ODSP, but it is currently unknown to what extent this will significantly impact the enrolment under the program.

RRRP Enhancement (Delivery Charge Relief):

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. Currently, RRRP is a $241.9M program paid for by the ratepayers. For an average residential customer, the cost of supporting RRRP is roughly $1.58 per month. For other customers, the cost to support the RRRP can range from $65 for a greenhouse to $8,000 for a medium industrial.

In 2016 the OEB made a ruling that all LDCs need to move to fixed distribution charges. The OEB found that fixed distribution charges would establish a more equitable way to recover the costs of providing distribution service, and provides greater revenue stability for distributors, which will position them for technological change in the sector, remove any disincentive to promote conservation, and help with their investment planning.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a distribution rate protection program and the ability to cap the distribution charges of

prescribed distributors. The intention is to bring forward regulations for this to apply to the 8 LDCs with the highest distribution costs (Hydro One (R1 and R2 rate classes), Northern Ontario Wires, Lakeland Power (Parry Sound service territory), Chapleau Public Utilities Commission, Sioux Lookout, InnPower, Atikokan Hydro and Algoma Power). The amendments also establish that the existing and now expanded RRRP program will be moved to be government funding.

The intention is to draft regulations permitted under this section of the bill to harmonize the fixed distribution rates to the lowest distribution cost of the LDCs mentioned above at $38/month (which is the forecast rate for Northern Ontario Wires). If the costs of another LDC moved above these in the future, a regulation change would be required so that LDC can receive the same RRRP support. These enhancements are expected to benefit approximately 800,000 customers in Ontario.

Targeted RRRP consumers would see additional savings on their monthly bill that would vary based on their consumption level. The cost to the fiscal plan is expected to be $344M in 2017/18, $243M [TBC] of which is a transfer of existing programs to the tax base. If the legislation and required regulations are passed, the program would become active as of July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

<u>On-reserve First Nations Delivery Credit</u>

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances. In this instance, historic grievances relate to lands affected by energy developments.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a tax base funded delivery credit program for on-reserve customers with the details to be prescribed in the regulations. The intention is to enact regulations that would eliminate the delivery charge for all on-reserve First Nation household customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate.

Eligible recipients would be automatically enrolled in the program (~21,500 customers) and receive an average monthly benefit of $85. The program will cost approximately $20M annually and provides for a July 1, 2017 effective date. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Expected Impacts of the Proposal on Electricity bills:

The impact of proposed legislation to an eligible customer's bill in July 2017 is an average 25% decrease combined with the 8% from ORECA effective Jan. 1, 2017), followed by an increase in price over time. Between May 2018 and April 2022 electricity rates will be set by regulation with the intention that rate increases would be kept in line with CPI. Customers that are eligible for the RRRP enhancements and, OESP and the First Nations On-Reserve Delivery Credit will see further reductions in their electricity rates beyond the average 25% cited above.

Table 3: Projected Impacts on Electricity Bills [TBC- ENERGY to update]

Residential (750 kWh/month)	Actual 2016	2017	2018	2019	2020	2021
Total Bill (includes HST)	**158**	**164**	**167**	**170**	**181**	**178**
Total Bill (excludes HST)	140	145	148	150	160	158
Impact of GA Financing		-26	-26	-26	-32	-28
Impact of Tax-Basing Social Programs		-2	-2	-2	-3	-3
Subtotal		117	120	122	125	127
8% rebate		-9	-10	-10	-10	-10
HST		15	16	16	16	17
Revised Bill (includes HST)	**158**	**123**	**126**	**128**	**131**	**133**
Year-over-Year Change		-22%	2%	2%	2%	2%
Change from Forecast		**-25%**	**-25%**	**-25%**	**-28%**	**-25%**

Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	**160**	**165**	**160**	**162**	**173**	**169**
Class B Revised Total (excludes HST)	**160**	**162**	**157**	**159**	**170**	**166**
Year-over-Year Change		1%	-3%	1%	7%	-2%
Change from Forecast		-2%	-2%	-2%	-2%	-2%

Large Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class A Total (excludes HST)	**90**	**91**	**93**	**88**	**95**	**96**
Class A Revised Total (excludes HST)	**90**	**88**	**90**	**84**	**92**	**93**
Year-over-Year Change		-2%	2%	-6%	9%	1%
Change from Forecast		-4%	-4%	-4%	-4%	-4%

Notes: *Based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing. [TBC]*

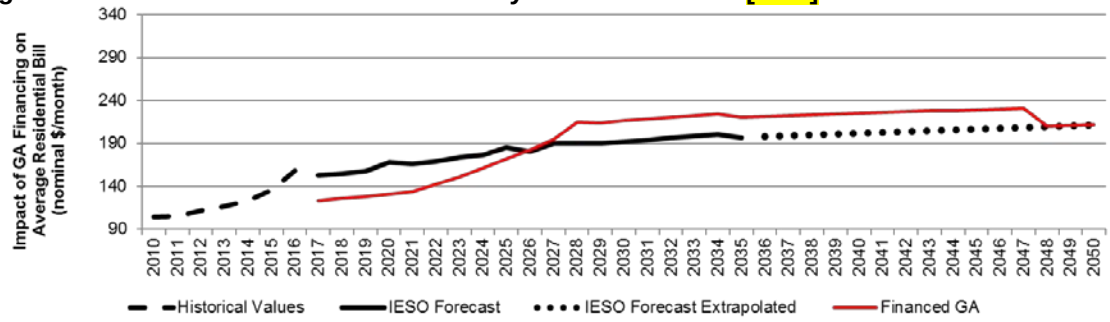
Risks and Considerations:

Future Impacts to Electricity Rates

Borrowing money to defer GA costs for ratepayers would lower costs in the short term but result in substantial debt and higher electricity prices in the future. Based on the GA deferral portion of the plan, electricity prices would increase to about 10% [TBC] above the actual cost of electricity over the recovery period (peaking at 13% [TBC]). The proposal may create the expectation that the government is committed to reducing or

holding constant the cost of electricity for consumers. The government would not have the ability to control this portion of electricity rates in the future outside of recourse to the fiscal plan.

Figure 2: Forecast and Historical Electricity Rates 2010-2050 [TBC]



Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at a maximum of 13% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. [TBC]

The government may be criticized for creating a new debt structure which could be compared to the previous debt retirement charge (DRC). The debt retirement charge was removed from residential bills in January 2016 and was removed for remaining customers in April 2018.

Future repayment cost estimates are based on a static assumed interest rate of 5%, and forecast electricity market conditions and demand levels. GA smoothing assumptions are also based on a static Toronto Hydro average customer's residential bill at 750 kWH per month. This "fictional rate regulated consumer's" bill is primarily comprised of system costs and the commodity cost for electricity. Should the system costs for a Toronto Hydro customer's bill increase, the commodity price would need to be reduced accordingly to align with the 25% reduction commitment and require more borrowing. Declining demand levels due to conservation, technology adoption, and self-generation would increase the costs borne by remaining customers to decease the debt associated with GA financing. IESO forecasted demand has historically been over-projected which also increases the risk of the static demand assumption. To partly mitigate against the risk that increased self-generation poses, the bill provides that the Clean Energy Adjustment may not be "set-off." In other words, it would exist as a separate and distinct component of the bill that could not be reduced by methods such as net-metering. Lastly, should interests rates increase above 5% after 2020, residential bills would also significantly increase during the repayment phase of the plan. All of these factors increase the risk that the province would have to absorb some of the debt in the future.

Not all generating assets will continue operations at the end of their contract. If the Fair Allocation Amount is not properly designed, future rate payers will be paying the cost for assets that are no longer in use, which would be unconstitutional, unless legislatively authorised as a tax (See page 16- Legal Risk). High capital costs, equipment obsolescence or surplus capacity / low demand conditions mean that some generators

will shut down at the end of their contract. Future ratepayers would be paying for these assets that no longer produce power in paying down the deferred GA and accumulated interest costs, and it would need to be justified that these assets are still providing some kind of benefit to the system after they cease operation.

Accounting and Provincial Credit Rating and Borrowing

The significant amount of additional provincial borrowing needed to refinance the GA and associated risks and fiscal costs (interest rates, repayment timelines) could put pressure on the Province's credit rating and overall borrowing capacity.

The complexity of the structure and length of deferral (i.e., recovery of debt) increase the overall risk of the proposal and decrease transparency to the public. The structure of the GA deferral was designed to result in an (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit. However, depending on funding to OPG from the Province, an increase in interest on debt and an increase on income from OPG will result. The structure is also contingent on the size of the GA deferral that is seen as possible, which, as previously mentioned, increases the likelihood of pressures on the fiscal plan in the near future. (See page 17- Fiscal Pressure)

Rating agencies and investors in the Province's debt may view all of the borrowing (whether by the Province directly or the OPG Trust) as an obligation of the Province. Depending on the magnitude of the debt incurred, the Province's borrowing cost may be impacted.

The Ontario Auditor General (OAG) has been briefed on the proposal and has had access to the March 1, 2017 policy submission for Ontario's Fair Hydro Plan. While the auditors of OPG and IESO have provided their assessments and the Office of the Provincial Controller Division (OPCD) has been engaged, the OAG has historically raised concern with "rate regulated accounting" and may take this into account when the provincial books are audited (i.e., it may impact whether the OAG qualifies the provincial books).

Based on early assessments, only a maximum of 18% rate relief [TBC] can be justified by amortizing contracts over the useful life of the underlying assets. Reducing electricity rates up to or beyond this amount is dependent on increased borrowing. All of the deferral is dependent on increased borrowing.

Legal Risk – constitutionality of financing the GA

The current GA amount paid by consumers is a regulatory charge. One of the requirements of a valid regulatory charge (as opposed to a tax) is that the person paying the charge either benefits from the regulatory scheme or causes the need for regulation. In principle, refinancing a portion of the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Former Supreme Court Justice Binnie has provided legal analysis of this proposal, stating that the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations could jeopardize the nature of this being a regulatory charge.

A proposal for refinancing the GA that appears to cross-subsidize near-term consumers at the expense of long-term consumers by back-loading costs more than if costs were spread equally over the estimated lifespan of generation and conservation assets presents a moderately high risk (more likely than not) of constituting a tax. If the government fails to establish that the relevant electricity generating assets will continue to provide benefits over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax). Were the charge characterized as a tax, in the event of a challenge, it would be struck down by a court as unconstitutional and consumers would be entitled to recover their payments. This risk could be eliminated, either up front or retroactively, by the imposition of a valid tax.

The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

The bill has been drafted to mitigate the constitutional risk of the proposal and clearly articulates the desire to balance the costs and benefits of assets across generations. The bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. In addition, external consultant Navigant [TBC] has provided an interim report on the costs and benefits of the long lived assets which supports the previous conclusions regarding the size of the GA deferral that would be supportable. This is further supported by the conclusions of OPG's independent analysis of the question [TBC].

MAG and Blakes are confident that the structure is constitutionally sound, but, as identified above, emphasize that this will be highly dependent on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment for 2017-18 is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep rate increase in line with CPI by this mechanism.

In addition, the structure of the GA refinancing means that the infrastructure included as part of the clean energy adjustment (i.e. amortized over 30 instead of 20 years) will need to be in service over the entire 30 year amortization period or provide benefits to the system in some way over the whole period. In practice this may mean that the government will have limited ability to alter the generation mixture included under the clean energy costs, including natural gas generation facilities, which may at some point

be seen as inconsistent with the province's commitments to reduce greenhouse gasses. This risk has been mitigated in the bill, by allowing for prescribed natural gas generation contracts to be excluded from the clean energy costs calculation. Consideration to this dynamic will be needed as the ministry brings forward the Province's next LTEP and embedded initiatives such as Market Renewal.

Fiscal Pressure

This proposal aligns with the 2017 Budget fiscal plan, but involves significant ongoing risks. Parts of the proposal do not include a scheduled review period or an end date, resulting in an ongoing fiscal pressure, which may increase in the out years, and could only be removed by a legislative amendment.

The cost projections in this proposal are highly sensitive to interest rates and other assumptions:

- The proposal assumes GA refinancing does not have a fiscal impact because the associated legal authority and accounting treatment requirements are met. If the costs of GA refinancing were accounted for as an expense to the fiscal plan, the fiscal impact would be significant ($2.5B in 2017-18 [TBC], and escalating annually; See Table 1).

- The term and timing of the GA refinancing are highly dependent on the IESO's forecast of GA costs and actual interest rates.

The extent of fiscal pressures is also dependent on other factors (i.e., OAG could qualify Ontario's books or issue an adverse opinion). Due to the complexity and size of the proposal, the government has commissioned external opinions on the legal, fiscal, and accounting requirements. Energy's advisor and IESO auditor, KPMG, has provided an accounting opinion that the principles of the structure are sound, and this opinion can be released publicly when desired [TBC]. This opinion may not change the likelihood of a contrary opinion by the OAG, but does provide a tool for government to point to in justifying its decisions.

There is also a risk that credit rating agencies and the market may take an alternate view as to the size of the GA deferral that is possible before becoming unconstitutional. If the fair adjustment and fair allocation amount exceeds this analysis, it may increase the perceived risk of the investment asset and therefore its financeability/saleability, which would result in reduced market uptake and reduce the amount of near term rate reduction that would be achievable under this mechanism. This is why the increases in electricity rates between May 2018 and April 2022 are to be set by regulation as opposed to legislating that they increase by CPI. It may not be possible to legally hold the rate reductions to increase by CPI, and if the government wanted to hold to this commitment, the difference would need to come out of the tax base, which has not been forecasted nor included in the fiscal plan. Each percentage point of reduction that the structure cannot provide would result in an approximate $150M [TBC] cost to the tax base annually.

Further, if the IESO is not able to sell the regulatory asset (i.e., the OPG SPV is unable to get financing to purchase it), then the IESO would require financing from an alternative source. The IESO has requested a backstop credit facility from the OFA. This would be associated with a fiscal impact risk.

There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Legislative Officers

The Ontario Auditor General (OAG) has expressed views on rate regulated accounting, which will likely be raised again upon the implementation of this suite of initiatives. The OAG was provided copies of the Cabinet Submission seeking policy approval for Ontario's Fair Hydro Plan and has been briefed by officials from the Ministry of Energy. The OAG will have opportunities to publicly state her views through the Public Accounts committee in the summer of 2018 and in her pre-election report.

The Financial Accountability Officer (FAO) has not been consulted on this proposal and is expected to have an opinion on how this proposal may impact the state of the province's finances. [ENERGY to update]

OPG Mechanism:

There are several risks associated with the proposed OPG mechanism:

- Accountability
    - Bill attempts to balance the independence of the OPG trust with regulatory oversight and the market's need for certainty in recovering the GA financing that it provides.
    - Accountability to the government or the public, amount of government control of the entity, including future rate increases.
- New structure
    - The Structure is complex and involves:
        - IESO as originator of the regulated asset and responsible for flow of funds;
        - OEB as regulator of the new mechanism;
        - OPG responsible for financing and managing the mechanism; and
        - The Province providing ongoing equity capital infusions to OPG and backstop.
    - The addition of financial agency to the current operational obligations of OPG is not the current expertise of OPG. However, OPG has experience managing large financial assets and liabilities through the jointly managed Ontario Nuclear Funds as well as its own pension fund. In addition, this

new role could possibly dilute OPG's focus on current high priority responsibilities (i.e., electricity generation and nuclear refurbishment).

- This financing structure would be unique to Canada – uniqueness reduces likelihood of all risks being known/mitigated. Highly specialized expertise would be required.
- There is a risk that at the next opportunity to review the OPG compensation framework, they make the case that there is no national comparator for this aspect of their work and they should therefore receive further exemptions from the rules (OPG nuclear executives do not need to find national comparators for compensation determination).
- It is unknown what the magnitude of transaction, administrative, and consultant costs that OPG would incur would be. OEB would review OPG's cost as the Financial Services Manager to ensure all are appropriate and can be recovered from the rate base.

- Debt
  - Opportunity for significant shifting of the Ontario's electricity sector over the lifespan of the repayment (30 years). Through sector/policy/government position shifting, possibility of new entity/structure abandoning debt and Ontario having to take a write down.
  - Risk transfer / portion of debt that Ontario would be responsible for would be the higher risk portion.
  - Repayment plan and impact on rate payers highly dependent on interest rates
- The public could claim that the government is simply putting off a problem and making it worse for future generations. The complexity of the structure may be seen as government attempting to cover up its actions.

<u>Program Design and Implementation</u>

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change.

- Program design will require an evaluation of whether the existing programs are effective and achieving their outcomes (e.g. the OESP has a current uptake of 30% and program changes are proposed in advance of an increased effort to reach 100% uptake)
- The OESP matrix no longer follows the Low Income Measure (LIM) which creates inconsistencies between how programs are applied and may put pressure other provincial programs to increase funding amounts.

<u>Benefits for all Consumer Classes</u>

Ontario's Fair Hydro Plan includes some benefits for all consumer classes as well as targeted benefits to those with the greatest need. It is likely that the government will be

criticized for providing benefits to those who may not be in need (e.g., wealthy cottage communities, etc.).

Connection to the Province's Next Long-Term Energy Plan

Ontario produces and publishes a Long-Term Energy Plan (LTEP) every three to four years, with the next LTEP scheduled for release in the summer of 2017. LTEP principles that will guide decision-making are affordability, reliability, clean energy, community and Indigenous engagement, and conservation. Through extensive consultation with the public, stakeholders and Indigenous partners through the fall of 2016, the Ministry has identified key priorities, and, Ontario's Fair Hydro Plan combined with new policy or program announcements in the LTEP, will provide the comprehensive future planning perspective for Ontario's energy sector.

Stakeholder Considerations:

General public (including residential and small businesses) – Likely support a proposal that is projected to provide up to 25% in rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but likely to question the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications.

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral on the remainder of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to Cap & Trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous

communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generation as part of the "Clean Energy Adjustment."

Solar PV sector – May react negatively to price relief as it can be seen to undercut the affordability of distributed renewable generation assets such as solar PV, and undermines the economic arguments behind net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

Delivery:

If passed, the legislation will enable the price mitigation measures to begin to take effect on July 1, 2017. The 2017 LTEP will be released to the public in the summer 2017 [TBC] and would reinforce/integrate with Ontario's Fair Hydro Plan. Regulations are required under the major components of the legislation in order to fully implement the initiative and clarify program details.

1. Refinancing Global Adjustment assets in order to defer ratepayer costs / Mechanism to defer GA costs

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

2. Enhancing Social and Conservation Programs

OESP Enhancements

Changes to regulation will be required to establish and define the parameters for the proposed changes. The financial flow-through mechanism would likely be modeled after processes used for the OREC (8% rebate). The amendments made in this bill allow for a transition period where the program continues to draw on the existing IESO variance account until the account can no longer maintain the program. IESO is required to notify the Ministry of Energy when it expects the variance account to be depleted (likely sometime in the fall). At this time

The proposed changes will take time to implement as they would require changes to the central system and the LDCs' billing systems. The OEB and their central service provider will need to work with LDCs, MOF, and the CRA on the changes to this program (delivery mechanism, funding source, application system, eligibility).

RRRP Enhancement

Regulations would be required to establish the details of the program. OEB estimates that the implementation would take at least six months after finalizing regulations. For this reason it is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st which will put an immediate pressure on the OEB and LDCs as implementation is required no later than October 1, 2017. A mechanism will need to be created to ensure that all parties are aligned in the yearly forecasting and costing of the program.

On-Reserve First Nations Delivery Credit

The OEB would need to work with the LDCs to identify the eligible on-reserve consumers. A communications plan could include public release of the OEB report and a commitment to working with the LDCs on implementation details.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Once available, the rebate would appear on customer's electricity bills as a reduction in, or credit for, their delivery line.

There is a risk that either non-status Indigenous communities without reserves or Metis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Linkages:

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer-fall 2017. These plans identify needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The Ontario Rebate for Electricity for Electricity Consumers Act, 2016, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was

also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB expired on December 31, 2015.

Debt Retirement Charge – On January 1, 2016 the government ended the electricity Debt Retirement Charge (DRC) on residential users earlier than planned, and put in place the low-income targeted OESP, effective 2016. For all other consumers the DRC is was removed by April 2018.

Industrial Conservation Initiative – Ministry of Energy program implemented in January 2011 to help large industrial consumers reduce their electricity costs by reducing electricity consumption in peak periods. As part of the Fair Hydro Plan, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all electricity consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – approved as part of Ontario's Fair Hydro Plan, and under development, the Affordability Fund is intended to expand access to conservation funding to targeted consumers that do not currently qualify as low-income for the purposes of the Home Assistance Program (HAP).

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings. **Note:** Funding electricity support programs through the tax-base rather than the rate base will also provide saving to Class A and B consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON)- is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed that the government consult on and develop options to mitigate the impact of carbon pricing and resulting increased utility costs on residential tenants. The mitigation is proposed because tenants do not usually have the opportunity to make

changes to their building envelope (e.g. windows, insulation) or major appliances that would allow them to address utility costs themselves. On April 24, 2017, the government introduced the Rental Fairness Act, 2017 which, if passed, would remove above-guideline rent increases for utilities, to protect tenants from carbon costs and encourage landlords to make their buildings more energy efficient.

Proposed Cabinet Minute

Approval of draft bill for introduction

Cabinet approved version XX-XX of this draft legislation for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.

From:	John Kim
To:	Bruno Amara
Cc:	Shajee Kathirgamanathan; Salman Qadir
Subject:	FW: Latest version of the ENE - OFHP note
Date:	Monday, May 08, 2017 8:33:32 PM
Attachments:	3 RAN Ontario Fair Hydro Plan Proposed Leg v5.doc

Fyi.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: May-08-17 6:49 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: FW: Latest version of the ENE - OFHP note

Latest version..

From: Fung, Felix (TBS)
Sent: May 8, 2017 6:41 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
Subject: RE: Latest version of the ENE - OFHP note

Sorry! The file didn't work in my previous email. Please find attached the note again.

From: Fung, Felix (TBS)
Sent: May-08-17 6:34 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
Subject: Latest version of the ENE - OFHP note

Hi everyone,

Please find attached the latest version of the OFHP assessment note - incorporating feedback from folks today.

Patrick - two things to point out:

- the Ministry requested a new TP line to support "future rate mitigation initiatives". We struck out the minutes related to this request, given a TP can be created in the future once we have a specific future rate mitigation initiative (rather than just creating a placeholder now). However, we thought we would include it on page 12 in case folks do want that minute included.
- We also included the Minute for media buy / ARB request. Let us know if there are any concerns with the language.

Thanks - let us know if there are any concerns. Patrick - we will wait for your ok before we share the note with Energy.

And many thanks to OCPD and COE for all your help and support on this.

Felix

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – March 1, 2017	**Tracking to: Fast Track** LRC at Cabinet – March 10, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan Legislation

I. DECISION BEFORE THE BOARD

Receive a report back on Ontario Fair Hydro Plan implementation, supporting implementation decisions and recommending the proposed Ontario Fair Hydro Plan Act to proceed to LRC and Cabinet for approval.

II. RECOMMENDATIONS:

• Receive a report back on Ontario Fair Hydro Plan implementation progress	*Receive*
• Proposed legislation: o Note key aspects of proposed legislation o Recommend proposed legislation o Direct the Ministry to return to TB/MBC with regulations supporting implementation prior to going to LRC.	*Board Judgement*
• Note outstanding report back requirements,	*Note*
• Approve up to $3.5M funding for media buy procurement, to be followed later by a transfer from the Bulk Media program to fully recover costs for the public education campaign.	*Approve (tbc)*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Affordability Fund	0.0	0.0	0.0
	Global Adjustment Refinancing*^	0.0	0.0	0.0
	Electricity social programs*	499.0	753.0	829.0
	Ontario Rebate for Electricity Consumers	939.0	882.0	882.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

* Subject to enacting proposed Ontario Fair Hydro Plan legislation.
^ As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget, linked to proposed legislation

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017 the Ministry received TB/MBC approval for additional rate mitigation actions that support up to a 25% electricity bill reduction (including the 8% reduction announced in 2016 for an average household in 2017. The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017.

This submission deals with three key elements of the OFHP:

- Refinancing Portion of Global Adjustment (GA) to partially defer RPP eligible ratepayer GA costs (based on a planned non-fiscal impact approach over government funding).
- Expanding and enhancing ratepayer funded electricity social programs and shifting them to being government funded (OESP, RRRP), along with a new government funded On-Reserve First Nations Delivery Credit.
- Expansion of Industrial Conservation Initiative (ICI).
- Media buy procurement.

The Ministry was directed to report back to the Board with proposed legislation supporting OFHP implementation, including the following specific direction regarding a non-fiscal mechanism (approach) to refinancing a portion of Global Adjustment costs (Appendix C provides the March 1, 2017 minute):

- Formal accounting opinions from OPG and IESO auditors.
- Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
- Report on the multi-year profile of GA smoothing, identifying specific assumptions.
- Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
- Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

Direction was also given to report back with final program details, regulations, sensitivity analysis of financial models, and performance metrics for electricity support programs,.

OFHP Implementation Update:

The ministry's current submission does not address all required report back elements. The proposed legislation would establish the legislative framework but key details necessary to assess fiscal and legal risks are outstanding, including regulations, commercial agreements, sensitivity analysis etc. (Ministry is targeting regulations by June 2017 and commercial agreements subsequently).

Appendix D provides an overview of the Ministry's implementation update.

Financial Implications

Electricity Social Programs:

March 1, 2017 TB/MBC approvals supporting OFHP included full year projected costs. The 2017 Ontario Budget included refined projected costs shifting expanded/enhanced electricity social programs from ratepayers to being government funded starting in 2017-18, lowering the total amount from $665M to $499M to reflect rollout timing not full year costs. The table below shows expense amounts currently in the PRRT multi-year fiscal plan related to these support programs for the most vulnerable consumers.

Government Funded Social Programs ($million)	2017-18	2018-19	2019-20	2020-22
Rural or Remote Rate Protection (RRRP)	344	472	484	497
Ontario Electricity Support Program	140	261	325	375
On-Reserve First Nations Delivery Credit	15	20	20	20
Total	**499**	**753**	**829**	**892**

TBS Staff Comments:
The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate, and factors which can fluctuate from year to year. Also, fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. To mitigate risk, development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the forecasting models should be undertaken to inform future updates to cost forecasts for the programs above and the Ontario Rebate for Electricity Consumers (With 2017-18 costs estimated at about 1B).

GA Refinancing:

The proposed Fair Hydro Act, 2017 is a complex transaction and attempts to balance several key factors including financeability, accounting treatment and legal considerations by:

- Supporting financeability through a number of features, including a provincial undertaking not to interfere with clean energy adjustments once determined, which will be backstopped by a guarantee, and provisions intended to reduce borrowing costs and attract a wide investor base;
- Addressing the necessary accounting requirements through mechanisms to record funding, interest and the transfer of regulatory assets to avoid a fiscal impact to the province; and
- Mitigating legal risk by developing a methodology that attempts to ensure an alignment of costs with benefits to future rate payers.

Key elements of this schedule of the bill include (An overview of elements):

<u>Specified Consumers</u>
- The defined group of consumers to whom the “Fair Adjustment” applies. Prescribed consumers include residential consumers, farms, small businesses, condominiums, long-term care homes and co-operative housing. These are primarily consumers eligible for the RPP, and aligns with the eligibility under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA).

<u>Clean Energy Costs</u>
- Clean energy costs are those costs that arise from the “clean energy initiative” and are allocated to the specified consumers for past, present and expected costs.
- The clean energy costs include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act*, *1998* (basically, the GA)

<u>Fair Adjustment</u>
- The adjustment to rates to ensure intergenerational fairness.
- July 1, 2017- April 30, 2018- reduction in rates for “specified consumers” based on a 25% reduction for a prescribed typical consumer.
- May 1, 2018- June 30, 2021- the bill allows for rates to be set by regulation (see page 17- Fiscal Pressure).

<u>Fair Allocation Amount</u>
- Principles established in the bill require proper alignment over time between the costs of providing facilities for clean electricity generation and conservation (“clean energy costs”) and the consumers

who benefit from these investments.
- The Minister of Energy sets the fair allocation amount, and is required to:
  - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods" (typically every 6 months); and,
  - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (see page 16- Legal Risk; page 17- Fiscal Pressure);
  - Align these costs with clean energy benefits expected to be received by rate payers in the future.

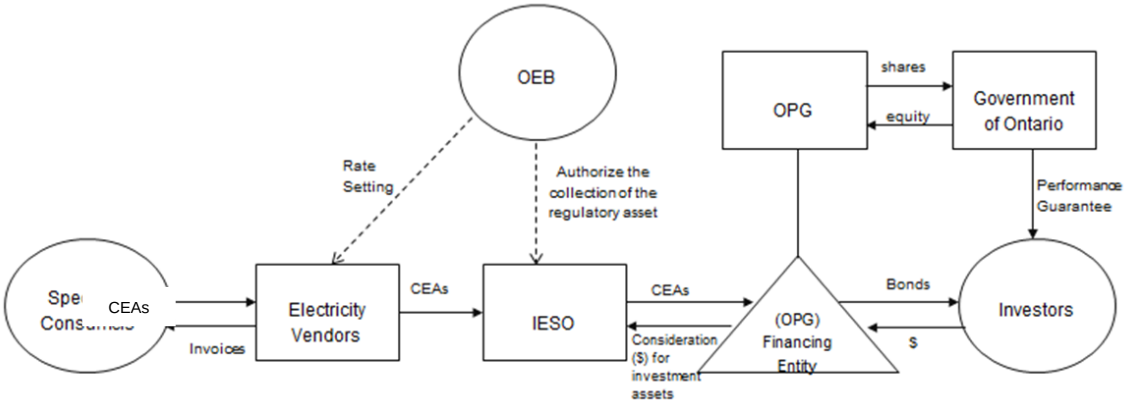
Clean Energy Adjustment
- Determined by Financial Services Manager (OPG), the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principal, interest, transaction costs and administrative costs associated with the fair adjustment and consistent with the fair allocation amount.
- In accordance with the regulations, the OEB to calculate the rate at which specified consumers are invoiced to recover the clean energy adjustment.

Regulatory Asset and Investment Asset
- A regulatory asset is created as IESO defers its right collect a portion of the rates that it would have otherwise received from customers/LDCs if not for the implementation of the Fair Adjustment.
- Subject to OEB approval, IESO records the funding shortfall as a regulatory asset. Collection rights are deferred until July 1, 2021.
- The Financing Plan contemplates the Financial Services Manager (OPG) establishing financing entities (OPG Trust/SPV) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset for the investment asset owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 4 years (July 1, 2021) the IESO has the right to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority (OFA) (see page 17- Fiscal Pressure).
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Financing Plan
- In practical terms, the Financing Plan is intended to show how debt (with varying incurrence dates, maturities and interest rates) will be used over time.
- Prepared by the Financial Services Manager (OPG), the Financing Plan is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO. Plan to be provided to the Minister of Energy.

Crown Undertaking (Guarantee or Backstop)
- The bill provides that no action or omission of the Crown, OEB, or the Minister would be effective to reduce, impair, or postpone or terminate the obligations of specified consumers to pay the clean energy adjustment.
- The Ministers of Energy and Finance together, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill, including regarding the performance of the IESO or electricity vendors under the bill.
- The Ministers of Energy and Finance together, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.

Financing Structure (Provided by Ministry)



Note: CEAs are "clean energy adjustments".

TBS Staff Comments – 2017 Ontario Budget:
The 2017 Budget also includes an investment operating asset of $1.1B related to the Province's equity injection to OPG, enabling the OPG Trust to regularly purchase IESO's regulatory asset through 2017-18. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt which would be offset by increased earnings of OPG from interest revenue. Under the anticipated accounting treatment, the Province's net debt would remain unchanged as the equity investment in OPG would offset the additional Provincial borrowing.

Projected annual amounts of GA deferrals (i.e., the regulatory asset) are shown below and are not part of the province's multi-year fiscal plan (2017 Budget (as they are assumed to be funded from electricity ratepayers under the proposed legislation). Appendix E provides analysis of financial models. The maximum amount of GA deferral under the proposed model would be about $3.5B in 2020, prior to the start of the rate recovery period.

($million)	2017-18	2018-19	2019-20	2020-22
GA Refinancing - Residential Bills lowered by 25%	2,534	2,668	2,942	3,420
Interest Portion (5% annually, compounded monthly)	32	162	298	449

Under GA refinancing, ratepayers will incur interest costs and will be added to the GA payments ratepayers make.

- OPG intends to use a Special Purpose Vehicle (OPG Trust) to purchase for cash the "right to collect" the deferred amounts from the IESO which would be reflected as intangible assets by the Trust. OPG Trust will be structured to finance 51% of its funding requirements through the capital market with the remaining 49% being provided by OPG as subordinated debt. The 49% subordinated debt from OPG will be financed though debt from the capital markets (about 5%) and through equity injections from the Province (44%).

- The proposed legislation does not compel the OPG Trust to purchase 100% of the regulatory asset created by IESO at any given time. The IESO has noted that it may need to cover clean energy costs if for some reason the OPG Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. On behalf of IESO, the Ministry is requesting a credit facility for IESO, up to about $3B, and notes the use of this credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO, especially where GA deferrals remain on the IESO's books at fiscal year-end. Appendix F provides more information.

<u>Financial, Accounting, Legal Risk Assessments:</u>

The March 1, 2017 TB/MBC Minute, refinancing the Global Adjustment to partially defer RPP eligible

ratepayer GA costs, was subject to completed legal, accounting and financing risk assessments. Appendix G provides more details from the Ministry to what appears below. TBS staff comments are flagged.

Financial

The Ministry indicates it has prepared legislation and is working on developing regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is not rendered not fully recoverable based on a future change made in the legislation.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year. The intention of the guarantees is to make them as narrow as possible.

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

The Ministry indicates the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost.

The Ministry also acknowledges given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term, and the rate of inflation.

TBS Staff Comments – (See Appendix H for a more in-depth discussion)

- *Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increases in line with CPI.*
- *If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.*
- *If a favourable legal and accounting treatment is not implemented, there could be a negative impact on the province's fiscal plan up to $2.5B in 2017-18 and rising.*
- *The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee.*
- *Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.*
- *Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.*
- *Credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province,*

impacting Province's ratings and cost of borrowing.
- *Providing a credit facility for IESO to manage while GA deferrals are pending sale, up to about $3B, could result in fiscal plan implications if GA deferrals remain on the IESO's books at the Province's fiscal year-end. IESO is consolidated onto the Province's books.*

Accounting

The ability to implement the GA deferral plan under a non-fiscal impact approach is subject to some uncertainty. While the legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y, many specifics remain outstanding and will only be addressed through future regulations and commercial agreements.

The Ministry indicates the following:
- Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations, satisfying accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

KPMG:
- The proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. KPMG's accounting opinion however, is in draft pending additional details to be addressed in regulations and commercial agreements.
- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.
- The regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset on IESO books to an investment asset on OPG Trust's books).

TBS Staff Comment – The Auditor General has raised concerns regarding the appropriateness of reporting rate regulated assets on the IESO's books under public sector accounting standards, which may lead to a qualified audit opinion on the consolidated financial statements of the Province.

OPG/E&Y:
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.
- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.
- Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

TBS Staff Comment – OPG's external auditors, E&Y, have provided feedback regarding the proposed

accounting treatment; however, it is subject to assumptions and limitations, including outstanding details to be addressed in supporting regulations and commercial agreements.

Legal

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.
- Judges can be expected to take a careful look at the government's evidence in support of the re-allocation of Global Adjustment.
- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.
- The provincial assurance provision - Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes. The proposed legislation focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers.
- The provincial guarantee provisions are intended to backstop the provincial assurance provision Legal risk to the province will be assessed as the agreements are negotiated and drafted.
    - The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.
- Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry indicates it retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements.

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. The Ministry indicates Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

The Ministry's signed submission included external opinions and assessments for Ontario Power Generation (Accounting), KPMG Letter to the Independent Electricity System Operator (Accounting Opinion), Ernst &Young (as auditors) letter to OPG concurring with OPG's description of OPG

accounting considerations of OFHP.

TBS Staff Comments Overall:
TBS staff note external opinions and assessments are supportive of the Ministry's intended plan for implementing Ontario's Fair Hydro Plan, noting the opinions and assessments must be revisited once key implementation details are finalised (e.g. draft legislation, regulations, special purpose vehicle documents, terms of conditions within various other agreements). Future reassessments, Navigant's analysis of expected lifecycle of existing generation infrastructure(key), and other factors such as Ontario electricity demand, interest rates in the medium to long-term, and the rate of inflation may contribute to fiscal plan implications emerging over time.

TBS staff also note, while submission details and related discussions have not indicated a non-fiscal mechanism cannot be established, the complexity of the transaction and the time frame involved suggest it is not reasonable, at present, to support a claim of no impact on the province's fiscal plan as the Ontario Fair Hydro Plan is implemented (Appendix I includes a strategic level risk assessment prepared by TBS staff).

Ultimately, GA Refinancing being a sustainable strategy assumes electricity consumers' willingness to accept later to bear the extra costs of deferring electricity price hikes.

Media Procurement Request

The Ministry is requesting approval up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program, $2.5M in 2017-18, to recover costs for the public education campaign in 2017-18 only.

The Ministry indicates spending about $1M on media planning and buying for radio and digital media in 2016-17, forecasting $2.5M in 2017-18 as the cost for television media space is substantially higher than radio, and has indicated no ask for 2018-19. The $3.5M approval request looks to be partly retroactive to include the $1M in 2016-17.

Name of analyst:	James Strang With input from CO, COE, OPCD and OFA	**Phone number:**	416-327-2071
Date:	May 8, 2017	**Log number:**	
Branch / Division:	GGPR, PEMD, COE, OPCD/Treasury Board Secretariat Ontario Financing Authority/ Ministry of Finance		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

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

Receive the report back on proposed legislation supporting implementation of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

i) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

a) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
b) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
c) Shift from electricity consumer funding to funding out of voted appropriations for Ontario Electricity Support Program, and for majority of costs for existing RRRP.
d) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

a) Establishing the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
b) Requirement for future consumers to pay the clean energy adjustment that backs financings
c) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
d) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
e) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights
f) Sets out that security interests can be granted in investment interests in the investment asset

ii) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

iii) Note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments.

iv) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of

proposed regulations prior to going to LRC, along with risk implications and mitigation strategies

In this regard,

a) Direct the Ministry to include a report on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.
b) Direct the Ministry to report back with final program details for 2017-18 for GA Refinancing and Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.
c) Direct the Ministry to report back with risk mitigation strategies that address key financial and operational risks.

v) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the broadened program now government funded
   - Report on and assessment of impacts of consolidation of LDCs
   - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Identify eligibility criteria, and refinements being made.
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, results achieved to date versus expectations

for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

vi) Direct the Ministry to include as part of outstanding electricity social programs report backs details of models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

vii) (TBC) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.
b) Note the Ministry of Energy will return to TB/MBC to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

~~viii) (TBC) Approve creation of a new transfer payment entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-1. In this regard,~~

~~a) Approve an expenditure increase of $1,000 in Price Mitigation Support Initiatives Transfer Payment Vote/item 2905-1, offset from Services in Ministry Administration Vote/item 2901-1, to support future rate mitigation initiatives.~~
~~b) Direct the Ministry to seek TB/MBC approval prior to transferring any funding to the Price Mitigation Support Initiatives Transfer Payment Vote/item 2905-1 providing details for future rate mitigation initiatives being funded.~~

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX D: ONTARIO FAIR HYDRO PLAN IMPLEMENTATION UPDATE

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998 (Appendix D provides details of each):

- Legislative amendments for electricity social programs
- Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment partial refinancing)

Legislative amendments for electricity social programs

Electricity social programs becoming government funded under OFHP target residential electricity customers disproportionately affected by increased electricity costs.

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The proposed bill amends the *Ontario Energy Board Act, 1998* for various electricity social programs:

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001. The bill enables the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial appropriations, rather than from electricity.

Appropriated funds would be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the government funding provided.

Distribution Rate Protection (Broadened RRRP)

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

The proposed legislation would enable a broader government funded Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge for consumption on or after July 1, 2017.

If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The legislation contains retroactive application of the provisions to offset any potential lapses in implementation and ensure that consumers receive the benefit following the July 1st effective date through to the final effective date of October 1st, 2017.

On-Reserve First Nations Delivery Credit

The proposed bill would enable the provision of a government funded on-reserve First Nations Delivery Credit (FNDC), which would eliminate the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The program is premised around the findings in an OEB Report submitted to the Ministry on December 29, 2016 providing advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers.

Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program to being government funded, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid by all Ontario consumers on May 1, 2017. On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will come into effect on May 1, 2017.

The proposed bill would move the recently expanded Ontario Electricity Support Program (OESP) to government funding, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program (ODSP) and Ontario Works (OW) to potentially allow for automatic enrolment procedures to be established.

The Ministry indicates the proposed legislative amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment (GA) Refinancing)

Refinancing a portion of GA is intended to provide significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

The Ministry indicates under OFHP, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017 (This includes the 8% Ontario Rebate for Electricity Consumers). In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Reflecting March 2017 approvals (See Appendix C for March 2017 TB/MBC minute), proposed legislation for GA Refinancing is designed to establish a non-fiscal impact mechanism. Minuting indicated proceeding with GA Refinancing requires completed legal, accounting and financing risk assessments.

The proposed approach to GA Refinancing is complex. Appendix D provides proposed legislative details.

- At a high level, the proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future.

    - July 1, 2017, to April 30, 2018, reduces, on average, after-tax electricity costs for "specified consumers" by 25% (inclusive of the 8% rebate and shifting of support program to be government funded).
    - May 1, 2018, to June 30, 2021, electricity rates will be prescribed by regulation with the intention to keep increases in line with the Consumer Price Index (CPI).
    - July 1, 2021, to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs.
    - Through the proposed bill and amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998, expands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to provide for appropriate oversight, put in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the refinanced GA costs.

Consumers would see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG, through a special purpose vehicle (OPG Trust) is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The proposed bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Expansion of Industrial Conservation Initiative (ICI)

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and "1114") in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

The Ministry is also undertaking targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants.

- The extent of the impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

APPENDIX E: PROPOSED FAIR HYDRO ACT OVERVIEW

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two schedules:

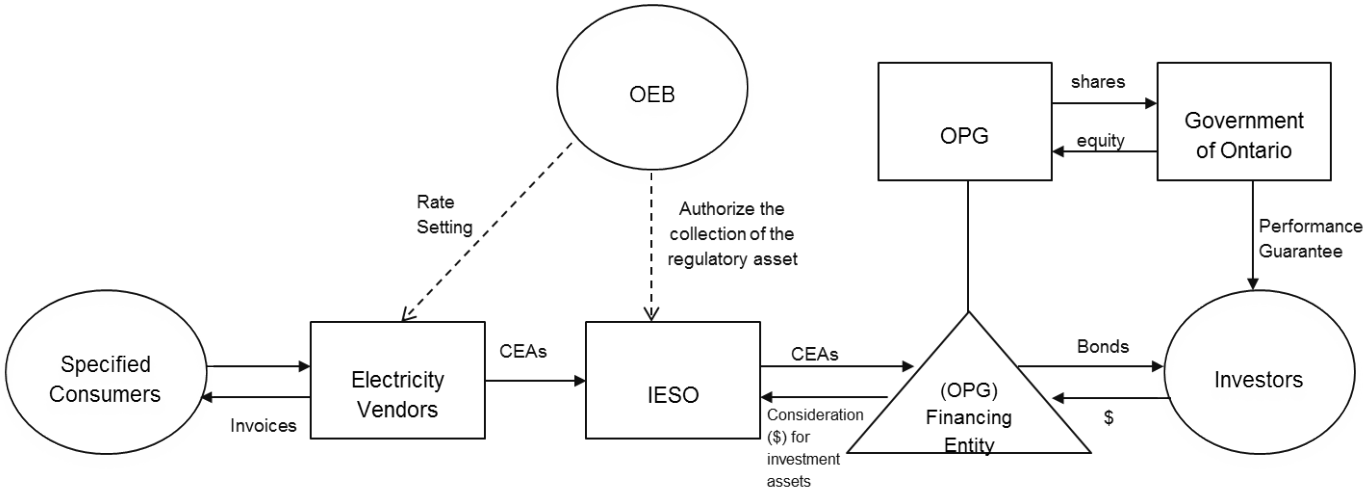
- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Dealing with Global Adjustment (GA) refinancing).
- Schedule 2: Legislative amendments for electricity social programs (See Appendix D1)

The Ministry has provided the following overview of the proposed legislation:

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (GA refinancing).

Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system (Clean Energy Initiative) creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations. The diagram below outlines how the refinancing of GA would be implemented.



Note: CEAs are "clean energy adjustments"

Clean Energy Costs and Benefits:

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (the Global Adjustment provisions) which relate to contracts for:
  - Renewable energy generation or capacity
  - Conservation and demand management, including shortage
  - Energy efficiency
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*
  - Other such costs to be included in "clean energy costs" may be prescribed

- These are the costs to be distributed fairly among the specified consumers through the "fair allocation amount".

Fair Allocation Adjustment:

- Part II establishes that the rate that will be payable by "specified RPP consumers" from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the "comparison rate". The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.
- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).
- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.
- The Minister sets the fair allocation amount.

    - The establishment of the "fair allocation amount" is required to,
        - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods"; and
        - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).
    - The "fair allocation amount" is to have regard to:
        - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the "specified consumers" (in the applicable "reference periods");
        - Reasonable assumptions regarding the time value of money, the number of consumers in the "reference period"; and
        - Expected electricity consumption for the reference period.

Regulatory Asset and Investment Asset:

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets.
- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a "regulatory asset". In simple terms, the regulatory asset is IESO's right to recover the revenues that it has deferred collecting.
- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities. OPG financing entities are not required to purchase the regulatory asset.
- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".
- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

Issuance and Payment of Debt:

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.
- The financings will be backed primarily by the "clean energy adjustments" payable by specified consumers. The "clean energy adjustments" will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the "fair allocation amounts" ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).
- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity's related funding obligations.
- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario's undertakings not to adversely affect the program through subsequent legislation.

Financing Plan:

- The Financing Plan is prepared by the Financial Services Manager (OPG).
- The Financing Plan is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.
- There are rules that apply to the Financing Plan:
  - It must align with the "estimated finance amount" that will become due and payable during a "reference period";
  - It must take into account the "fair allocation" and any "fair adjustment";
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancing, redemption opportunities and liquidity, and similar assumptions).
- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.
- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

Who Does What?

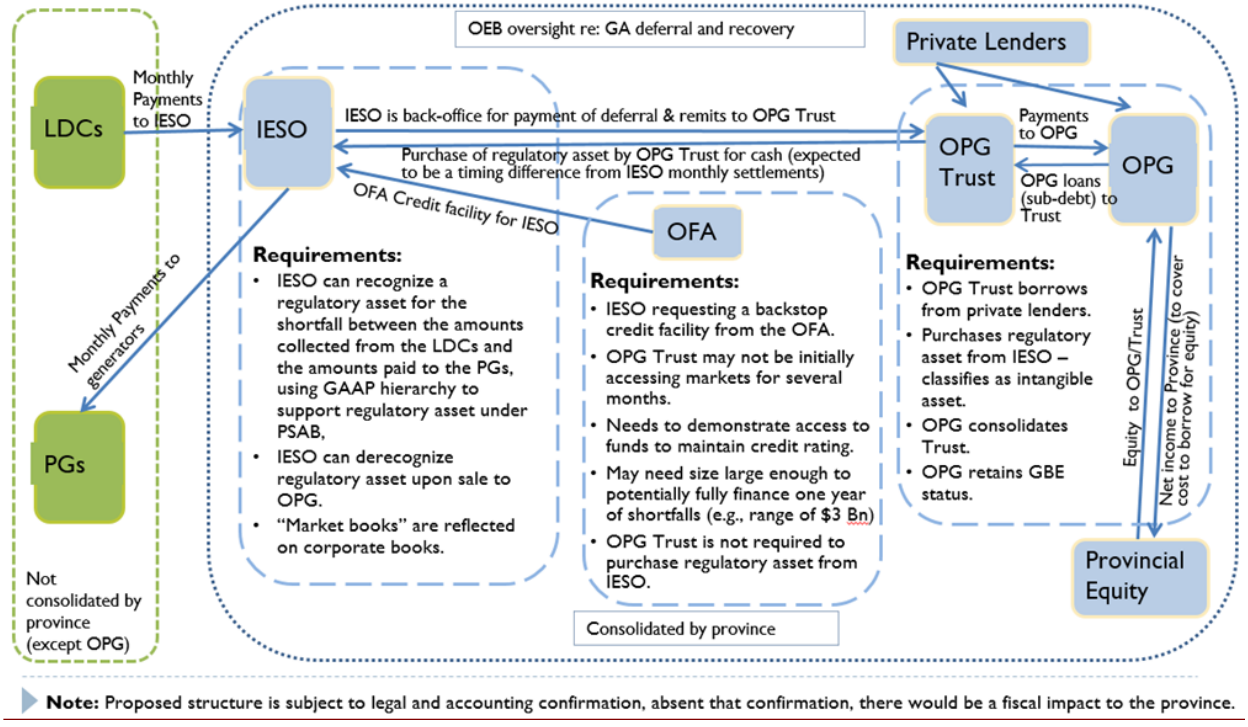
- Minister of Energy – Determine the "fair allocation amount" applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.
- Ontario Power Generation (OPG) – As financial services manager, OPG will be responsible for the following under the Act:
  - Prepare and implement Financing Plan.
  - Establish and administer the financing entities.
  - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.

- Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

- Independent Electricity System Operator (IESO):
  - Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.
  - Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.
  - Coordinates the collection of "clean energy adjustments" from Electricity Distributors.
  - Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.
  - Fund initial interest costs and expenses during the first 4 years.

- Local Distribution Companies (LDCs):
  - Obligation to invoice specified consumers.
  - Collect, as agent of the investment interest owners, "clean energy adjustments" from specified consumers.
  - Hold money received for clean energy adjustments in trust until remittance to the IESO.

- Ontario Energy Board:
  - Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).
  - Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).
  - Review the administrative costs of OPG in connection with the administration of the program.



Note: Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

Schedule 2: Legislative amendments for electricity social programs moving to being government funded

As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:

- Enhancing and providing government funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates
- Enhancing and providing government funding for the Ontario Electricity Support Program (OESP)
- Creating a new First Nation On-Reserve Delivery Credit and providing for government funding

Overview of RRRP and Broadened Distribution Rate Protection:

- Section 79 of the Ontario Energy Board Act would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution cost.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program:

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.
- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.
- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.

- Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
- This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit:

- Energy is proposing legislative amendments that would establish a First Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.
- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

APPENDIX F: ANALYSIS OF FINANCIAL MODELS AND RISKS (UNDER DEVELOPMENT)

Treasury Board Secretariat received two models related to global adjustment refinancing on April 12, 2017:

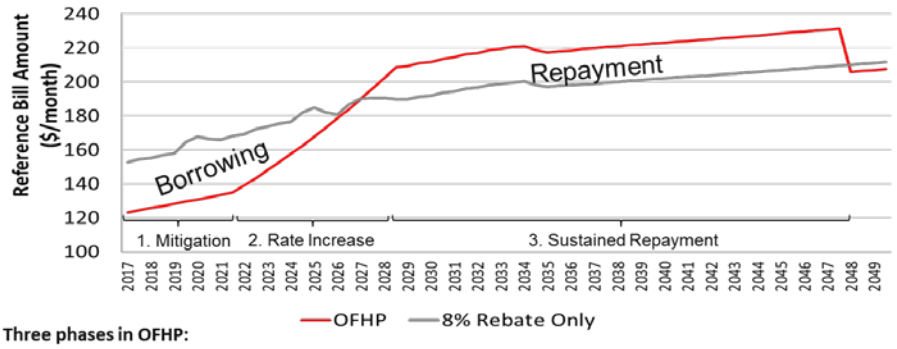
- The model the Ministry of Energy developed and used to support the March 2017 submission
- The financial model that was developed by the Ontario Power Generation (OPG) that provides details regarding the financing of the proposed structure

These models are based on high level aggregates and do not allow TBS to determine the financial impact of potential scenarios in which conditions and forecasts are different. TBS staff have met Ministry of Energy and OPG, and there is agreement for scenarios to be run and for further sensitivity analysis to be undertaken – both to create a risk-based outlook for the province, and to respond to questions that are expected from credit rating agencies.

The Model:

The OFHP can be thought of as having three phases (see diagram):

The model is high level and aggregate, built on other independent forecasts (e.g. IESO demand forecast). There are a large number of assumptions built into the model explicitly and implicitly (as a large number of assumptions are embedded into the other forecasts that are used as inputs into this model).



Three phases in OFHP:

Phase 1: Mitigation
- 2017 bill set 25% lower than original projection (that did not include 8% HST rebate)
- Increase in bill capped to 2% per year until 2021

Phase 2: Rate Increase
- Bill **increases 6.3% each year** to avoid exceeding borrowing limit of $28B
- Planned increases end in 2028 when sustained repayment starts

Phase 3: Sustained Repayment
- Bill remains **10.4% higher** than projected with 8% rebate until 2047
- Difference represents financing repayment
- Total interest paid: **$26.2B**

Model Inputs:

Exogenous Variables
- Interest Rates
- USD/CAD Exchange Rate
- Debt ceiling of $28B (borrowing limit 10% of bill)
- Natural Gas Prices

Policy Parameters
- Use of Toronto Hydro Customer @ 750 kWh as the reference bill
- 25% bill reduction in 2017
- Bill increase capped at CPI annually until 2021
- Rate increase accelerate starting in 2022 in order to never exceed the $28B cap
- Payments set to fully repay by 2047
- Implementation approach

Other Model Inputs
- IESO Demand Forecast (Outlook B)*
- IESO Global Adjustment Forecast*

* includes a large number of variables ranging from: generation costs, federal CO2 price, regulatory charges, energy conservation, technological disruption, exchange rates, load forecasting and seasonal adjustments, etc.)

Analysis of Variables and Risks:

- Interest Rates: the current model is based on a static interest rate of 5%. While this assumption is reasonable in the current low interest rate environment, an increase in interest rates would result in substantially higher residential bills after 2022. For instance, if the interest rates increase from 5% to 7% (historical 30 year average) between 2020 and 2024, financing costs would increase by $11.2B (for a total of $37B). Bill increases from 2022 to 2029 would need to

be 7.3% annually (compared to 6.3% in base case) and the bill would remain 12.5% higher from 2029 to 2047 (compared to 10.4% in the base case).

- Demand: The model uses electricity demand from IESO (Outlook B) as a key input.
    - While IESO forecasts have been very accurate in the short to medium term, historically the forecasts have overestimated demand in medium to long term. If the current forecast, used on the projections, has the same bias, the costs borne by customers in the future may be higher.
    - Similarly, other factors that lower demand (conservation, technology adoption, and self-generation) would increase the costs borne by remaining customers to decease the debt associated with GA refinancing.
    - It should be noted that the reverse is also true, that if higher levels of electrification are achieved and demand increases, the cost of paying off the debt will be spread over a greater number of consumers.

- Any scenario that results in higher financing costs for ratepayers in later years may increase the risk that the regulatory charge to repay would be characterized as an unauthorized tax.

- Appendix H provides a more detailed overview of risks.

Analysis is currently underway to better understand intergenerational costs and benefits and the impact of GA smoothing on recovery charges that would be allowed under the current Eurig compliance rules.

Depending on the legal determination, if the annual increases in bills or the commodity prices will be subject to caps, additional borrowing/provincial funding may be required.

With the shift of electricity social programs costs moving to being funded by government appropriations (Including the 8% rebate, total costs are forecast to be $1.4B in 2017-18), cost forecasting models/assumptions should also under go sensitivity analysis to inform future funding requests.

APPENDIX G: PROVIDING A CREDIT FACILITY TO IESO

After IESO's review of the proposed legislation, it has indicated to the Ministry and the Ontario Financing Authority (OFA)/MOF that IESO may need to cover clean energy costs if for some reason the Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. IESO noted that the proposed legislation does not compel the Trust to purchase 100% of the regulatory asset at anytime. Also, the establishment of the regulatory asset and purchase by the Trust is expected to take three to six months to implement following the introduction of enabling legislation.

The OFA currently provides a $975 million credit facility to the IESO for other purposes, it is proposed that the OFA provide a new credit facility to the IESO, in an amount of up to about $3 billion.

The use of this new credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO.

Approvals Required for OFA Financing

OFA indicates the recommended TB/MBC minute should note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An order-in-council will be sought to allow the OFA to be able to provide the new credit facility to the IESO, for an amount to be determined as per the requirements of the Fair Hydro Plan.

The following approvals are required by the OFA to accommodate the request to provide financing to the IESO:

1) An Order-in-Council is required for the Minister of Finance to lend to the OFA.
2) A Directive from Minister of Finance is required for the OFA to on-lend to the IESO.
3) An executed credit agreement between the OFA and the IESO.

1. Order-in-Council (OIC)

An OIC is required to authorize the Minister of Finance to lend to the OFA. Ministry of Finance Legal Services Branch would need to be engaged to facilitate the request.

- The existing $975 million credit facility was covered under OIC 675/97 which authorized the Minister of Finance to lend a revolving $2.16 billion to the OFA. This OIC was originally obtained in 1997.

It is understood that upon drafting the OIC (by MOF Legal), the OIC would need final approval from Lieutenant Governor in Council LGIC as required under section 22(1) of the *Capital Investment Plan Act*, 1993.

- The OIC would go through Deputy Minister of Finance, Minister of Finance, Chair of Cabinet for briefing/sign-offs and finally to the LGIC for approval.

To draft the OIC, the following details will be required:

i. Dollar Value of Loan from the Minister of Finance to the OFA
ii. Maturity Date of the Loan
iii. Interest Rate of the Loan

The following are recommended to accommodate IESO's need for financing:

i. Dollar Value of Loan:
   $3 billion, as per request. The OIC would provide the maximum limit of any loan to IESO and it may be advisable to add a cushion and provide an OIC for $3.5 billion.

ii. Maturity Date of the Loan:
OIC maturing March 31, 2048 would provide approximately 30-year term to match the Fair Hydro Plan. It may be advisable to add a cushion and set a maturity date to March 31, 2053 (cushion of 5-years).

iii. Interest Rate of the Loan
Interest rates on the loans from the Minister of Finance to the OFA have typically been a 1) Ontario 90-day t-bill rates, 2) flow-through of the rates charged to the third-party by the OFA and/or 3) the rate charged to the third-party by the OFA less 25bps.

OFA recommends to keep this unchanged to provide consistency with past OICs but also to provide flexibility in the rates that could potentially be charged to IESO, to be determined by the Minister of Finance, by way of the Minister's Directive.

2. Minister's Directive

Once the Minister of Finance has the authority under an OIC, a Minister's Directive can authorize the OFA to lend to IESO. The Directive can outline specific terms and conditions as needed.

3. Executed Credit Agreement

With a Minister's Directive approved, the OFA and IESO can work to execute a credit agreement, subject to any terms and conditions of the Directive and any policy considerations.

APPENDIX H: FINANCIAL, LEGAL, ACCOUNTING RISK ASSESSMENTS

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.
- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.
- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and
- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.
- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG’s capital structure:

- OPG would require monthly “equity injections” from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;
- Funds from the Province would flow from the Ontario Financing Authority (OFA); and
- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.
- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset ”OPG Share Purchase” and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG’s business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy’s concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual ratepayers. Note: The reverse is also true in regards to decreasing demand.
- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted. **A statutory cause of action** may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation.The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

APPENDIX I: OVERVIEW OF RISKS

Prepared by TBS staff, the following chart provides an overview of strategic (versus operational) risks to inform the approval/decision making process regarding the proposed legislation. Each part, GA Partial Refinancing & Electricity social programs, is a separate table.

Global Adjustment Partial Refinancing:

Objective: Provide immediate ratepayer relief by capping rate increases at Consumer Price Index (CPI) for four years and refinancing GA costs over a longer period of time. Develop and implement a financing structure that increases provincial borrowing, but has no impact on annual provincial surplus/deficit.

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA smoothing being allocated to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there could be a negative impact on the province's fiscal plan up to $2.5B in 2017-18 and rising. • Rating agencies and investors in the Province's debt may view all of the borrowing as an obligation of the Province, especially taking into account the nature of provincial guarantees, which could put pressure on the Province's credit rating and overall borrowing capacity. • Proposed structure may result in a negative response from Ontario Auditor General (OAG) due to previous concerns regarding recognition of rate regulated assets and liabilities. The AG has already expressed concerns regarding the accounting treatment on the IESO's books which could lead to a qualification of the Province's consolidated financial statements. • Initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to justify structure of financial model and be utilized in discussions with the OAG. • Identify potential options to minimize the balance of rate regulated assets remaining on the IESO's books at fiscal year-end.

Risk	Level of Risk	Risk Response
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.
A legal determination that the Province is spreading the costs of GA financing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Medium **Risk Impact:** High **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and close monitoring of costs and changes in variables built into model. • Analyze the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Moderate **Time Scale:** 12 to 24 months **Rationale** • The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the government to offset a part of the scheduled increases. • Risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.	Risk can be avoided by: • Province providing a potential guarantee for the cost of borrowing – however, would redirect risk back to the Province and negate benefits of proposed financing structure. Risk can be mitigated by: • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • Proposed legislation to enable GA refinancing has been draft with input from third-party financers. Provides a 'narrow' provincial guarantee and ensuring that debt holders have the right of action against a future government to recover the amount outstanding including interest, fees, expenses and any damages.
Risk	**Level of Risk**	**Risk Response**

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA Refinancing having a fiscal impact to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there would be a negative impact on the province's fiscal plan of up to $2.5B in 2017-18 and rising. • Rating agencies and investors in Province's debt may view all of the borrowing as an obligation of the Province, which could put pressure on the Province's credit rating and overall borrowing capacity. • The proposed structure may result in an opinion from the Ontario Auditor General (OAG) considering previous concerns regarding recognition of rate regulated assets and liabilities. The OAG may take this into account when the provincial books are audited. • An initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards. Additional analysis is still required.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to support discussions of the financial model with the OAG.
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.

Risk	Level of Risk	Risk Response
A legal determination that the Province is spreading the costs of GA refinancing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Possible **Risk Impact:** Major **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and ongoing monitoring of costs and changes in variables built into model. • Analysis of the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Refinancing GA costs through an OPG SPV Trust may increase costs and/or require provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Major **Time Scale:** 12 to 24 months **Rationale** • The proposed borrowing structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on the interest rate for borrowing, the amount of equity / funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • There is a risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's own ratings and cost of borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B (in the March 1, 2017 Cabinet Submission) is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the province to offset a part of the scheduled increases. • Fiscal impacts will be subject to fluctuations in Ontario electricity demand, GA and interests rates in the medium-to long term.	Risk can be mitigated by: • Providing a "provincial guarantee" for the cost of borrowing. • Drafting legislation to provide assurance to OPG and investors regarding the permanence of the GA refinancing framework and the authority of the legislation to pass the legislation; and enable the Province to guarantee borrowing of the trust in the event of a market disruption. • Specifics of a guarantee are dependent on the negotiation of agreements not yet initiated. • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost.

Electricity social programs (Enhancing Electricity Support & Conservation Programs):

Objective: Shift funding of existing and new electricity support programs (RRRP, OESP, Affordability Fund, First Nations Credit) from rate to tax base.

Risk	Level of Risk	Risk Response
Uncertainty in forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated fiscal impacts for the Province.	**Risk Likelihood:** Possible **Risk Impact:** Major **Timescale:** 12 to 24 months **Rationale:** • The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate. • Fiscal projection is highly dependent on factors which can fluctuate from year to year, including: o electricity usage; o distributions costs; and o consumer consumption patterns that may change due to extreme weather or other factors. • Fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. o Enhanced RRRP may create disincentives from the eligible LDCs towards productivity and performance improvements and/or cause ineligible LDC's to drive up distribution costs to gain access to program.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the forecasting models.

From:	Strang, James (TBS)
To:	John Kim
Cc:	Ronald Kwan
Subject:	FW: Latest version of the ENE - OFHP note
Date:	Monday, May 08, 2017 6:49:21 PM
Attachments:	3 RAN Ontario Fair Hydro Plan Proposed Leg v5.doc

Latest version..

From: Fung, Felix (TBS)
Sent: May 8, 2017 6:41 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
Subject: RE: Latest version of the ENE - OFHP note

Sorry! The file didn't work in my previous email. Please find attached the note again.

From: Fung, Felix (TBS)
Sent: May-08-17 6:34 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
Subject: Latest version of the ENE - OFHP note

Hi everyone,

Please find attached the latest version of the OFHP assessment note - incorporating feedback from folks today.

Patrick - two things to point out:

- the Ministry requested a new TP line to support "future rate mitigation initiatives". We struck out the minutes related to this request, given a TP can be created in the future once we have a specific future rate mitigation initiative (rather than just creating a placeholder now). However, we thought we would include it on page 12 in case folks do want that minute included.
- We also included the Minute for media buy / ARB request. Let us know if there are any concerns with the language.

Thanks - let us know if there are any concerns. Patrick - we will wait for your ok before we share the note with Energy.

And many thanks to OCPD and COE for all your help and support on this.

Felix

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – March 1, 2017	**Tracking to: Fast Track** LRC at Cabinet – March 10, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan Legislation

I. DECISION BEFORE THE BOARD

Receive a report back on Ontario Fair Hydro Plan implementation, supporting implementation decisions and recommending the proposed Ontario Fair Hydro Plan Act to proceed to LRC and Cabinet for approval.

II. RECOMMENDATIONS:

• Receive a report back on Ontario Fair Hydro Plan implementation progress	*Receive*
• Proposed legislation: o Note key aspects of proposed legislation o Recommend proposed legislation o Direct the Ministry to return to TB/MBC with regulations supporting implementation prior to going to LRC.	*Board Judgement*
• Note outstanding report back requirements,	*Note*
• Approve up to $3.5M funding for media buy procurement, to be followed later by a transfer from the Bulk Media program to fully recover costs for the public education campaign.	*Approve (tbc)*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Affordability Fund	0.0	0.0	0.0
	Global Adjustment Refinancing*^	0.0	0.0	0.0
	Electricity social programs*	499.0	753.0	829.0
	Ontario Rebate for Electricity Consumers	939.0	882.0	882.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

* Subject to enacting proposed Ontario Fair Hydro Plan legislation.
^ As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget, linked to proposed legislation

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017 the Ministry received TB/MBC approval for additional rate mitigation actions that support up to a 25% electricity bill reduction (including the 8% reduction announced in 2016 for an average household in 2017. The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017.

This submission deals with three key elements of the OFHP:

- Refinancing Portion of Global Adjustment (GA) to partially defer RPP eligible ratepayer GA costs (based on a planned non-fiscal impact approach over government funding).
- Expanding and enhancing ratepayer funded electricity social programs and shifting them to being government funded (OESP, RRRP), along with a new government funded On-Reserve First Nations Delivery Credit.
- Expansion of Industrial Conservation Initiative (ICI).
- Media buy procurement.

The Ministry was directed to report back to the Board with proposed legislation supporting OFHP implementation, including the following specific direction regarding a non-fiscal mechanism (approach) to refinancing a portion of Global Adjustment costs (Appendix C provides the March 1, 2017 minute):

- Formal accounting opinions from OPG and IESO auditors.
- Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
- Report on the multi-year profile of GA smoothing, identifying specific assumptions.
- Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
- Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

Direction was also given to report back with final program details, regulations, sensitivity analysis of financial models, and performance metrics for electricity support programs,.

OFHP Implementation Update:

The ministry's current submission does not address all required report back elements. The proposed legislation would establish the legislative framework but key details necessary to assess fiscal and legal risks are outstanding, including regulations, commercial agreements, sensitivity analysis etc. (Ministry is targeting regulations by June 2017 and commercial agreements subsequently).

Appendix D provides an overview of the Ministry's implementation update.

Financial Implications

Electricity Social Programs:

March 1, 2017 TB/MBC approvals supporting OFHP included full year projected costs. The 2017 Ontario Budget included refined projected costs shifting expanded/enhanced electricity social programs from ratepayers to being government funded starting in 2017-18, lowering the total amount from $665M to $499M to reflect rollout timing not full year costs. The table below shows expense amounts currently in the PRRT multi-year fiscal plan related to these support programs for the most vulnerable consumers.

Government Funded Social Programs ($million)	2017-18	2018-19	2019-20	2020-22
Rural or Remote Rate Protection (RRRP)	344	472	484	497
Ontario Electricity Support Program	140	261	325	375
On-Reserve First Nations Delivery Credit	15	20	20	20
Total	**499**	**753**	**829**	**892**

TBS Staff Comments:
The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate, and factors which can fluctuate from year to year. Also, fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. To mitigate risk, development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the forecasting models should be undertaken to inform future updates to cost forecasts for the programs above and the Ontario Rebate for Electricity Consumers (With 2017-18 costs estimated at about 1B).

GA Refinancing:

The proposed Fair Hydro Act, 2017 is a complex transaction and attempts to balance several key factors including financeability, accounting treatment and legal considerations by:

- Supporting financeability through a number of features, including a provincial undertaking not to interfere with clean energy adjustments once determined, which will be backstopped by a guarantee, and provisions intended to reduce borrowing costs and attract a wide investor base;
- Addressing the necessary accounting requirements through mechanisms to record funding, interest and the transfer of regulatory assets to avoid a fiscal impact to the province; and
- Mitigating legal risk by developing a methodology that attempts to ensure an alignment of costs with benefits to future rate payers.

Key elements of this schedule of the bill include (An overview of elements):

<u>Specified Consumers</u>
- The defined group of consumers to whom the “Fair Adjustment” applies. Prescribed consumers include residential consumers, farms, small businesses, condominiums, long-term care homes and co-operative housing. These are primarily consumers eligible for the RPP, and aligns with the eligibility under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA).

<u>Clean Energy Costs</u>
- Clean energy costs are those costs that arise from the “clean energy initiative” and are allocated to the specified consumers for past, present and expected costs.
- The clean energy costs include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act*, *1998* (basically, the GA)

<u>Fair Adjustment</u>
- The adjustment to rates to ensure intergenerational fairness.
- July 1, 2017- April 30, 2018- reduction in rates for “specified consumers” based on a 25% reduction for a prescribed typical consumer.
- May 1, 2018- June 30, 2021- the bill allows for rates to be set by regulation (see page 17- Fiscal Pressure).

<u>Fair Allocation Amount</u>
- Principles established in the bill require proper alignment over time between the costs of providing facilities for clean electricity generation and conservation (“clean energy costs”) and the consumers

who benefit from these investments.
- The Minister of Energy sets the fair allocation amount, and is required to:
  - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods" (typically every 6 months); and,
  - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (see page 16- Legal Risk; page 17- Fiscal Pressure);
  - Align these costs with clean energy benefits expected to be received by rate payers in the future.

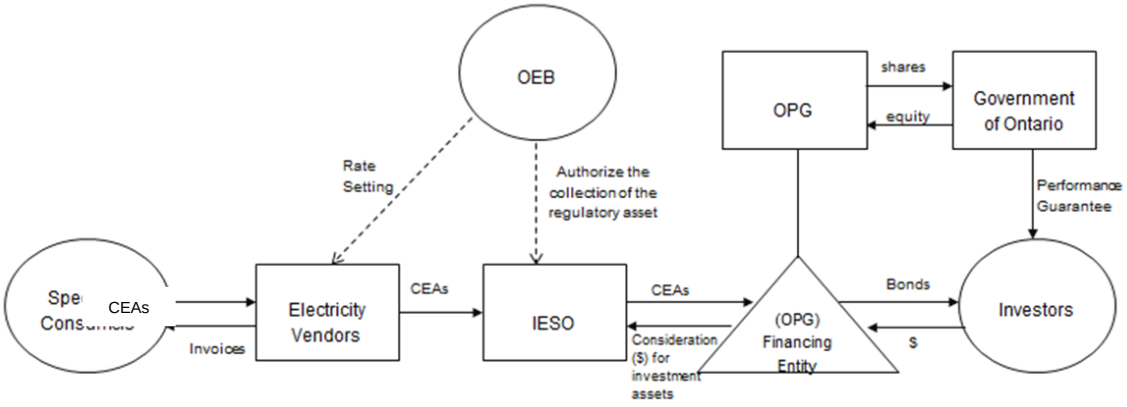
Clean Energy Adjustment
- Determined by Financial Services Manager (OPG), the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principal, interest, transaction costs and administrative costs associated with the fair adjustment and consistent with the fair allocation amount.
- In accordance with the regulations, the OEB to calculate the rate at which specified consumers are invoiced to recover the clean energy adjustment.

Regulatory Asset and Investment Asset
- A regulatory asset is created as IESO defers its right collect a portion of the rates that it would have otherwise received from customers/LDCs if not for the implementation of the Fair Adjustment.
- Subject to OEB approval, IESO records the funding shortfall as a regulatory asset. Collection rights are deferred until July 1, 2021.
- The Financing Plan contemplates the Financial Services Manager (OPG) establishing financing entities (OPG Trust/SPV) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset for the investment asset owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 4 years (July 1, 2021) the IESO has the right to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority (OFA) (see page 17- Fiscal Pressure).
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Financing Plan
- In practical terms, the Financing Plan is intended to show how debt (with varying incurrence dates, maturities and interest rates) will be used over time.
- Prepared by the Financial Services Manager (OPG), the Financing Plan is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO. Plan to be provided to the Minister of Energy.

Crown Undertaking (Guarantee or Backstop)
- The bill provides that no action or omission of the Crown, OEB, or the Minister would be effective to reduce, impair, or postpone or terminate the obligations of specified consumers to pay the clean energy adjustment.
- The Ministers of Energy and Finance together, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill, including regarding the performance of the IESO or electricity vendors under the bill.
- The Ministers of Energy and Finance together, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.

Financing Structure (Provided by Ministry)



Note: CEAs are "clean energy adjustments".

TBS Staff Comments – 2017 Ontario Budget:
The 2017 Budget also includes an investment operating asset of $1.1B related to the Province's equity injection to OPG, enabling the OPG Trust to regularly purchase IESO's regulatory asset through 2017-18. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt which would be offset by increased earnings of OPG from interest revenue. Under the anticipated accounting treatment, the Province's net debt would remain unchanged as the equity investment in OPG would offset the additional Provincial borrowing.

Projected annual amounts of GA deferrals (i.e., the regulatory asset) are shown below and are not part of the province's multi-year fiscal plan (2017 Budget (as they are assumed to be funded from electricity ratepayers under the proposed legislation). Appendix E provides analysis of financial models. The maximum amount of GA deferral under the proposed model would be about $3.5B in 2020, prior to the start of the rate recovery period.

($million)	2017-18	2018-19	2019-20	2020-22
GA Refinancing - Residential Bills lowered by 25%	2,534	2,668	2,942	3,420
Interest Portion (5% annually, compounded monthly)	32	162	298	449

Under GA refinancing, ratepayers will incur interest costs and will be added to the GA payments ratepayers make.

- OPG intends to use a Special Purpose Vehicle (OPG Trust) to purchase for cash the "right to collect" the deferred amounts from the IESO which would be reflected as intangible assets by the Trust. OPG Trust will be structured to finance 51% of its funding requirements through the capital market with the remaining 49% being provided by OPG as subordinated debt. The 49% subordinated debt from OPG will be financed though debt from the capital markets (about 5%) and through equity injections from the Province (44%).

- The proposed legislation does not compel the OPG Trust to purchase 100% of the regulatory asset created by IESO at any given time. The IESO has noted that it may need to cover clean energy costs if for some reason the OPG Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. On behalf of IESO, the Ministry is requesting a credit facility for IESO, up to about $3B, and notes the use of this credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO, especially where GA deferrals remain on the IESO's books at fiscal year-end. Appendix F provides more information.

<u>Financial, Accounting, Legal Risk Assessments:</u>

The March 1, 2017 TB/MBC Minute, refinancing the Global Adjustment to partially defer RPP eligible

ratepayer GA costs, was subject to completed legal, accounting and financing risk assessments. Appendix G provides more details from the Ministry to what appears below. TBS staff comments are flagged.

Financial

The Ministry indicates it has prepared legislation and is working on developing regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is not rendered not fully recoverable based on a future change made in the legislation.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year. The intention of the guarantees is to make them as narrow as possible.

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

The Ministry indicates the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost.

The Ministry also acknowledges given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term, and the rate of inflation.

TBS Staff Comments – (See Appendix H for a more in-depth discussion)

- *Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increases in line with CPI.*
- *If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.*
- *If a favourable legal and accounting treatment is not implemented, there could be a negative impact on the province's fiscal plan up to $2.5B in 2017-18 and rising.*
- *The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee.*
- *Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.*
- *Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.*
- *Credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province,*

impacting Province's ratings and cost of borrowing.
- *Providing a credit facility for IESO to manage while GA deferrals are pending sale, up to about $3B, could result in fiscal plan implications if GA deferrals remain on the IESO's books at the Province's fiscal year-end. IESO is consolidated onto the Province's books.*

Accounting

The ability to implement the GA deferral plan under a non-fiscal impact approach is subject to some uncertainty. While the legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y, many specifics remain outstanding and will only be addressed through future regulations and commercial agreements.

The Ministry indicates the following:
- Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations, satisfying accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

KPMG:
- The proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. KPMG's accounting opinion however, is in draft pending additional details to be addressed in regulations and commercial agreements.
- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.
- The regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset on IESO books to an investment asset on OPG Trust's books).

TBS Staff Comment – The Auditor General has raised concerns regarding the appropriateness of reporting rate regulated assets on the IESO's books under public sector accounting standards, which may lead to a qualified audit opinion on the consolidated financial statements of the Province.

OPG/E&Y:
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.
- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.
- Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

TBS Staff Comment – OPG's external auditors, E&Y, have provided feedback regarding the proposed

accounting treatment; however, it is subject to assumptions and limitations, including outstanding details to be addressed in supporting regulations and commercial agreements.

Legal

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.
- Judges can be expected to take a careful look at the government's evidence in support of the re-allocation of Global Adjustment.
- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.
- The provincial assurance provision - Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes. The proposed legislation focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers.
- The provincial guarantee provisions are intended to backstop the provincial assurance provision Legal risk to the province will be assessed as the agreements are negotiated and drafted.
    - The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.
- Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry indicates it retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements.

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. The Ministry indicates Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

The Ministry's signed submission included external opinions and assessments for Ontario Power Generation (Accounting), KPMG Letter to the Independent Electricity System Operator (Accounting Opinion), Ernst &Young (as auditors) letter to OPG concurring with OPG's description of OPG

accounting considerations of OFHP.

TBS Staff Comments Overall:
TBS staff note external opinions and assessments are supportive of the Ministry's intended plan for implementing Ontario's Fair Hydro Plan, noting the opinions and assessments must be revisited once key implementation details are finalised (e.g. draft legislation, regulations, special purpose vehicle documents, terms of conditions within various other agreements). Future reassessments, Navigant's analysis of expected lifecycle of existing generation infrastructure(key), and other factors such as Ontario electricity demand, interest rates in the medium to long-term, and the rate of inflation may contribute to fiscal plan implications emerging over time.

TBS staff also note, while submission details and related discussions have not indicated a non-fiscal mechanism cannot be established, the complexity of the transaction and the time frame involved suggest it is not reasonable, at present, to support a claim of no impact on the province's fiscal plan as the Ontario Fair Hydro Plan is implemented (Appendix I includes a strategic level risk assessment prepared by TBS staff).

Ultimately, GA Refinancing being a sustainable strategy assumes electricity consumers' willingness to accept later to bear the extra costs of deferring electricity price hikes.

Media Procurement Request

The Ministry is requesting approval up to $3.5M funding for media buy procurement, to be followed later by a transfer later from the Bulk Media program, $2.5M in 2017-18, to recover costs for the public education campaign in 2017-18 only.

The Ministry indicates spending about $1M on media planning and buying for radio and digital media in 2016-17, forecasting $2.5M in 2017-18 as the cost for television media space is substantially higher than radio, and has indicated no ask for 2018-19. The $3.5M approval request looks to be partly retroactive to include the $1M in 2016-17.

Name of analyst:	James Strang With input from CO, COE, OPCD and OFA	**Phone number:**	416-327-2071
Date:	May 8, 2017	**Log number:**	
Branch / Division:	GGPR, PEMD, COE, OPCD/Treasury Board Secretariat Ontario Financing Authority/ Ministry of Finance		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

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

Receive the report back on proposed legislation supporting implementation of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

i) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

a) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
b) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
c) Shift from electricity consumer funding to funding out of voted appropriations for Ontario Electricity Support Program, and for majority of costs for existing RRRP.
d) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

a) Establishing the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
b) Requirement for future consumers to pay the clean energy adjustment that backs financings
c) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
d) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
e) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights
f) Sets out that security interests can be granted in investment interests in the investment asset

ii) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

iii) Note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments.

iv) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of

proposed regulations prior to going to LRC, along with risk implications and mitigation strategies

In this regard,

a) Direct the Ministry to include a report on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.
b) Direct the Ministry to report back with final program details for 2017-18 for GA Refinancing and Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.
c) Direct the Ministry to report back with risk mitigation strategies that address key financial and operational risks.

v) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the broadened program now government funded
   - Report on and assessment of impacts of consolidation of LDCs
   - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Identify eligibility criteria, and refinements being made.
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, results achieved to date versus expectations

for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

vi) Direct the Ministry to include as part of outstanding electricity social programs report backs details of models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

vii) (TBC) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.
b) Note the Ministry of Energy will return to TB/MBC to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

~~viii) (TBC) Approve creation of a new transfer payment entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-1. In this regard,~~

~~a) Approve an expenditure increase of $1,000 in Price Mitigation Support Initiatives Transfer Payment Vote/item 2905-1, offset from Services in Ministry Administration Vote/item 2901-1, to support future rate mitigation initiatives.~~
~~b) Direct the Ministry to seek TB/MBC approval prior to transferring any funding to the Price Mitigation Support Initiatives Transfer Payment Vote/item 2905-1 providing details for future rate mitigation initiatives being funded.~~

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX D: ONTARIO FAIR HYDRO PLAN IMPLEMENTATION UPDATE

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998 (Appendix D provides details of each):

- Legislative amendments for electricity social programs
- Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment partial refinancing)

Legislative amendments for electricity social programs

Electricity social programs becoming government funded under OFHP target residential electricity customers disproportionately affected by increased electricity costs.

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The proposed bill amends the *Ontario Energy Board Act, 1998* for various electricity social programs:

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001. The bill enables the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial appropriations, rather than from electricity.

Appropriated funds would be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the government funding provided.

Distribution Rate Protection (Broadened RRRP)

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

The proposed legislation would enable a broader government funded Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge for consumption on or after July 1, 2017.

If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The legislation contains retroactive application of the provisions to offset any potential lapses in implementation and ensure that consumers receive the benefit following the July 1st effective date through to the final effective date of October 1st, 2017.

On-Reserve First Nations Delivery Credit

The proposed bill would enable the provision of a government funded on-reserve First Nations Delivery Credit (FNDC), which would eliminate the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The program is premised around the findings in an OEB Report submitted to the Ministry on December 29, 2016 providing advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers.

Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program to being government funded, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid by all Ontario consumers on May 1, 2017. On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will come into effect on May 1, 2017.

The proposed bill would move the recently expanded Ontario Electricity Support Program (OESP) to government funding, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program (ODSP) and Ontario Works (OW) to potentially allow for automatic enrolment procedures to be established.

The Ministry indicates the proposed legislative amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment (GA) Refinancing)

Refinancing a portion of GA is intended to provide significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

The Ministry indicates under OFHP, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017 (This includes the 8% Ontario Rebate for Electricity Consumers). In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Reflecting March 2017 approvals (See Appendix C for March 2017 TB/MBC minute), proposed legislation for GA Refinancing is designed to establish a non-fiscal impact mechanism. Minuting indicated proceeding with GA Refinancing requires completed legal, accounting and financing risk assessments.

The proposed approach to GA Refinancing is complex. Appendix D provides proposed legislative details.

- At a high level, the proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future.

    - July 1, 2017, to April 30, 2018, reduces, on average, after-tax electricity costs for "specified consumers" by 25% (inclusive of the 8% rebate and shifting of support program to be government funded).
    - May 1, 2018, to June 30, 2021, electricity rates will be prescribed by regulation with the intention to keep increases in line with the Consumer Price Index (CPI).
    - July 1, 2021, to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs.
    - Through the proposed bill and amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998, expands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to provide for appropriate oversight, put in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the refinanced GA costs.

Consumers would see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG, through a special purpose vehicle (OPG Trust) is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The proposed bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Expansion of Industrial Conservation Initiative (ICI)

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and "1114") in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

The Ministry is also undertaking targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants.

- The extent of the impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

APPENDIX E: PROPOSED FAIR HYDRO ACT OVERVIEW

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two schedules:

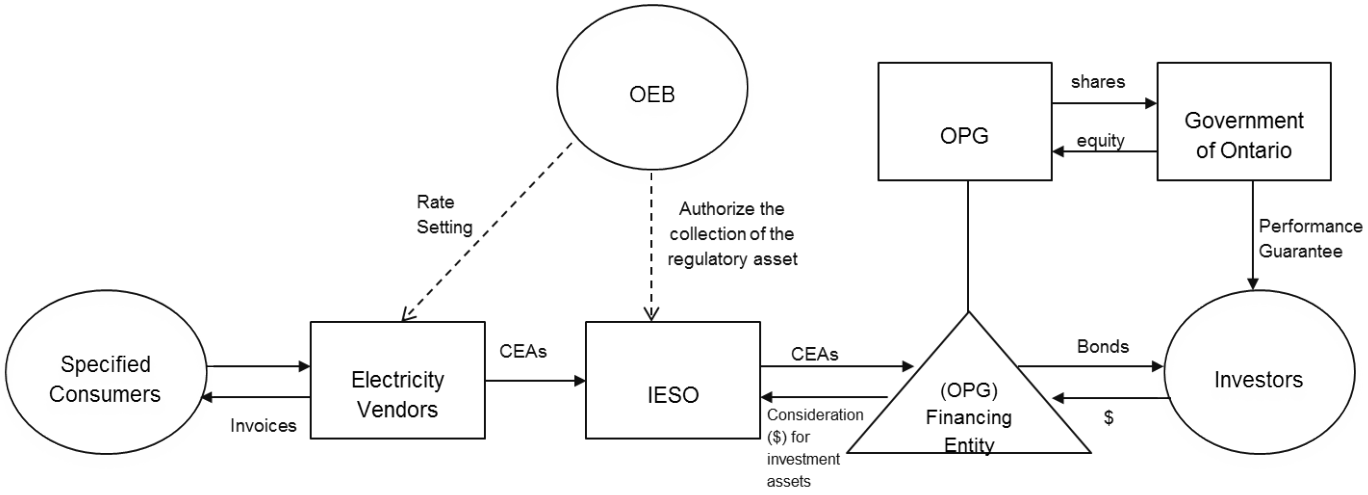
- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Dealing with Global Adjustment (GA) refinancing).
- Schedule 2: Legislative amendments for electricity social programs (See Appendix D1)

The Ministry has provided the following overview of the proposed legislation:

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (GA refinancing).

Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system (Clean Energy Initiative) creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations. The diagram below outlines how the refinancing of GA would be implemented.



Note: CEAs are "clean energy adjustments"

Clean Energy Costs and Benefits:

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (the Global Adjustment provisions) which relate to contracts for:
  - Renewable energy generation or capacity
  - Conservation and demand management, including shortage
  - Energy efficiency
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*
  - Other such costs to be included in "clean energy costs" may be prescribed

- These are the costs to be distributed fairly among the specified consumers through the "fair allocation amount".

Fair Allocation Adjustment:

- Part II establishes that the rate that will be payable by "specified RPP consumers" from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the "comparison rate". The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.
- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).
- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.
- The Minister sets the fair allocation amount.

    - The establishment of the "fair allocation amount" is required to,
        - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods"; and
        - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).
    - The "fair allocation amount" is to have regard to:
        - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the "specified consumers" (in the applicable "reference periods");
        - Reasonable assumptions regarding the time value of money, the number of consumers in the "reference period"; and
        - Expected electricity consumption for the reference period.

Regulatory Asset and Investment Asset:

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets.
- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a "regulatory asset". In simple terms, the regulatory asset is IESO's right to recover the revenues that it has deferred collecting.
- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities. OPG financing entities are not required to purchase the regulatory asset.
- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".
- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

Issuance and Payment of Debt:

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.
- The financings will be backed primarily by the "clean energy adjustments" payable by specified consumers. The "clean energy adjustments" will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the "fair allocation amounts" ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).
- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity's related funding obligations.
- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario's undertakings not to adversely affect the program through subsequent legislation.

Financing Plan:

- The Financing Plan is prepared by the Financial Services Manager (OPG).
- The Financing Plan is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.
- There are rules that apply to the Financing Plan:
  - It must align with the "estimated finance amount" that will become due and payable during a "reference period";
  - It must take into account the "fair allocation" and any "fair adjustment";
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancing, redemption opportunities and liquidity, and similar assumptions).
- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.
- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

Who Does What?

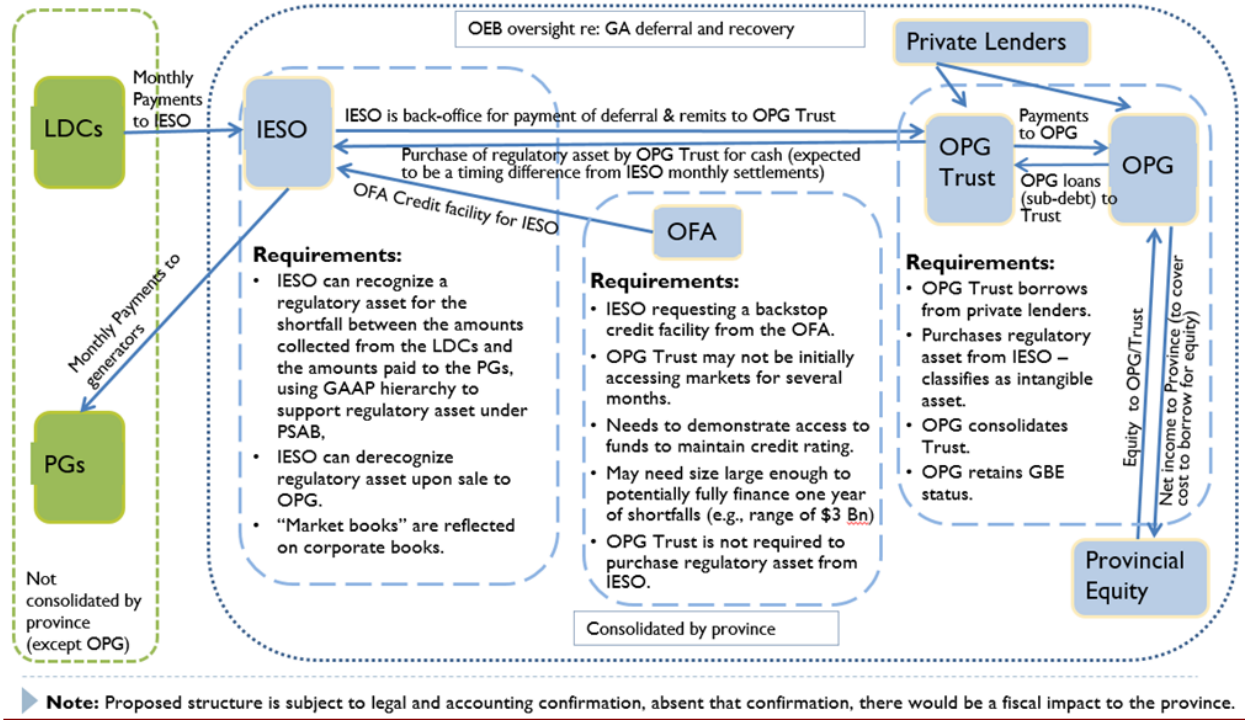
- Minister of Energy – Determine the "fair allocation amount" applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.
- Ontario Power Generation (OPG) – As financial services manager, OPG will be responsible for the following under the Act:
  - Prepare and implement Financing Plan.
  - Establish and administer the financing entities.
  - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.

- Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

- Independent Electricity System Operator (IESO):
  - Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.
  - Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.
  - Coordinates the collection of "clean energy adjustments" from Electricity Distributors.
  - Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.
  - Fund initial interest costs and expenses during the first 4 years.

- Local Distribution Companies (LDCs):
  - Obligation to invoice specified consumers.
  - Collect, as agent of the investment interest owners, "clean energy adjustments" from specified consumers.
  - Hold money received for clean energy adjustments in trust until remittance to the IESO.

- Ontario Energy Board:
  - Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).
  - Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).
  - Review the administrative costs of OPG in connection with the administration of the program.



Note: Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

Schedule 2: Legislative amendments for electricity social programs moving to being government funded

As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:

- Enhancing and providing government funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates
- Enhancing and providing government funding for the Ontario Electricity Support Program (OESP)
- Creating a new First Nation On-Reserve Delivery Credit and providing for government funding

Overview of RRRP and Broadened Distribution Rate Protection:

- Section 79 of the Ontario Energy Board Act would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution cost.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program:

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.
- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.
- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.

- Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
- This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit:

- Energy is proposing legislative amendments that would establish a First Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.
- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

APPENDIX F: ANALYSIS OF FINANCIAL MODELS AND RISKS (UNDER DEVELOPMENT)

Treasury Board Secretariat received two models related to global adjustment refinancing on April 12, 2017:

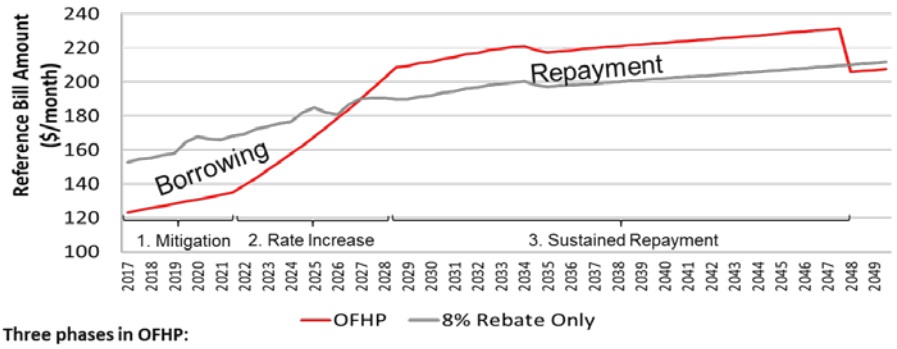
- The model the Ministry of Energy developed and used to support the March 2017 submission
- The financial model that was developed by the Ontario Power Generation (OPG) that provides details regarding the financing of the proposed structure

These models are based on high level aggregates and do not allow TBS to determine the financial impact of potential scenarios in which conditions and forecasts are different. TBS staff have met Ministry of Energy and OPG, and there is agreement for scenarios to be run and for further sensitivity analysis to be undertaken – both to create a risk-based outlook for the province, and to respond to questions that are expected from credit rating agencies.

The Model:

The OFHP can be thought of as having three phases (see diagram):

The model is high level and aggregate, built on other independent forecasts (e.g. IESO demand forecast). There are a large number of assumptions built into the model explicitly and implicitly (as a large number of assumptions are embedded into the other forecasts that are used as inputs into this model).



Three phases in OFHP:

Phase 1: Mitigation
- 2017 bill set 25% lower than original projection (that did not include 8% HST rebate)
- Increase in bill capped to 2% per year until 2021

Phase 2: Rate Increase
- Bill **increases 6.3% each year** to avoid exceeding borrowing limit of $28B
- Planned increases end in 2028 when sustained repayment starts

Phase 3: Sustained Repayment
- Bill remains **10.4% higher** than projected with 8% rebate until 2047
- Difference represents financing repayment
- Total interest paid: **$26.2B**

Model Inputs:

Exogenous Variables
- Interest Rates
- USD/CAD Exchange Rate
- Debt ceiling of $28B (borrowing limit 10% of bill)
- Natural Gas Prices

Policy Parameters
- Use of Toronto Hydro Customer @ 750 kWh as the reference bill
- 25% bill reduction in 2017
- Bill increase capped at CPI annually until 2021
- Rate increase accelerate starting in 2022 in order to never exceed the $28B cap
- Payments set to fully repay by 2047
- Implementation approach

Other Model Inputs
- IESO Demand Forecast (Outlook B)*
- IESO Global Adjustment Forecast*

* includes a large number of variables ranging from: generation costs, federal CO2 price, regulatory charges, energy conservation, technological disruption, exchange rates, load forecasting and seasonal adjustments, etc.)

Analysis of Variables and Risks:

- Interest Rates: the current model is based on a static interest rate of 5%. While this assumption is reasonable in the current low interest rate environment, an increase in interest rates would result in substantially higher residential bills after 2022. For instance, if the interest rates increase from 5% to 7% (historical 30 year average) between 2020 and 2024, financing costs would increase by $11.2B (for a total of $37B). Bill increases from 2022 to 2029 would need to

be 7.3% annually (compared to 6.3% in base case) and the bill would remain 12.5% higher from 2029 to 2047 (compared to 10.4% in the base case).

- Demand: The model uses electricity demand from IESO (Outlook B) as a key input.
    - While IESO forecasts have been very accurate in the short to medium term, historically the forecasts have overestimated demand in medium to long term. If the current forecast, used on the projections, has the same bias, the costs borne by customers in the future may be higher.
    - Similarly, other factors that lower demand (conservation, technology adoption, and self-generation) would increase the costs borne by remaining customers to decease the debt associated with GA refinancing.
    - It should be noted that the reverse is also true, that if higher levels of electrification are achieved and demand increases, the cost of paying off the debt will be spread over a greater number of consumers.

- Any scenario that results in higher financing costs for ratepayers in later years may increase the risk that the regulatory charge to repay would be characterized as an unauthorized tax.

- Appendix H provides a more detailed overview of risks.

Analysis is currently underway to better understand intergenerational costs and benefits and the impact of GA smoothing on recovery charges that would be allowed under the current Eurig compliance rules.

Depending on the legal determination, if the annual increases in bills or the commodity prices will be subject to caps, additional borrowing/provincial funding may be required.

With the shift of electricity social programs costs moving to being funded by government appropriations (Including the 8% rebate, total costs are forecast to be $1.4B in 2017-18), cost forecasting models/assumptions should also under go sensitivity analysis to inform future funding requests.

APPENDIX G: PROVIDING A CREDIT FACILITY TO IESO

After IESO's review of the proposed legislation, it has indicated to the Ministry and the Ontario Financing Authority (OFA)/MOF that IESO may need to cover clean energy costs if for some reason the Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. IESO noted that the proposed legislation does not compel the Trust to purchase 100% of the regulatory asset at anytime. Also, the establishment of the regulatory asset and purchase by the Trust is expected to take three to six months to implement following the introduction of enabling legislation.

The OFA currently provides a $975 million credit facility to the IESO for other purposes, it is proposed that the OFA provide a new credit facility to the IESO, in an amount of up to about $3 billion.

The use of this new credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO.

Approvals Required for OFA Financing

OFA indicates the recommended TB/MBC minute should note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An order-in-council will be sought to allow the OFA to be able to provide the new credit facility to the IESO, for an amount to be determined as per the requirements of the Fair Hydro Plan.

The following approvals are required by the OFA to accommodate the request to provide financing to the IESO:

1) An Order-in-Council is required for the Minister of Finance to lend to the OFA.
2) A Directive from Minister of Finance is required for the OFA to on-lend to the IESO.
3) An executed credit agreement between the OFA and the IESO.

1. Order-in-Council (OIC)

An OIC is required to authorize the Minister of Finance to lend to the OFA. Ministry of Finance Legal Services Branch would need to be engaged to facilitate the request.

- The existing $975 million credit facility was covered under OIC 675/97 which authorized the Minister of Finance to lend a revolving $2.16 billion to the OFA. This OIC was originally obtained in 1997.

It is understood that upon drafting the OIC (by MOF Legal), the OIC would need final approval from Lieutenant Governor in Council LGIC as required under section 22(1) of the *Capital Investment Plan Act*, 1993.

- The OIC would go through Deputy Minister of Finance, Minister of Finance, Chair of Cabinet for briefing/sign-offs and finally to the LGIC for approval.

To draft the OIC, the following details will be required:

i. Dollar Value of Loan from the Minister of Finance to the OFA
ii. Maturity Date of the Loan
iii. Interest Rate of the Loan

The following are recommended to accommodate IESO's need for financing:

i. Dollar Value of Loan:
   $3 billion, as per request. The OIC would provide the maximum limit of any loan to IESO and it may be advisable to add a cushion and provide an OIC for $3.5 billion.

ii. Maturity Date of the Loan:
OIC maturing March 31, 2048 would provide approximately 30-year term to match the Fair Hydro Plan. It may be advisable to add a cushion and set a maturity date to March 31, 2053 (cushion of 5-years).

iii. Interest Rate of the Loan
Interest rates on the loans from the Minister of Finance to the OFA have typically been a 1) Ontario 90-day t-bill rates, 2) flow-through of the rates charged to the third-party by the OFA and/or 3) the rate charged to the third-party by the OFA less 25bps.

OFA recommends to keep this unchanged to provide consistency with past OICs but also to provide flexibility in the rates that could potentially be charged to IESO, to be determined by the Minister of Finance, by way of the Minister's Directive.

2. Minister's Directive

Once the Minister of Finance has the authority under an OIC, a Minister's Directive can authorize the OFA to lend to IESO. The Directive can outline specific terms and conditions as needed.

3. Executed Credit Agreement

With a Minister's Directive approved, the OFA and IESO can work to execute a credit agreement, subject to any terms and conditions of the Directive and any policy considerations.

APPENDIX H: FINANCIAL, LEGAL, ACCOUNTING RISK ASSESSMENTS

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.
- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.
- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and
- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.
- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG’s capital structure:

- OPG would require monthly “equity injections” from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;
- Funds from the Province would flow from the Ontario Financing Authority (OFA); and
- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.
- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset ”OPG Share Purchase” and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG’s business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy’s concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual ratepayers. Note: The reverse is also true in regards to decreasing demand.
- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted. **A statutory cause of action** may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation.The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

APPENDIX I: OVERVIEW OF RISKS

Prepared by TBS staff, the following chart provides an overview of strategic (versus operational) risks to inform the approval/decision making process regarding the proposed legislation. Each part, GA Partial Refinancing & Electricity social programs, is a separate table.

Global Adjustment Partial Refinancing:

Objective: Provide immediate ratepayer relief by capping rate increases at Consumer Price Index (CPI) for four years and refinancing GA costs over a longer period of time. Develop and implement a financing structure that increases provincial borrowing, but has no impact on annual provincial surplus/deficit.

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA smoothing being allocated to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there could be a negative impact on the province's fiscal plan up to $2.5B in 2017-18 and rising. • Rating agencies and investors in the Province's debt may view all of the borrowing as an obligation of the Province, especially taking into account the nature of provincial guarantees, which could put pressure on the Province's credit rating and overall borrowing capacity. • Proposed structure may result in a negative response from Ontario Auditor General (OAG) due to previous concerns regarding recognition of rate regulated assets and liabilities. The AG has already expressed concerns regarding the accounting treatment on the IESO's books which could lead to a qualification of the Province's consolidated financial statements. • Initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to justify structure of financial model and be utilized in discussions with the OAG. • Identify potential options to minimize the balance of rate regulated assets remaining on the IESO's books at fiscal year-end.

Risk	Level of Risk	Risk Response
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.
A legal determination that the Province is spreading the costs of GA financing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Medium **Risk Impact:** High **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and close monitoring of costs and changes in variables built into model. • Analyze the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Moderate **Time Scale:** 12 to 24 months **Rationale** • The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the government to offset a part of the scheduled increases. • Risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.	Risk can be avoided by: • Province providing a potential guarantee for the cost of borrowing – however, would redirect risk back to the Province and negate benefits of proposed financing structure. Risk can be mitigated by: • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • Proposed legislation to enable GA refinancing has been draft with input from third-party financers. Provides a 'narrow' provincial guarantee and ensuring that debt holders have the right of action against a future government to recover the amount outstanding including interest, fees, expenses and any damages.
Risk	**Level of Risk**	**Risk Response**

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA Refinancing having a fiscal impact to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there would be a negative impact on the province's fiscal plan of up to $2.5B in 2017-18 and rising. • Rating agencies and investors in Province's debt may view all of the borrowing as an obligation of the Province, which could put pressure on the Province's credit rating and overall borrowing capacity. • The proposed structure may result in an opinion from the Ontario Auditor General (OAG) considering previous concerns regarding recognition of rate regulated assets and liabilities. The OAG may take this into account when the provincial books are audited. • An initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards. Additional analysis is still required.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to support discussions of the financial model with the OAG.
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.

Risk	Level of Risk	Risk Response
A legal determination that the Province is spreading the costs of GA refinancing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Possible **Risk Impact:** Major **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and ongoing monitoring of costs and changes in variables built into model. • Analysis of the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Refinancing GA costs through an OPG SPV Trust may increase costs and/or require provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Major **Time Scale:** 12 to 24 months **Rationale** • The proposed borrowing structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on the interest rate for borrowing, the amount of equity / funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • There is a risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's own ratings and cost of borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B (in the March 1, 2017 Cabinet Submission) is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the province to offset a part of the scheduled increases. • Fiscal impacts will be subject to fluctuations in Ontario electricity demand, GA and interests rates in the medium-to long term.	Risk can be mitigated by: • Providing a "provincial guarantee" for the cost of borrowing. • Drafting legislation to provide assurance to OPG and investors regarding the permanence of the GA refinancing framework and the authority of the legislation to pass the legislation; and enable the Province to guarantee borrowing of the trust in the event of a market disruption. • Specifics of a guarantee are dependent on the negotiation of agreements not yet initiated. • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost.

Electricity social programs (Enhancing Electricity Support & Conservation Programs):

Objective: Shift funding of existing and new electricity support programs (RRRP, OESP, Affordability Fund, First Nations Credit) from rate to tax base.

Risk	Level of Risk	Risk Response
Uncertainty in forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated fiscal impacts for the Province.	**Risk Likelihood:** Possible **Risk Impact:** Major **Timescale:** 12 to 24 months **Rationale:** • The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate. • Fiscal projection is highly dependent on factors which can fluctuate from year to year, including: o electricity usage; o distributions costs; and o consumer consumption patterns that may change due to extreme weather or other factors. • Fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. o Enhanced RRRP may create disincentives from the eligible LDCs towards productivity and performance improvements and/or cause ineligible LDC's to drive up distribution costs to gain access to program.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the forecasting models.

From:	John Kim
To:	Bruno Amara
Cc:	Shajee Kathirgamanathan; Salman Qadir
Subject:	FW: Latest version of the ENE - OFHP note
Date:	Monday, May 08, 2017 8:34:01 PM

Fyi.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: May-08-17 6:51 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: RE: Latest version of the ENE - OFHP note

Karen mentioning Gadi providing financing assessment? I think in the new format, easier for OFA Staff Comments to appear alongside TBS Staff Comments.

From: Strang, James (TBS)
Sent: May 8, 2017 6:49 PM
To: Kim, John (OFA)
Cc: Kwan, Ronald (OFA) (Ronald.Kwan@ofina.on.ca)
Subject: FW: Latest version of the ENE - OFHP note

Latest version..

From: Fung, Felix (TBS)
Sent: May 8, 2017 6:41 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
Subject: RE: Latest version of the ENE - OFHP note

Sorry! The file didn't work in my previous email. Please find attached the note again.

From: Fung, Felix (TBS)
Sent: May-08-17 6:34 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
Subject: Latest version of the ENE - OFHP note

Hi everyone,

Please find attached the latest version of the OFHP assessment note - incorporating feedback from folks today.

Patrick - two things to point out:

- the Ministry requested a new TP line to support "future rate mitigation initiatives". We struck out the minutes related to this request, given a TP can

be created in the future once we have a specific future rate mitigation initiative (rather than just creating a placeholder now). However, we thought we would include it on page 12 in case folks do want that minute included.

- We also included the Minute for media buy / ARB request. Let us know if there are any concerns with the language.

Thanks - let us know if there are any concerns. Patrick - we will wait for your ok before we share the note with Energy.

And many thanks to OCPD and COE for all your help and support on this.

Felix

From: Deena Padamadan
To: John Kim
Subject: FW: MO Bi-weekly Agenda
Date: Friday, May 12, 2017 9:59:07 AM
Attachments: Annotated Agenda MO May 2 2017 final.docx

Hi John,

Just wanted to check on EFB's updates for the MO bi-weekly agenda?

Thanks,
Deena

From: Deena Padamadan
Sent: Wednesday, May 10, 2017 10:09 AM
To: Emily Kerr <Emily.Kerr@ofina.on.ca>; Mara Bakic <Mara.Bakic@ofina.on.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: MO Bi-weekly Agenda

Hello all,

The next MO bi-weekly meeting will be on Monday, May 15th, 2017. To prepare for the meeting, could you please provide me with your annotated agenda by **EOD Thursday, May 12th, 2017** for Ron to review?

I have attached the previous agenda for your reference.

Please let me know if you have any questions.

Thank you,
Deena

ANNOTATED AGENDA
MO UPDATE: May 2, 2017

ELECTRICITY & ASSET OPTIMISATION RELATED ISSUES

1. Ontario Fair Hydro Plan – Equity Injection

Staff from CEFD, OFA capital markets, Ministry of Finance, and OPG continue to discuss the mechanics behind an equity injection between the Province and OPG to support the Ontario Fair Hydro Plan.

- The CEFD and EIGS staff are working to establish clarity and steps required on the Provincial approvals for the equity injection.

2. IESO Credit Facility – $975M for Market

- IESO raised the potential requirements for financing the Fair Hydro forecast variances.
    - The possibility was raised of the IESO relying on the existing $975M credit facility provided by the OFA to provide short term financing until the OPG SPV purchases the IESO regulatory asset.
    - It was also discussed to have a new, separate facility to better track the amounts related to the FHP.
    - One of the main uses of the current $975M credit facility is to provide liquidity into the electricity market to support various initiatives including the Regulated Price Plan (RPP), the Rural or Remote Electricity Rate Protection (RRRP), the new Ontario Electricity Support Program (OESP), the various conservation programs and overall market liquidity.
    - The $975M facility was not intended to provide long-term financing.
- In the Minister's Directive signed November 28, 2016, facilitates the lending agreement between the OFA and IESO until the end of 2019 and has the term restriction of 28 to 95 days, essentially providing short-term liquidity for the IESO.

3. Cochrane Solar Project Issue

- The Cochrane Solar Project (CSP) submitted its application to the Aboriginal Loan Guarantee Program (ALGP) early in 2015.
    - The Applicant purchased its equity interest in October 2015.
    - The Applicant is owned by two First Nations, one was the recent beneficiary of an ALGP guarantee for its ownership interest in the Peter Sutherland Sr. Generating Station.
    - The other First Nation has shown frustration at the lack of progress on the ALGP application for the CSP.

- In early 2017 ALGP staff became aware that the CSP is only performing at 75% of forecast for the nineteen months ended January 2017. The underperformance is attributable to snow accumulation on the panels. Winters to date actually witnessed higher temperatures and lower accumulation of snowfall compared to averages for the area.
    - The CSP has also experienced significant cost overruns due to foundation issues. The increased capital costs (~25%) were borne by Northland Power Inc. (the Applicant's Partner "NPI").
- For this application staff have considered an outright decline to the application or alternatively propose to size the guarantee based upon, e.g., accepting actual output to date as reflective of the longer term average.
    - Generally, the ALGP would size the loan based upon a statistically conservative analysis compared to forecast as opposed to having actual output data.
    - Even based on actual data to date, the loan supportable would be an estimated about half the amount applied for to be guaranteed – TBD, subject to further due diligence.
- If the partner can develop an effective and successfully evidenced snow clearing plan, a guarantee may be increased at a later date. It should be noted that snow clearing is not well developed in the solar industry and that a guarantee at this time would reflect a more aggressive view to output than the ALGP would normally employ and as such the risk of a call under the guarantee would increase.
- Also noteworthy is that the partnership between the Applicant and NPI is not unwound in the event that a guarantee is not awarded. NPI would then be in a realization position of monies advanced to the Applicant with the possible outcome that the ownership interests of the Applicant are extinguished by NPI.

4. Recovery of Standstill NUG payments

- On April 19, 2017 the Minister of Energy sent a letter to the Minister of Finance requesting that the Minister direct OEFC to recover retroactive payments to standstill NUGs through the Independent Electricity System Operator's (IESO) settlement process over a six month period to ensure greater consistency with the smoothed cost recovery for Regulated Price Plan electricity consumers.
    - OEFC Legal has advised that aside from a direction an indication (via email or letter) from the Minister that it concurs with the Minister of Energy's request that the recovery be done over six months would be sufficient for OEFC to initiate recovery over six months.
- In the past, for the recovery of retroactive payments to applicant NUGs (who were party to the lawsuit), the Deputy Minister of Energy sent a letter to the CEO of OEFC requesting that recovery of the retroactive payments occur over three months. While the Minister of Energy did not write the Minister of Finance, staff for OEFC did consult with the Minister's Office on this request.

5. OPG 2017-19 Business Plan

- OPG submitted its 2017-19 Business Plan to the Ministry of Energy for concurrence, and the Plan will be submitted to Treasury Board for review in May.
- The OPG BP submission pre-dates the proposed plan for OPG's role in the Fair Hydro Plan.
- CEFD is currently reviewing the draft TB submission materials and will work with TBS on the assessment note.

From: John Kim
To: Bruno Amara
Subject: FW: MO Bi-weekly Agenda
Date: Wednesday, May 10, 2017 10:17:00 AM
Attachments: Annotated Agenda MO May 2 2017 final.docx

Hi Bruno,

Do we have any items worth mentioning in the annotated agenda?

John

From: Deena Padamadan
Sent: Wednesday, May 10, 2017 10:09 AM
To: Emily Kerr <Emily.Kerr@ofina.on.ca>; Mara Bakic <Mara.Bakic@ofina.on.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>
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From:	John Kim
To:	Angie Georgakakos
Subject:	FW: MO Bi-weekly Agenda
Date:	Tuesday, June 06, 2017 5:05:21 PM
Attachments:	Annotated Agenda MO May 29 2017_CEFD_v2.docx

Would you consider taking over some of these? Maybe get Eden to follow up with people?

From: Gavin He
Sent: Tuesday, June 06, 2017 4:54 PM
To: Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Mara Bakic <Mara.Bakic@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>
Subject: MO Bi-weekly Agenda

Hi all,

The next MO bi-weekly meeting will be on Monday, June 12th, 2017. To prepare for the meeting, could you please provide me with your annotated agenda by **EOD Thursday, June 8th, 2017** for Ron to review?

I have attached the previous agenda for your reference.

Please let me know if you have any questions.

Thanks,
Gavin He

ANNOTATED AGENDA
MO UPDATE: May 29, 2017

1. Benefit to OEFC under s. 50.3 of the *Electricity Act, 1998*

- On May 9, 2017, Treasury Board approved the statutory appropriation allowing the Ministry of Finance to make a payment under s.50.3 of the *Electricity Act, 1998* related to the secondary offering of Hydro One shares in April 2016.
    - In April 2017, the Minister approved an amount of $411,152,733 to be paid to OEFC from the share sale.
- CEFD staff are now moving forward to seek the Minister of Finance's approval to direct a payment to OEFC under s.50.3, through a remission of OEFC debt owed to the Province.
    - The Minister's authority under the *Electricity Act, 1998* includes making the payment to OEFC in a form other than cash, including by granting a remission of all or part of a debt owed by OEFC to Ontario.
    - In 2016, as a consequence of the November 2015 Hydro One IPO, the Minister of Finance provided a financial benefit to OEFC of approximately $172M by granting a remission of debt owed to the Province.
- The Minister's approval would allow for the remission of OEFC debt maturing on June 21, 2017 in the amount of $411,152,733 noted above.
    - To execute the debt remission on June 21, 2017, the Minister's approval must be received, ideally at least 7 days in advance.

2. IESO Credit Facility – FHP Requirements

- IESO raised the potential requirements for financing the Fair Hydro forecast variances.
    - A letter requesting incremental credit facility room of $1.5 Bn in potential borrowing requirements is requested, composed of a new FHP-purpose facility of $2 bn, and a reduction of the existing $975 million facility to $475 million.
- Staff are preparing a draft Minister's Directive to the OFA to provide the new and revised facilities to the IESO.
- To allow for this, an Order-in-Council (OIC) will be required to borrow money from the Province. CEFD staff is currently working on the OIC and it's tracking towards the June 27th LRC date, together with Energy's LRC submission.

3. MNO Solar Inc. ALGP Application

- The Ministry of Finance is continuing negotiations with MNO related to broadening the ownership of Hydro One to MNO. While the current position is to offer $15M in seed capital for an MNO investment vehicle, that offer was declined by MNO. MNO has asked for assistance related to its ALGP application.

- The MNO Solar Inc. project is a portfolio of 50 small solar projects with an aggregate nameplate capacity of about 13 MW. All sites have reached commercial operation.
- In July 2016, MNO Solar Inc. received a *conditional* offer of a loan guarantee under the ALGP for $6.471 million. MNO accepted the conditional offer in August 2016.
- At this point, there is no reason to believe that the guarantee agreement will not be successfully concluded within usual ALGP parameters.
- OFA comments on some key documentation, including the limited partnership agreement, and intercompany loan agreements, remain unaddressed. The process of documentation negotiation between parties usually takes several months, though timing could be shorter or longer.
- The financial model and project report are currently being updated from the versions at the time of the conditional offer.

  These are being updated to reflect recently received information (Amortization schedules for the Intercompany Loan Agreement, a summary of operating costs to-date, and a summary of historical generation to-date), to support the conclusion of the guarantee process and the final loan sizing supportable under the ALGP.

4. Cochrane Solar Project Update

- The Applicant and its project partner continue to consider whether they wish to pursue a guarantee well below the amount of the application (~50%) or whether they wish to defer their application until a proven snow clearing plan can be demonstrated.

5. Other Applicants to the ALGP

- Staff are continuing to work on ALGP applications for three wind electricity generating projects (the 300 MW Henvey Inlet Wind project, the 100 MW Belle River Wind project, and the 100 MW North Kent Wind project – the latter two were awarded power purchase agreements under the Green Energy Investment Act), and the Wataynikaneyap transmission project.

6. NUG Curtailment

- In order to facilitate a curtailment agreement between the Independent Electricity System Operator (IESO) and Northland Power for its Iroquois Falls NUG facility, Northland has requested that OEFC agree to suspend rather than terminate its Power Purchase Agreement (PPA) with Iroquois Falls for the remainder of the PPA term. The Iroquois Falls PPA expires at the end of 2021.
- Northland does not want to terminate the PPA as they believe a termination could make it difficult for Iroquois Falls to make a claim against OEFC if it disagrees with OEFC's calculation of the escalation and indexation used in the Iroquois Falls PPA, which is also proposed to be used in a curtailment agreement with IESO.

- Staff have sent a proposed termination agreement to Northland that provides assurance to Northland of OEFC's continued calculations of the indices on the basis of the original PPA; Staff are currently awaiting a response from Northland.

7. Recovery of Standstill NUG payments

- On April 19, 2017 the Minister of Energy sent a letter to the Minister of Finance requesting that the Minister direct OEFC to recover retroactive payments to standstill NUGs through the Independent Electricity System Operator's (IESO) settlement process over a six month period to ensure greater consistency with the smoothed cost recovery for Regulated Price Plan electricity consumers.
- A response letter has been drafted for the Minister of Finance's signature that will serve as both a response to Minister of Energy and as an authorization for OEFC to recover payments over 6 months.
- The OEFC would recover the first of these six payments from the IESO for the upcoming monthly settlement, based on agreement from Minister's staff, pending the Minister's signed response letter, if such is not possible prior by May 29.

OTHER ISSUES

8. OLG seeks approval to obtain a $91.8M loan for Lottery Terminals and Network Expansion (LT&N) Program

- In May 2017, OFA received a business case and loan request for $91.8M from OLG to finance the replacement and expansion of OLG's lottery terminals and networks.
    - OLG is engaged in a procurement process for the lottery terminals and network expansion. A Request for Proposals (RFP) is expected to be released May 30, 2017.
- OLG is requesting approval by July 17, 2017 to support providing financing, and completion of a loan agreement by January 2018.
- CEFD staff are currently reviewing the business case in order to seek the Minister's approval for a loan by July 17, 2017.
    - CEFD staff are working with OFA legal on drafting a Minister's directive, pursuant to subsection 16(2) of the *Capital Investment Plan Act, 1999*.
    - In addition to the directive, the Minister would also be asked to sign
        - Approval documents, pursuant to subsection 4(3) of the *Ontario Lottery and Gaming Corporation Act, 1999* and subsection 28(1) of the *Financial Administration Act*; and
        - A letter addressed to President and CEO of OLG, regarding arranging financing through the OFA.

9. College Class Exemption Regulation

- Expecting request from MAESD Minister to Minister of Finance for limited college class exemption regulation based on materiality thresholds.
- For the time being it is assumed that colleges are not going to be exempted entirely at this time (pending a review of regulations under the revised legislation – including business cases on potential sectors to prescribe or not), and MAESD is expected to be proceeding with the request for a more limited class exemption under the existing FAA s.28 provisions.

10. Immigrant Investor Program – Notice of Termination

- The Ministry of Citizenship and Immigration is seeking the Minister of Finance's immediate approval to suspend the receipt of funds from the Federal Immigrant Investor Program (IIP) to the Ontario Immigrant Investor Corporation (OIIC), for the purposes of enabling the OIIC to meet its planned wind down date, which is expected to be in fiscal 2021-22.
- The Province can trigger a suspension if the Minister of Finance were to send a termination notice to the federal Minister of Immigration, Refugees and Citizenship advising that the Province would no longer guarantee the repayment of any future provincial allocations transferred to the OIIC after a specific date.
    - The termination notice should be delivered before the next allocation of federal monies. Otherwise the wind down of the OIIC could be pushed back to 2022-23.
- OIIC will continue to manage prudently the existing funds under its administration to ensure that the outstanding obligations to immigrant investors will be met in their entirety.

11. Metrolinx Fuel Hedging

- Metrolinx is planning to hedge its fuel costs by entering into financial derivatives contracts with Canada's six largest banks. In order to do so, Metrolinx must obtain Minister of Finance approval of its amended investment by-law and a new borrowing by-law as well as s. 28 approval.
- A formal request has been sent by the Minister of Transportation to the Minister of Finance and a briefing package has been prepared for the Minister.

- Metrolinx Fuel Hedging – with DMO, they may/may not require a briefing
    - Metrolinx is keen to begin hedging between 20 and 30% of their annual fuel costs. Given the fall of fuel prices over the past two years they have benefited from waiting, but now their advisors are telling them they need to begin hedging to achieve budgetary price certainty.
    - Minister's approval required for the by-laws and the contingent liabilities in the ISDA agreements.

From:	John Kim
To:	Bruno Amara
Subject:	FW: May 4th Meeting Material | | DM/MO Briefing | Rate Mitigation/OPG Business Plan/H1
Date:	Thursday, May 04, 2017 9:30:33 AM
Attachments:	Ontario Fair Hydro Plan - Key Definitions.docx 2017 05 03 OFHP Summary v08.pptx 2017 04 25 OPG Business Plan Review v12.pptx

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From: Ronald Kwan
Sent: Wednesday, May 03, 2017 10:20 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: FW: May 4th Meeting Material | | DM/MO Briefing | Rate Mitigation/OPG Business Plan/H1

Hi,

See attached.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-03-17 6:51 PM
To: Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: RE: May 4th Meeting Material | | DM/MO Briefing | Rate Mitigation/OPG Business Plan/H1

Hi,

Please see the attached with revisions from OFA. Thanks Ron for your edits.

Scott

From: Nelms, Scott (MOF)
Sent: May 3, 2017 6:22 PM
To: Nancy Kennedy (MOF) (Nancy.Kennedy@ontario.ca); Mayman, Gadi (OFA) (Gadi.Mayman@ofina.on.ca); Kwan, Ronald (OFA) (Ronald.Kwan@ofina.on.ca)
Subject: May 4th Meeting Material | | DM/MO Briefing | Rate Mitigation/OPG Business Plan/H1

Fyi – Attached is the next iteration of the placemat and definitions page for tomorrow morning's briefing with DM / MO.

Ontario Fair Hydro Plan – Key Definitions

- **Clean Energy Initiative** – This is the term used to describe the Government of Ontario's policies to foster growth and investment in and remove barriers and promote opportunities for clean and renewable energy sources and technologies and promoting conservation and demand management. The "clean energy costs" under the legislation arise from the "clean energy initiative". Its purpose is to establish the fundamental basis for the legislation. The definition is self-explanatory and is as follows:

  "clean energy initiative" means the policies of the Government of Ontario related to,

  a) *eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,,*
  b) *removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,*
  c) *promoting conservation, demand management and energy efficiency; and*
  d) *investing in energy infrastructure to ensure a clean, modern and reliable system;*

- **Clean Energy Costs** – These are costs (attributable to the "clean energy initiative") that are to be more fairly distributed among generations of consumers.
- **Clean Energy Benefits** – These are the value of the benefits derived by the "specified consumers" (including the clean energy costs).
- **Clean Energy Adjustments** – This is adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing.
- **Fair Adjustment** – This is the adjustment that gives the "relief" to certain specified consumers during the period from July 1, 2017 to June 30, 2021 (including this program's portion of the 25 per cent reduction).
- **Fair Allocation Amount** – This is the concept/mechanism by which the fair distribution of "clean energy costs" (including, for example, financing costs, the cost of the power contracts, and the costs of the fair adjustment) is calculated and implemented.
- **Specified Consumers** – This is the defined group of consumers to whom the legislative program applies. These consumers are persons who have an account with an electricity vendor for the supply of electricity in Ontario and,
  - have a demand for electricity of 50 kilowatts or less (or as otherwise prescribed);
  - annually use not more than 250,000 kilowatt hours of electricity (or as otherwise prescribed);
  - carry on a farming business (basically pursuant to the *Farm Registration and Farm Organizations Funding Act*);
  - have an account with an electricity vendor that is for a "dwelling", condominium property, residential complex or co-operative housing; or
  - are otherwise prescribed.
- **Regulatory Asset** – This is fundamentally IESO's right to recover the revenues that it has deferred collecting because the clean electricity costs are being allocated across generations of ratepayers.
- **Investment Asset** – This is the asset that results when the regulatory asset is transferred to the (OPG) financing entities.
- **The Financing Plan** is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.

Ontario's Fair Hydro Plan

Context

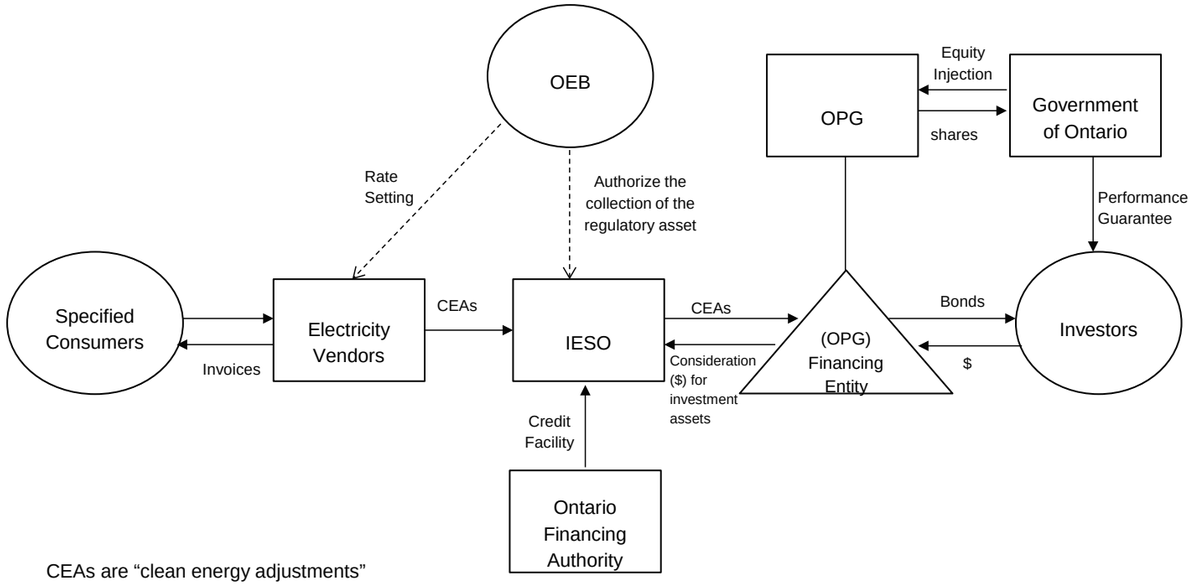
- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. Some small businesses and farms would also benefit
- Any rate increases for typical residential consumers over the next four years would be held to inflation
- To implement the OFHP, ENERGY has prepared proposed legislation (Ontario Fair Hydro Plan Act) in close collaboration with the Ontario Energy Board (OEB), Independent Electricity System Operator (IESO), Ontario Power Generation (OPG), partner ministries (TBS, MOF and MAG), external advisors

OFHP Act Overview

- The proposed legislation balances ratepayer interests, accounting objectives, market expectations and legal considerations
- It is built around the core principle that costs incurred to move to a clean, reliable system creates benefits across generations, and costs that should be spread more fairly. Pre-defined terms (see definitions) form the building blocks for this structure
- Roles and responsibilities are established in legislation:
  - Minister of Energy: sets Fair Allocation Amounts for all periods, at the beginning of the plan
  - OPG: acts as Financial Services Manager, sets the Financing Plan, establishes financing entities, purchases assets from IESO, and will drive invoice amounts to customers
  - IESO: creates funding shortfall / regulatory asset, sells to OPG, acts as agent to collect from ratepayers and funds initial interest costs
  - OEB: sets customer rates, establishes regulatory asset for IESO, reviews OPG's administrative costs
- A significant portion of the legislation is designed to ensure the financeability of the program and recoverability from ratepayers
- *Key considerations:*
  - Legislation sets the first Fair Allocation Adjustment and end date of 2047; amounts for intervening years set in regulation
  - Several Provincial guarantees to be negotiated to enable financing without imposing undue cost / risk on Province
  - Province's role constrained once the program underway (e.g. cannot remove OPG as financial services manager)
  - Modelling underway to ensure principle of cost / benefit alignment underlying the program is justifiable
  - Energy has received approval to provide equity injections to OPG to fund sub-debt (see diagram)
  - OFA working with IESO to provide an additional credit facility – requires approvals/Directive from Minister of Finance (see diagram)

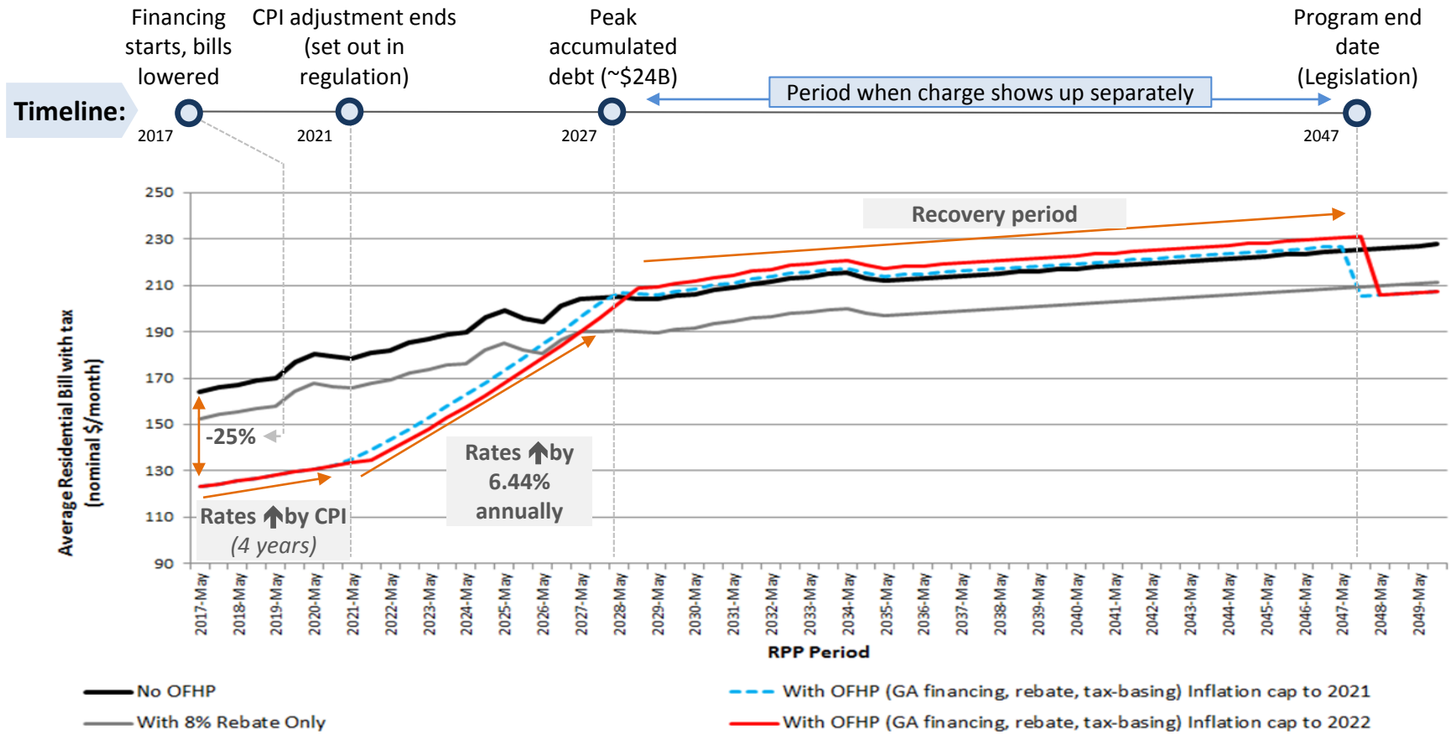
GA Financing Overview

Financing Structure



CEAs are "clean energy adjustments"

Residential Bill ($ per month average)



Ontario's Fair Hydro Plan (cont'd)

Electricity Support to Help the Most Vulnerable*

Broadening of the Rural or Remote Protection Program	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	344	472	484	497
Overview	Expand the existing program and harmonize distribution rates for customers in the top high-distribution cost LDCs, and shifting costs to the tax base				
Updates	Legislative amendments enable shifting costs to the tax base, and create a new distribution rate protection program for 8 LDCs				
Next Steps	Regulation amendments to be posted shortly after legislation is introduced in order to facilitate implementation by July 1				

Ontario Electricity Support Program	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	140	261	325	375
Overview	Improve the existing program to enhance benefits and increase uptake through streamlined applications and expanded eligibility to include additional households				
Updates	LRC on April 10th which expanded program benefits by 50% (effective May 1). Authority to allow data sharing between OEB/MCSS to support participation of Ontario Works/Ontario Disability and Support Program clients. OEB will continue to administer the OESP program. Proposed legislation will come into force via a proclamation OIC.				
Next Steps	Legislation enables shifting cost tax base; OEB authorities remain until variance account is exhausted (expected fall 2017)				

On-Reserve First Nations Delivery Credit	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	15	20	20	20
Overview	Establish a credit to remove delivery charges for 21,500 on-reserve First Nations residential customers				
Updates	Establish authority to create delivery credit and provide for tax-based funding in legislation				
Next Steps	Regulation amendments to be posted shortly after legislation is introduced in order to facilitate implementation by July 1				

Affordability Fund	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	100		Up to 100 additional		
Overview	Fund has been established through local distribution companies to help consumers in need to make energy efficiency improvements				
Updates	Advisory committee established and has recommended reps. from Hydro One, Alectra and Thunder Bay Hydro to act as trustees; 2 social services trustees to be selected soon				
Next Steps	Report back to TB/MBC in June 2017 with final program details and a performance management framework; LDCs begin to apply to the Trust for funds in summer 2017				

*Note: out years subject to change

Other Elements / Considerations

- *Revised cost forecast for "Ontario Rebate for Electricity Consumers"* for an amount equivalent to 8% provincial portion of HST: Key measures announced in OFHP are expected to reduce the cost of the 8% rebate for the Province as the total cost of electricity paid by eligible customers, upon which the rebate is based, will be reduced. The revisions are as follows compared with estimates in September 8, 2016*:

	2017-2018	2018-2019	2019-2020	2020-2021
ENERGY Estimate (Sept 8, 2016) ($ million)	1,119	1,086	1,171	n/a
ENERGY Revised Estimate (March 15, 2017) ($ million)	939	882	882	895
Change: March 15, 2017 vs Sept 8, 2016	*-16%*	*-19%*	*-25%*	*n/a*

***NOTE:** The estimates are subject to variances as result of uncertainties in demand, natural gas prices and other factors. These uncertainties also impact the variance account for the Regulated Price Plan (RPP).

- *Industrial Conservation Initiative:* LRC on April 10th which expanded the program for manufacturing sectors, plus greenhouses and new 500Kw threshold (vs 1 MW for other consumers). Energy working with CME and OCC on outreach campaigns on benefits of ICI and other conservation initiatives
- *Bill Presentment:* Targeting a re-design of the bill for Fall 2017. For the interim period the Ministry plans to include bill inserts describing the program
- *Auditor General (AG) / Financial Accountability Officer (FAO):* The Ministry has met with both offices and is circulating information in response to follow up requests. The AG also engaged with IESO through its IT value-for-money audit

Ontario

MINISTRY OF
ENERGY

Ontario Power Generation (OPG) 2017-19 Business Plan and Special Status Application

May 2017

Context

- As required by the Memorandum of Agreement (MOA) between Ontario Power Generation and the Minister of Energy, OPG provided its Business Plan for 2017-2019 to the Ministry of Energy on November 29, 2016 for concurrence
  - Note that while OPG is seeking concurrence for its three year 2017-19 business plan, the plan also includes financial projections for 2020 and 2021
- With this Business Plan OPG is also making an application for Special Status under the Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive, which allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business
- The Minister's concurrence requires presentation of OPG's business plan before TB/MBC
- The Ministry of Energy review and analysis of OPG's business plan is supported by the Electricity Investment and Governance Secretariat, a unit within the Ministry of Finance and the Corporate and Electricity Finance Division of the Ontario Financing Authority (OFA)
- The following presentation provides an overview of OPG's business plan, including:
  1. Business Plan Overview
  2. Other Considerations

Context *(cont'd)*

- Proceeding with Provincial concurrence now will demonstrate that OPG has support from its shareholder as it implements the plan and provides clarity to the Ontario Energy Board (OEB) as it reviews OPG's current rate application covering the 2017-2021 period

- Business plan forecasts may be affected by Ontario's Fair Hydro Plan (OFHP). Given the stage of implementation of OFHP and the timing of the receipt of the business plan in November 2016, these changes are not reflected in OPG's plan

  - The Ministry anticipates that as part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed partly by capital infusions from the Province, and majority by third-party lending

  - These changes are generally expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income

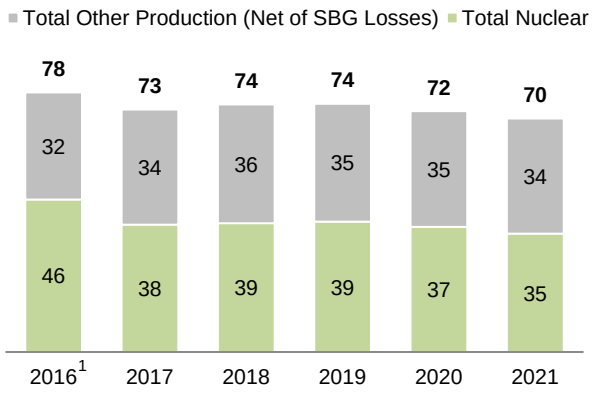
  - In addition, the Province's net debt position would remain unchanged

1. Business Plan Overview

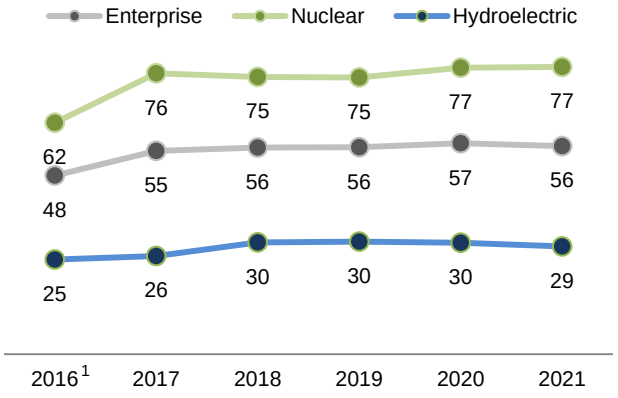
a) Production & Total Cost of Generation

- OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016
  - Reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016
  - Includes a partial overlap starting in 2021 between second and third unit refurbishments, and
  - Includes the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage
- While Operations, Maintenance and Administration (OM&A) remains relatively stable over the planning period (see next slide), total generating cost (TGC)* shows an increasing trend over the planning period relative to 2016, reflecting:
  - Lower nuclear production due to Darlington refurbishment outages, and
  - Increased sustaining capital spending (included in TGC) on two large hydroelectric projects, the Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation

Production (TWh)



Total Generating Cost ($/MWh)



1. Actuals

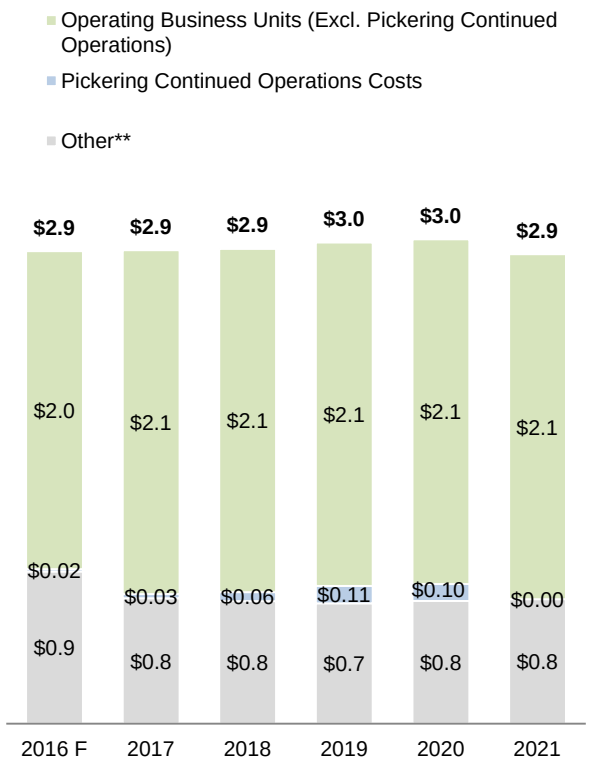
*TGC = OM&A expenses from ongoing operations + fuel and Gross Revenue Charge expenses for OPG-operated stations + sustaining capital expenditures) divided by OPG generation adjusted for surplus baseload generation losses

1. Business Plan Overview

b) Operations, Maintenance and Administration (OM&A) Expenses

- Annual OM&A expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year
- Increases over 2016 are mainly attributable to:
  - Increases in business unit expenditures, including changes in nuclear outage scope at Darlington, and planned hiring to fill staffing gaps
  - Incremental outage and other program costs to enable Pickering continued operations
- These increases are partially offset by declining pension and Other Post Employment Benefits (OPEB) costs over the period due to projected pension asset returns, increased employee contributions, and adoption of a new method for applying discount rates to determine interest components of pension costs

OM&A from Ongoing Operations* ($B)



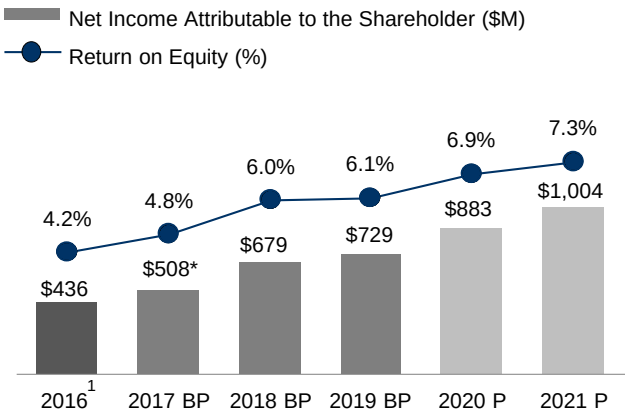
*Excludes Darlington refurbishment OM&A expenses and all OEB variance and deferral account offsets
** Includes centrally held pension /OPEB costs and support services

1. Business Plan Overview

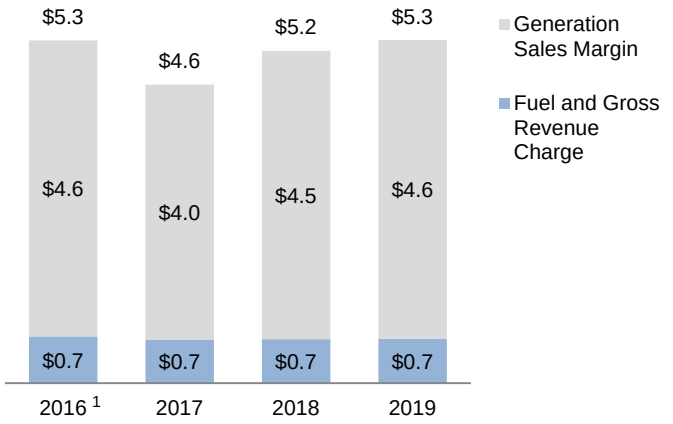
c) Financials

- OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $436M in 2016
  - 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations
  - Net income in 2018 and 2019 is planned to increase, primarily due to higher forecast production, and earnings from Peter Sutherland Sr. GS starting in 2017 and Nanticoke solar facility starting in 2019
- As a result, return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021
- Overall, the 2017-19 Business Plan is largely unchanged relative to last year's plan in terms of commitments for Net Income, and Total Shareholder Return
- In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust

Net Income ($M) and ROE (%)



Revenue Margin ($B)



*Includes extraordinary gain associated with the sale of OPG head office

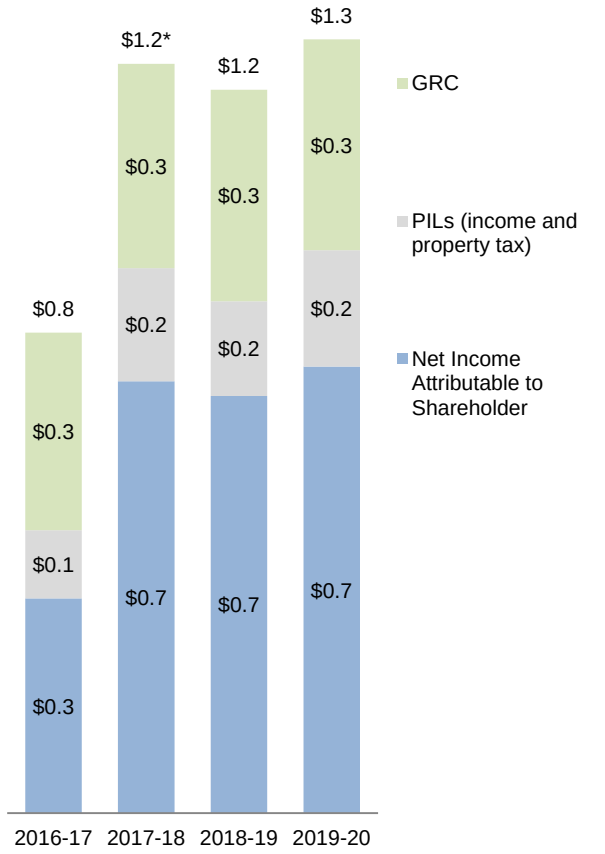
1. Actuals

1. Business Plan Overview

d) Provincial Fiscal Impacts: Shareholder Return and Payments-in-Lieu of Taxes

- Total fiscal revenue impacts to the Province, including net income return to the shareholder and payments-in-lieu of taxes, averages ~$1B over the period
  - Provincial revenues from OPG are dedicated to servicing and paying down stranded debt and the investment cost of the Province acquiring the equity in OPG[1]
- Return to the shareholder improves due to changes in net income, which OPG attributes to:
  - Assumed OEB rate outcomes
  - Completion of the first Darlington unit refurbishment
  - Further cost efficiencies
- Net income is consolidated by the Province as Revenue from Government Business Enterprises (GBEs)
- Income tax PILs, Gross Revenue Charges (GRC) and property tax PILs paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down stranded debt are consolidated in Public Accounts under Taxation Revenue
- OPG also pays a portion of the GRC to the Province's Consolidated Revenue Fund (CRF)

Total Fiscal Revenues ($B)



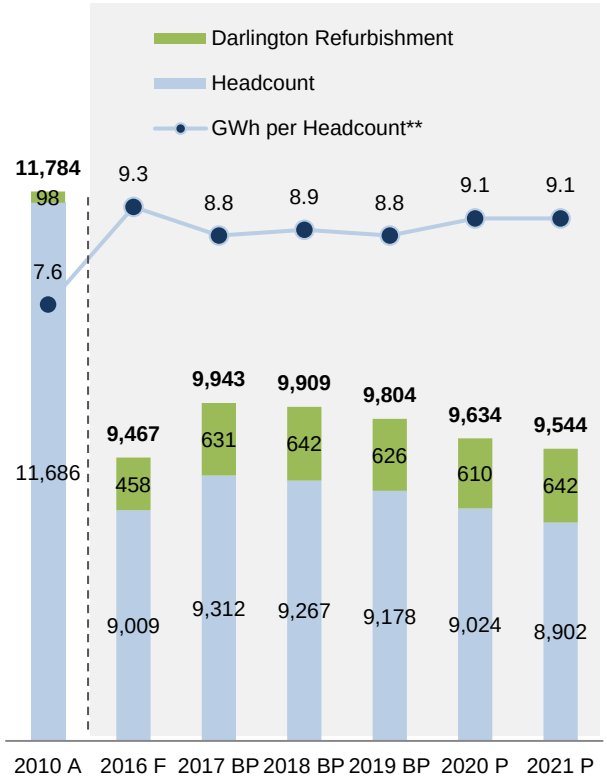
1. Aside from the water power rental portion of the GRC, paid to the CRF.
*Includes gain associated with the sale of OPG head office

1. Business Plan Overview

e) Business Transformation Initiative & Labour Costs

- As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016
  - Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3
- However, OPG is ramping up recruitment between 2016 and 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition from employee demographics, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
- In addition, to date OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
  - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



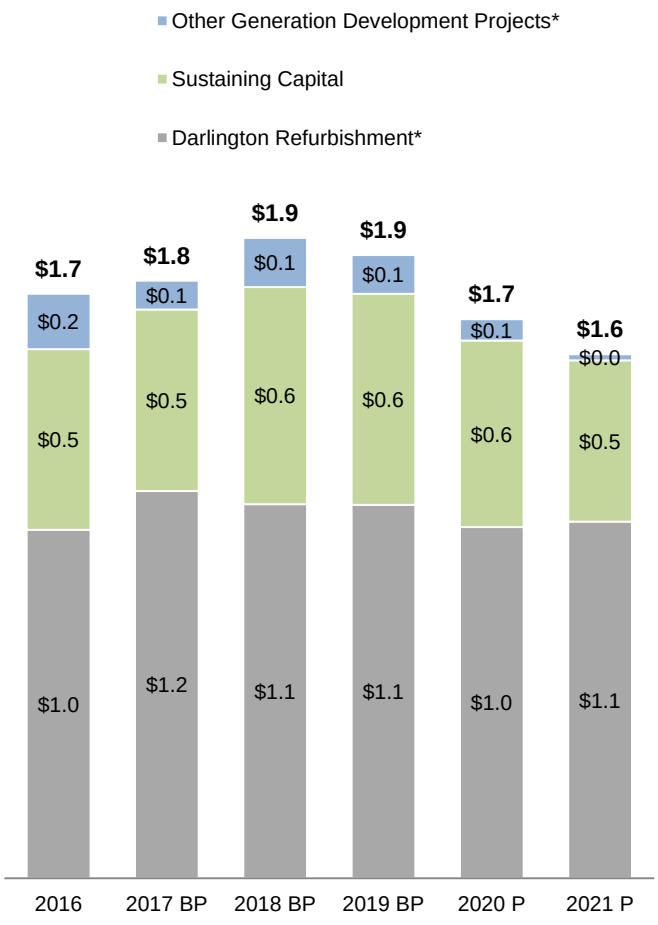
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

1. Business Plan Overview

f) Operating Highlights - Projects and Capital Expenditures

- OPG continues to focus on delivery of its major projects over the plan period, including:
  - **Darlington Refurbishment**: Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained
  - **Sustaining Capital:** Expenditures average $570M, including:
    - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
    - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
    - Lower Mattagami upgrades in 2018 and 2019
  - **Other Generation Development Projects:** Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

2. Other Considerations

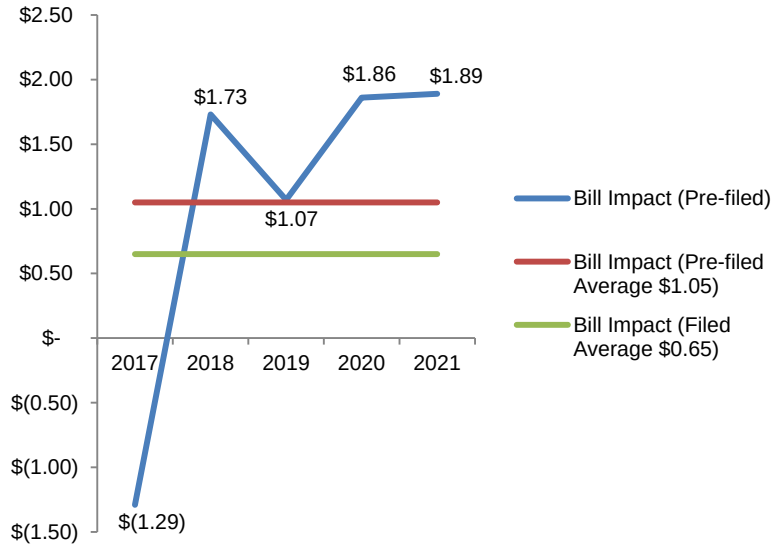
Rate Application

- OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021
- Oral hearings began February 21, 2017 with a decision expected in Q4 2017
- OPG's 2017-19 Business Plan assumes new rates are effective January 1, 2017
  - The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay*

Rate-Smoothing Proposal:

- On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only
  - Rate smoothing is expected to be fiscally neutral due to rate regulated accounting
- On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year

Comparison of Annual Bill Impact ($/Month per year)



*Forecasted in May 2016

2. Other Considerations

Sales

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

2. Other Considerations

Special Status for OPG to Approve International Travel

- On January 24, 2017, OPG's President and CEO wrote to the Deputy Minister to provide a business case and request authority for OPG to approve international travel for its employees. In summary:
  - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business
  - OPG believes that international travel is integral to the safe and prudent operation of its business and having OPG's CEO approve international travel will enable more efficient decision-making while significantly lowering travel costs
  - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for over $30 billion in pension fund and nuclear funds
  - OPG requires a high level of international business travel at approximately 90-100 trips annually, while the Darlington Refurbishment Project accounts for 45% of OPG's international travel and is expected see increases over the 10 year life of the project
  - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date
  - OPG believes the inability to make timely commitments on events and meetings impacts employee engagement as well as its international relationships and reputation
- OPG is seeking Special Status as part of concurrence with its business plan. OPG has committed to providing semi-annual reports to the Ministry on international travel taken, and continue to be accountable for compliance with all applicable OPS directives, policies and procedures

Appendix

2016 Year-End Financials

OPG Balance Sheet as at Dec 31 $B	2016
Assets	
Cash and cash equivalents	0.2
Available-for-sale securities	0.2
Receivables from related parties	0.4
Nuclear fixed asset removal and nuclear waste management funds	0.02
Other current assets	0.9
Total current assets	**$1.7**
Net property, plant and equipment	**$20.0**
Net intangible assets	**$0.1**
Nuclear fixed asset removal and nuclear waste management funds	16.0
Regulatory assets	5.9
Other long-term assets	0.7
Other assets	**$22.5**
Total assets	**$44.4**
Liabilities	
Accounts payable and accrued charges	1.2
Short-term debt and long-term debt due within one year	1.1
Income taxes payable and other current liabilities	0.1
Total current liabilities	**$2.4**
Long-term debt	4.4
Fixed asset removal and nuclear waste management liabilities	19.5
Pension liabilities	3.0
Other post-employment benefit liabilities	2.9
Other liabilities	1.7
	$31.5
Total liabilities	**$33.9**
Equity	
Equity attributable to the Shareholder	10.4
Equity attributable to non-controlling interest	0.1
Total equity	**$10.5**
Total liabilities and equity	**$44.4**

OPG Income Statement Year Ended Dec 31 $B	2016
Revenue	$5.7
Fuel expense	0.7
Gross margin	**$4.9**
Operations, maintenance and administration	2.7
Depreciation and amortization	1.3
Accretion on fixed asset removal and nuclear waste management liabilities	0.9
Earnings on nuclear fixed asset removal and nuclear waste management funds	-0.7
Other expenses	0.02
Total expenses	**$4.2**
Income before other (gains) losses, interest and income taxes	**$0.7**
Other (gains) losses	-0.02
Income before interest and income taxes	**$0.7**
Net interest expense	0.1
Income before income taxes	**$0.6**
Income tax expense	0.2
Net income	**$0.5**
Net income attributable to the Shareholder	**$0.4**
Net income attributable to non-controlling interest	**$0.02**

From: Shajee Kathirgamanathan
To: John Kim
Cc: Bruno Amara; Salman Qadir
Subject: FW: May 9 - FHP Submission
Date: Thursday, May 11, 2017 11:30:16 AM
Attachments: 3 RAN Ontario Fair Hydro Plan Proposed Leg v7 FINAL.DOC

Hi,

Please find attached the final TB Submission.

Also saved here:
S:\Users\CEF\Hydro 2017\Electricity Prices\Mitigation Proposals\TB\TB Submission - FINAL\3 RAN Ontario Fair Hydro Plan Proposed Leg v7 FINAL.DOC

Feel free to move elsewhere if there's a better place to put it.

Thanks,
Shajee

Shajee Kathirgamanathan
Office: 416-325-1402 | Mobile: 647-294-3359
shajee.kathirgamanathan@ofina.on.ca

From: Fung, Felix (TBS) [mailto:Felix.Fung@ontario.ca]
Sent: Thursday, May 11, 2017 10:44 AM
To: Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: May 9 - FHP Submission

Hi Shajee - here you go.

From: Shajee Kathirgamanathan [mailto:Shajee.Kathirgamanathan@ofina.on.ca]
Sent: May-11-17 9:50 AM
To: Fung, Felix (TBS)
Cc: Bruno Amara
Subject: May 9 - FHP Submission

Hi Felix,

Hope you're well.

Would you have the final May 9 Fair Hydro Plan TB Submission/report back with the Minute.

We have one of the last drafts. The final one would be helpful for completeness and to maintain our records.

Thanks,
Shajee

Shajee Kathirgamanathan
Senior Advisor
Electricity Finance Branch, Corporate and Electricity Finance Division
Ontario Financing Authority
Office: 416-325-1402 | Mobile: 647-294-3359
shajee.kathirgamanathan@ofina.on.ca

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TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – March 1, 2017	**Tracking to: Fast Track** LRC at Cabinet – May 10, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan – Implementation Update

I. DECISION BEFORE THE BOARD

Receive a report back on Ontario Fair Hydro Plan implementation, supporting implementation decisions and recommending the proposed Ontario Fair Hydro Plan Act to proceed to LRC and Cabinet for approval.

II. RECOMMENDATIONS:

• Receive a report back on Ontario Fair Hydro Plan implementation progress	*Receive*
• Proposed legislation: o Note key aspects of proposed legislation o Recommend proposed legislation o Direct the Ministry to return to TB/MBC with regulations supporting implementation prior to going to LRC.	*Recommend*
• Note outstanding report back requirements	*Note*
• Approve up to $3.5M funding for media buy procurement, to be followed later by a transfer from the Bulk Media program to fully recover costs for the public education campaign.	*Approve*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Affordability Fund	0.0	0.0	0.0
	Global Adjustment Refinancing*^	0.0	0.0	0.0
	Electricity social programs*	499.0	753.0	829.0
	Ontario Rebate for Electricity Consumers	939.0	882.0	882.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

* Subject to enacting proposed Ontario Fair Hydro Plan legislation.
^ As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget, linked to proposed legislation

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017 the Ministry received TB/MBC approval for additional rate mitigation actions that support a 25% electricity bill reduction (including the 8% reduction announced in 2016 for typical household in 2017). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017.

This submission deals with several elements of the OFHP:

- Refinancing Portion of Global Adjustment (GA) to provide immediate relief in the short-term for RPP eligible ratepayers (based on a planned non-fiscal impact approach over government funding).
- Expanding and enhancing ratepayer funded electricity social programs and shifting them to being government funded (OESP, RRRP), along with a new government funded On-Reserve First Nations Delivery Credit.
- Expansion of Industrial Conservation Initiative (ICI).
- Media buy approval for OFHP

The Ministry was directed to report back to the Board with proposed legislation supporting OFHP implementation, including the following specific direction regarding a non-fiscal mechanism (approach) to refinancing a portion of Global Adjustment costs (Appendix C provides the March 1, 2017 minute):

- Formal accounting opinions from OPG and IESO auditors.
- Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
- Report on the multi-year profile of GA smoothing, identifying specific assumptions.
- Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
- Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

Direction was also given to report back with final program details, regulations, sensitivity analysis of financial models, and performance metrics for electricity support programs.

OFHP Implementation Update:

The ministry's current submission does not address all required report back elements. The proposed legislation would establish the legislative framework but key details necessary to assess fiscal and legal risks are outstanding, including regulations, commercial agreements, sensitivity analysis etc. (Ministry is targeting regulations by June 2017 and commercial agreements subsequently).

Appendix D provides an overview of the Ministry's implementation update.

Financial Implications

Electricity Social Programs:

March 1, 2017 TB/MBC approvals supporting OFHP included full year projected costs. The 2017 Ontario Budget included refined projected costs shifting expanded/enhanced electricity social programs from ratepayers to being government funded starting in 2017-18, lowering the total amount from $665M to $499M to reflect rollout timing not full year costs. The table below shows expense amounts currently in the PRRT multi-year fiscal plan related to these support programs for the most vulnerable consumers.

Government Funded Social Programs ($million)	2017-18	2018-19	2019-20	2020-22
Rural or Remote Rate Protection (RRRP)	344	472	484	497
Ontario Electricity Support Program	140	261	325	375
On-Reserve First Nations Delivery Credit	15	20	20	20
Total	**499**	**753**	**829**	**892**

TBS Staff Comments:
The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate, and factors which can fluctuate from year to year. Also, fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. To mitigate risk, development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the forecasting models should be undertaken to inform future updates to cost forecasts for the programs above and the Ontario Rebate for Electricity Consumers (With 2017-18 costs estimated at about $1B).

GA Refinancing:

The proposed Fair Hydro Act, 2017 is a complex transaction and attempts to balance several key factors including financeability, accounting treatment and legal considerations by:

- Supporting financeability through a number of features, including a provincial undertaking not to interfere with clean energy adjustments once determined, which will be backstopped by a guarantee, and provisions intended to reduce borrowing costs and attract a wide investor base;
- Addressing the necessary accounting requirements through mechanisms to record funding, interest and the transfer of regulatory assets to avoid a fiscal impact to the province; and
- Mitigating legal risk by developing a methodology that attempts to ensure an alignment of costs with benefits to future rate payers.

Key elements of this schedule of the bill include (Appendix E provides more information on elements):

<u>Specified Consumers</u>
- The defined group of consumers to whom the “Fair Adjustment” and “clean Energy Adjustment” applies. Prescribed consumers include residential consumers, farms, small businesses, condominiums, long-term care homes and co-operative housing. These are primarily consumers eligible for the RPP, and aligns with the eligibility under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA).

<u>Clean Energy Costs</u>
- Clean energy costs are those costs that arise from the “clean energy initiative” and are allocated to the specified consumers for past, present and expected costs.
- The clean energy costs include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act*, *1998* (basically, the GA)

<u>Fair Adjustment</u>
- The adjustment to rates to ensure intergenerational fairness.
- July 1, 2017- April 30, 2018- reduction in rates for “specified consumers” based on a 25% reduction for a prescribed typical consumer.
- May 1, 2018- June 30, 2021- the bill allows for rates to be set by regulation (see page 17- Fiscal Pressure).

<u>Fair Allocation Amount</u>
- Principles established in the bill require proper alignment over time between the costs of providing

facilities for clean electricity generation and conservation ("clean energy costs") and the consumers who benefit from these investments.
- The Minister of Energy sets the fair allocation amount, and is required to:
  - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods" (typically every 6 months); and,
  - Take into account (in the fair allocation) funding obligations (financing) that have been incurred;
  - Align these costs with clean energy benefits expected to be received by rate payers in the future.

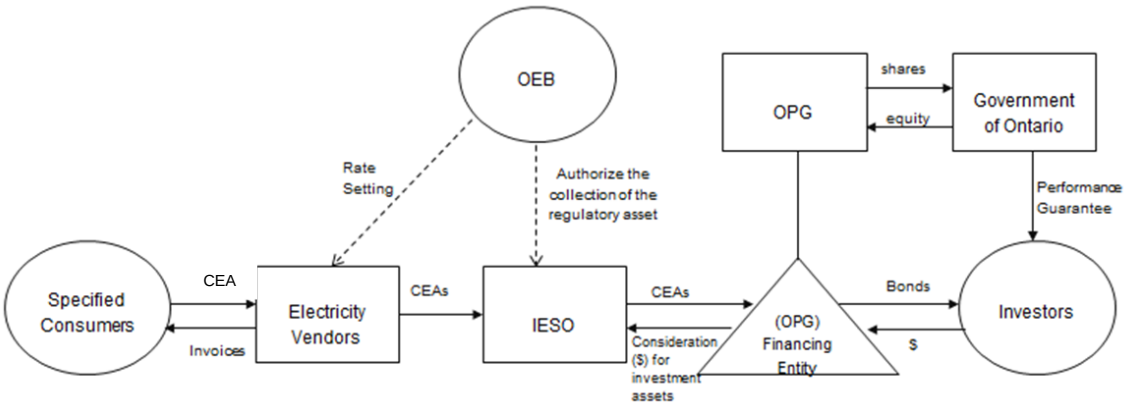
Clean Energy Adjustment
- Determined by Financial Services Manager (OPG), the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principal, interest, transaction costs and administrative costs associated with the fair adjustment and consistent with the fair allocation amount.
- In accordance with the regulations, the OEB to calculate the rate at which specified consumers are invoiced to recover the clean energy adjustment.

Regulatory Asset and Investment Asset
- A regulatory asset is created as IESO defers its right collect a portion of the rates that it would have otherwise received from customers/LDCs if not for the implementation of the Fair Adjustment.
- Subject to OEB approval, IESO records the funding shortfall as a regulatory asset. Collection rights are deferred until July 1, 2021.
- The Financing Plan contemplates the Financial Services Manager (OPG) establishing financing entities (OPG Trust/SPV) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset for the investment asset owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 4 years (July 1, 2021) the IESO has the right to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority (OFA) (see page 17- Fiscal Pressure).
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Financing Plan
- In practical terms, the Financing Plan is intended to show how debt (with varying incurrence dates, maturities and interest rates) will be used over time.
- Prepared by the Financial Services Manager (OPG), the Financing Plan is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO. Plan to be provided to the Minister of Energy.

Crown Undertaking (Guarantee or Backstop)
- The bill provides that no action or omission of the Crown, OEB, or the Minister would be effective to reduce, impair, or postpone or terminate the obligations of specified consumers to pay the clean energy adjustment.
- The Ministers of Energy and Finance together, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill, including regarding the performance of the IESO or electricity vendors under the bill.
- The Ministers of Energy and Finance together, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.

Financing Structure (Provided by Ministry)



Note: CEAs are "clean energy adjustments".

TBS Staff Comments – 2017 Ontario Budget:
The 2017 Budget also includes an investment operating asset of $1.1B related to the Province's equity injection to OPG, enabling the OPG Trust to regularly purchase IESO's regulatory asset through 2017-18. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt which would be offset by increased earnings of OPG from interest revenue. Under the anticipated accounting treatment, the Province's net debt would remain unchanged as the equity investment in OPG would offset the additional Provincial borrowing.

Projected annual amounts of GA deferrals (i.e., the regulatory asset) are shown below and are not part of the province's multi-year fiscal plan (2017 Budget (as they are assumed to be funded from electricity ratepayers under the proposed legislation). Appendix F provides analysis of financial models. The maximum amount of GA deferral under the proposed model would be about $3.5B in 2020, prior to the start of the rate recovery period.

($million)	2017	2018	2019	2020
GA Refinancing - (As part of Residential Bills lowered by 25%)	2,500	2,600	3,000	3,500

- *OPG intends to use a Special Purpose Vehicle (OPG Trust) to purchase for cash the "right to collect" the deferred amounts from the IESO which would be reflected as intangible assets by the Trust. OPG Trust will be structured to finance 51% of its funding requirements through the capital market with the remaining 49% being provided by OPG as subordinated debt. The 49% subordinated debt from OPG will be financed though debt from the capital markets (about 5%) and through equity injections from the Province (44%).*

- *The proposed legislation does not compel the OPG Trust to purchase 100% of the regulatory asset created by IESO at any given time. The IESO has noted that it may need to cover clean energy costs if for some reason the OPG Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. On behalf of IESO, the Ministry is requesting a credit facility for IESO, up to about $3B, and notes the use of this credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO, especially where GA deferrals remain on the IESO's books at fiscal year-end. Appendix G provides more information.*

<u>Financial, Accounting, Legal Risk Assessments:</u>

The March 1, 2017 TB/MBC Minute, refinancing the Global Adjustment to partially defer RPP eligible ratepayer GA costs, was subject to completed legal, accounting and financing risk assessments.

Appendix H provides more details from the Ministry to what appears below. TBS staff comments are flagged.

Financial

The Ministry indicates it has prepared legislation and is working on developing regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is not rendered not fully recoverable based on a future change made in the legislation.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year. The intention of the guarantees is to make them as narrow as possible.

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

The Ministry indicates the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost.

The Ministry also acknowledges given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term, and the rate of inflation.

TBS Staff Comments – (See Appendix I for a more in-depth discussion)

- *Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increases in line with CPI.*
- *If annual increases in bills or the commodity prices are subject to caps, additional borrowing/ provincial funding may be required.*
- *If a favourable legal and accounting treatment is not implemented, there could be a negative impact on the province's fiscal plan up to $2.5B in 2017-18 and rising.*
- *The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee.*
- *Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.*
- *Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.*
- *Credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.*

- *Providing a credit facility for IESO to manage while GA deferrals are pending sale, up to about $3B, could result in fiscal plan implications if GA deferrals remain on the IESO's books at the Province's fiscal year-end. IESO is consolidated onto the Province's books.*

Accounting

The ability to implement the GA deferral plan under a non-fiscal impact approach is subject to some uncertainty. While the legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y, many specifics remain outstanding and will only be addressed through future regulations and commercial agreements.

The Ministry indicates the following:

- Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations, satisfying accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

KPMG:

- The proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. KPMG's accounting opinion however, is in draft pending additional details to be addressed in regulations and commercial agreements.
- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.
- The regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset on IESO books to an investment asset on OPG Trust's books).

TBS Staff Comment – The Auditor General has raised concerns regarding the appropriateness of reporting rate regulated assets on the IESO's books under public sector accounting standards, which may lead to a qualified audit opinion on the consolidated financial statements of the Province.

OPG/E&Y:

- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.
- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.
- Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

TBS Staff Comment – OPG's external auditors, E&Y, have provided feedback regarding the proposed

accounting treatment; however, it is subject to assumptions and limitations, including outstanding details to be addressed in supporting regulations and commercial agreements.

Legal

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.
- Judges can be expected to take a careful look at the government's evidence in support of the re-allocation of Global Adjustment.
- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.
- The provincial assurance provision - Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes. The proposed legislation focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers.
- The provincial guarantee provisions are intended to backstop the provincial assurance provision Legal risk to the province will be assessed as the agreements are negotiated and drafted.
    - The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.
- Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry indicates it retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements.

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. The Ministry indicates Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

The Ministry's signed submission included external opinions and assessments for Ontario Power Generation (Accounting), KPMG Letter to the Independent Electricity System Operator (Accounting Opinion), Ernst &Young (as auditors) letter to OPG concurring with OPG's description of OPG

accounting considerations of OFHP.

TBS Staff Comments Overall:
TBS staff note external opinions and assessments are supportive of the Ministry's intended plan for implementing Ontario's Fair Hydro Plan, noting the opinions and assessments must be revisited once key implementation details are finalised (e.g. draft legislation, regulations, special purpose vehicle documents, terms of conditions within various other agreements). Future reassessments, Navigant's analysis of expected lifecycle for existing generation infrastructure (key), and other factors such as Ontario electricity demand, interest rates in the medium to long-term, and the rate of inflation may contribute to fiscal plan implications emerging over time.

The Auditor General has raised concerns regarding the appropriateness of reporting rate regulated assets on the IESO's books under public sector accounting standards, which may lead to a qualified audit opinion on the consolidated financial statements of the Province.

TBS staff also note, while submission details and related discussions have not indicated a non-fiscal mechanism cannot be established, the complexity of the transaction and the time frame involved suggest it is not reasonable, at present, to support a claim of no impact on the province's fiscal plan as the Ontario Fair Hydro Plan is implemented (Appendix I includes a strategic level risk assessment prepared by TBS staff).

Ultimately, GA Refinancing being a sustainable strategy assumes electricity consumers' willingness to accept later to bear the extra costs of deferring electricity price hikes.

Media Buy Request

The Ministry is requesting approval up to $3.5M funding for media buy, to be followed later by a transfer from the Bulk Media program, $2.5M in 2017-18, to recover costs for the public education campaign in 2017-18 only.

- The Ministry indicates spending about $1M on media planning and buying for radio and digital media in 2016-17, forecasting $2.5M in 2017-18 as the cost for television media space is substantially higher than radio, and has indicated no ask for 2018-19. The $3.5M approval request looks to be partly retroactive to include the $1M in 2016-17.

Name of analyst:	James Strang With input from CO, COE, OPCD and OFA	**Phone number:**	416-327-2071
Date:	May 9, 2017	**Log number:**	
Branch / Division:	GGPR, PEMD, COE, OPCD/Treasury Board Secretariat Ontario Financing Authority/ Ministry of Finance		

APPENDIX A: PROPOSED MINUTE

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

i) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

a) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
b) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
c) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
d) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

a) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
b) Requirement for future consumers to pay the clean energy adjustment that backs financings.
c) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
d) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
e) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
f) Sets out that security interests can be granted in investment interests in the investment asset.

ii) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

iii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

iv) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of

proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.
b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.
c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.
d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

v) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
    - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
    - Establishing program performance management framework including targets for the broadened program now government funded
    - Report on and assessment of impacts of consolidation of LDCs
    - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
    - Identify eligibility criteria, and refinements being made.
    - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
    - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

vi) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.
b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX D: ONTARIO FAIR HYDRO PLAN IMPLEMENTATION UPDATE

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998 (Appendix E provides details of each):

- Legislative amendments for electricity social programs
- Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment partial refinancing)

Legislative amendments for electricity social programs

Electricity social programs becoming government funded under OFHP target residential electricity customers disproportionately affected by increased electricity costs.

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The proposed bill amends the *Ontario Energy Board Act, 1998* for various electricity social programs:

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001. The bill enables the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial appropriations, rather than from electricity.

Appropriated funds would be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the government funding provided.

Distribution Rate Protection (Broadened RRRP)

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

The proposed legislation would enable a broader government funded Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge for consumption on or after July 1, 2017.

If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The legislation contains retroactive application of the provisions to offset any potential lapses in implementation and ensure that consumers receive the benefit following the July 1st effective date through to the final effective date of October 1st, 2017.

On-Reserve First Nations Delivery Credit

The proposed bill would enable the provision of a government funded on-reserve First Nations Delivery Credit (FNDC), which would eliminate the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The program is premised around the findings in an OEB Report submitted to the Ministry on December 29, 2016 providing advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers.

Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program to being government funded, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid by all Ontario consumers on May 1, 2017. On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will come into effect on May 1, 2017.

The proposed bill would move the recently expanded Ontario Electricity Support Program (OESP) to government funding, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program (ODSP) and Ontario Works (OW) to potentially allow for automatic enrolment procedures to be established.

The Ministry indicates the proposed legislative amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment (GA) Refinancing)

Refinancing a portion of GA is intended to provide significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

The Ministry indicates under OFHP, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017 (This includes the 8% Ontario Rebate for Electricity Consumers). In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Reflecting March 2017 approvals (See Appendix C for March 2017 TB/MBC minute), proposed legislation for GA Refinancing is designed to establish a non-fiscal impact mechanism. Minuting indicated proceeding with GA Refinancing requires completed legal, accounting and financing risk assessments.

The proposed approach to GA Refinancing is complex. Appendix E provides proposed legislative details.

- At a high level, the proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future.

    - July 1, 2017, to April 30, 2018, reduces, on average, after-tax electricity costs for "specified consumers" by 25% (inclusive of the 8% rebate and shifting of support program to be government funded).
    - May 1, 2018, to June 30, 2021, electricity rates will be prescribed by regulation with the intention to keep increases in line with the Consumer Price Index (CPI).
    - July 1, 2021, to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs.
    - Through the proposed bill and amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998, expands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to provide for appropriate oversight, put in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the refinanced GA costs.

Consumers would see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG, through a special purpose vehicle (OPG Trust) is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The proposed bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Expansion of Industrial Conservation Initiative (ICI)

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and "1114") in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

The Ministry is also undertaking targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants.

- The extent of the impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

APPENDIX E: PROPOSED FAIR HYDRO ACT OVERVIEW

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two schedules:

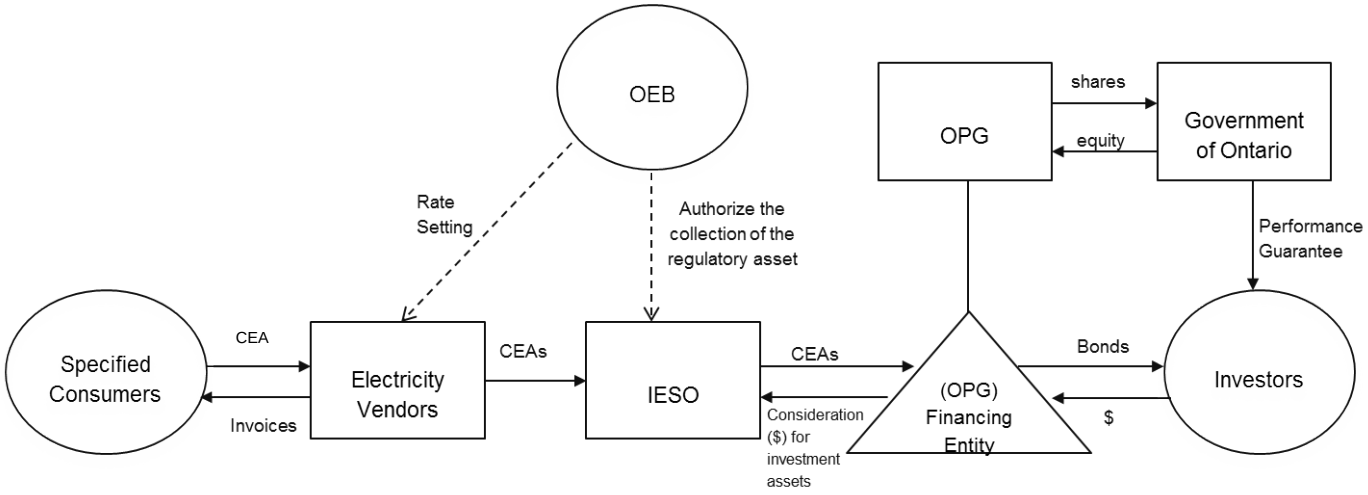
- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Dealing with Global Adjustment (GA) refinancing).
- Schedule 2: Legislative amendments for electricity social programs

The Ministry has provided the following overview of the proposed legislation:

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (GA refinancing).

Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system (Clean Energy Initiative) creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations. The diagram below outlines how the refinancing of GA would be implemented.



Note: CEAs are "clean energy adjustments"

Clean Energy Costs and Benefits:

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (the Global Adjustment provisions) which relate to contracts for:
  - Renewable energy generation or capacity
  - Conservation and demand management, including shortage
  - Energy efficiency
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*
  - Other such costs to be included in "clean energy costs" may be prescribed

- These are the costs to be distributed fairly among the specified consumers through the "fair allocation amount".

Fair Allocation Adjustment:

- Part II establishes that the rate that will be payable by "specified RPP consumers" from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the "comparison rate". The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.
- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).
- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.
- The Minister sets the fair allocation amount.

    - The establishment of the "fair allocation amount" is required to,
        - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods"; and
        - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).
    - The "fair allocation amount" is to have regard to:
        - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the "specified consumers" (in the applicable "reference periods");
        - Reasonable assumptions regarding the time value of money, the number of consumers in the "reference period"; and
        - Expected electricity consumption for the reference period.

Regulatory Asset and Investment Asset:

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets.
- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a "regulatory asset". In simple terms, the regulatory asset is IESO's right to recover the revenues that it has deferred collecting.
- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities. OPG financing entities are not required to purchase the regulatory asset.
- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".
- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

Issuance and Payment of Debt:

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.
- The financings will be backed primarily by the "clean energy adjustments" payable by specified consumers. The "clean energy adjustments" will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the "fair allocation amounts" ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).
- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity's related funding obligations.
- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario's undertakings not to adversely affect the program through subsequent legislation.

Financing Plan:

- The Financing Plan is prepared by the Financial Services Manager (OPG).
- The Financing Plan is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.
- There are rules that apply to the Financing Plan:
  - It must align with the "estimated finance amount" that will become due and payable during a "reference period";
  - It must take into account the "fair allocation" and any "fair adjustment";
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancing, redemption opportunities and liquidity, and similar assumptions).
- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.
- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

Who Does What?

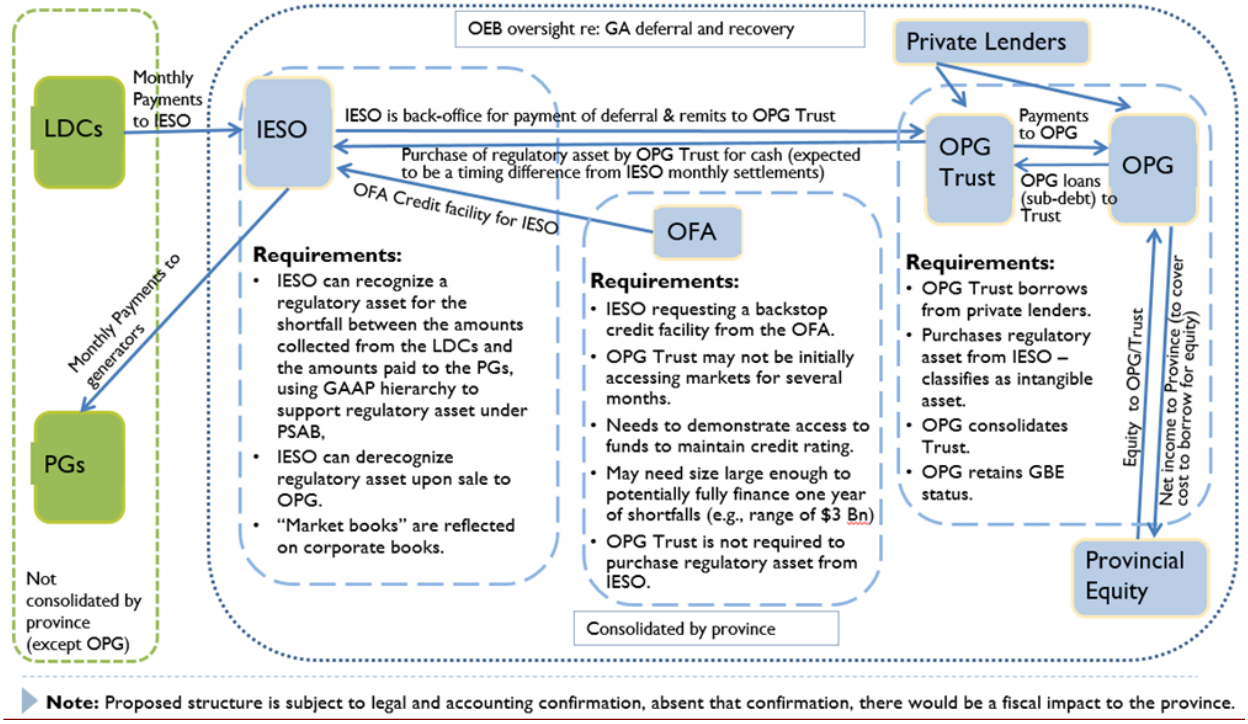
- Minister of Energy – Determine the "fair allocation amount" applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.
- Ontario Power Generation (OPG) – As financial services manager, OPG will be responsible for the following under the Act:
  - Prepare and implement Financing Plan.
  - Establish and administer the financing entities.
  - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.

- Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

- Independent Electricity System Operator (IESO):
  - Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.
  - Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.
  - Coordinates the collection of "clean energy adjustments" from Electricity Distributors.
  - Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.
  - Fund initial interest costs and expenses during the first 4 years.

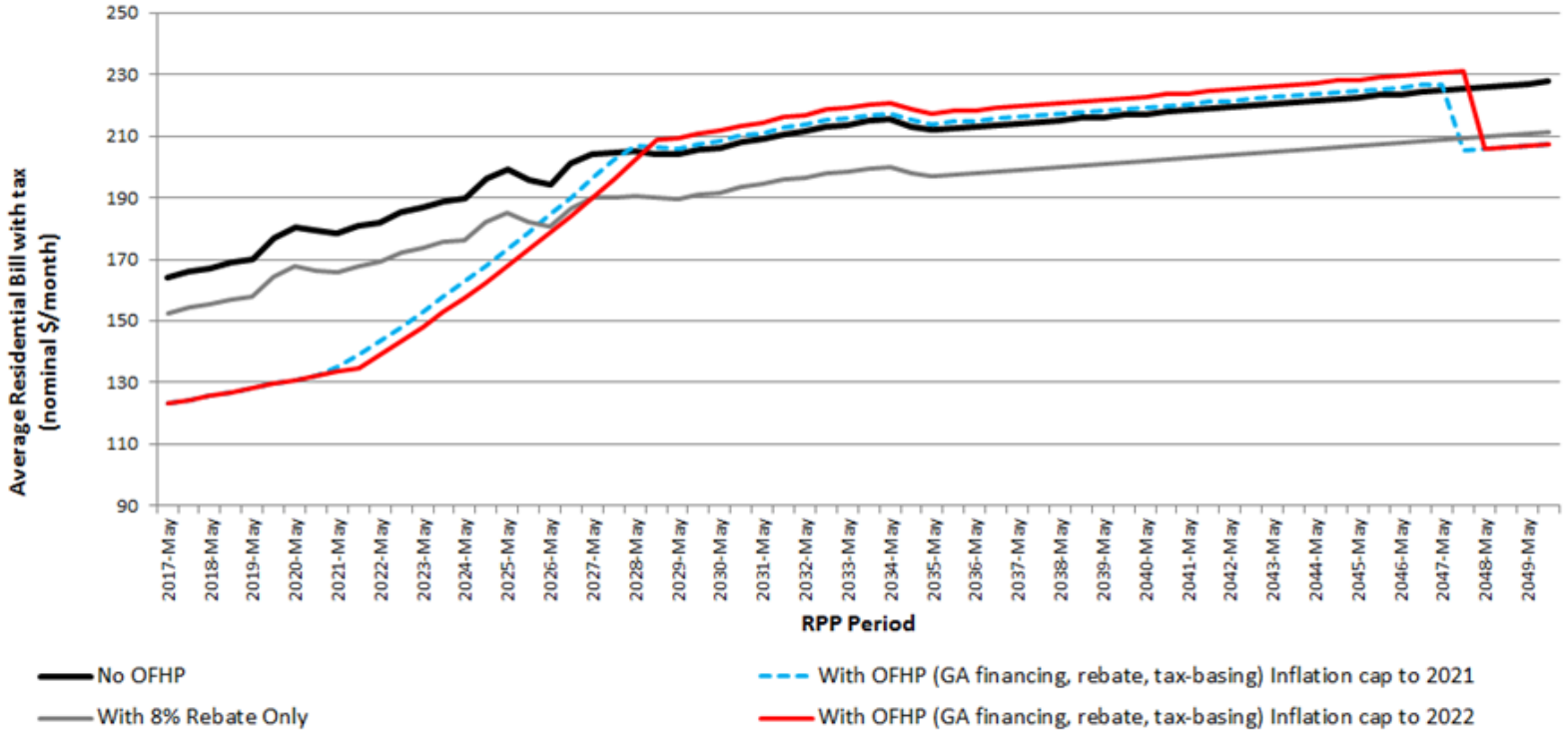
- Local Distribution Companies (LDCs):
  - Obligation to invoice specified consumers.
  - Collect, as agent of the investment interest owners, "clean energy adjustments" from specified consumers.
  - Hold money received for clean energy adjustments in trust until remittance to the IESO.

- Ontario Energy Board:
  - Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).
  - Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).
  - Review the administrative costs of OPG in connection with the administration of the program.



Note: Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

GA Smooting for RPP – Eligible Only



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly bill with OFHP ($/month)	124	126	129	131	137	146	155	165	176	187	199	207	207	209	212	214	216	216	214	215	216	217	219	220	221	222	223	224	225	226	216	206
Year-over-year change (%)	n/a	2.01	2.01	2.01	4.25	6.44	6.44	6.44	6.44	6.44	6.44	3.61	0.08	1.20	1.29	1.14	0.93	-0.04	-0.88	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	-4.37	-4.61
Impact of GA financing and tax-basing ($/month)	-29.9	-30.0	-35.0	-34.4	-28.8	-24.0	-17.8	-14.2	-3.3	3.4	12.2	16.4	16.5	16.7	16.9	17.1	17.2	17.1	17.0	17.1	17.2	17.3	17.4	17.5	17.6	17.6	17.7	17.8	17.9	18.0	-3.9	-4.0
Total accumulated debt ($B)	2.5	5.2	8.2	11.6	14.7	17.5	19.9	22.0	23.5	24.1	24.2	23.7	23.1	22.5	21.8	21.0	20.1	19.2	18.3	17.2	16.1	14.9	13.7	12.3	10.9	9.3	7.7	5.9	4.1	2.1	0.0	0.0
Total change in accumulated debt ($B)	2.5	2.6	3.0	3.5	3.1	2.8	2.4	2.0	1.6	0.6	0.1	-0.5	-0.6	-0.6	-0.7	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2020 such that the average monthly residential electricity bill increases by 6.3% per year to a maximum of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Data shown above is by RPP period. Assumes RPP prices are adjusted in July 2021 instead of May 2021 to coincide with the end of the inflation cap. Fair allocation amounts subject to third party review.

Schedule 2: Legislative amendments for electricity social programs moving to being government funded

As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:

- Enhancing and providing government funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates
- Enhancing and providing government funding for the Ontario Electricity Support Program (OESP)
- Creating a new First Nation On-Reserve Delivery Credit and providing for government funding

Overview of RRRP and Broadened Distribution Rate Protection:

- Section 79 of the Ontario Energy Board Act would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution cost.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program:

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.
- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.
- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.

- Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
- This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit:

- Energy is proposing legislative amendments that would establish a First Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.
- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

APPENDIX F: ANALYSIS OF FINANCIAL MODELS AND RISKS

Treasury Board Secretariat received two models related to global adjustment refinancing on April 12, 2017:

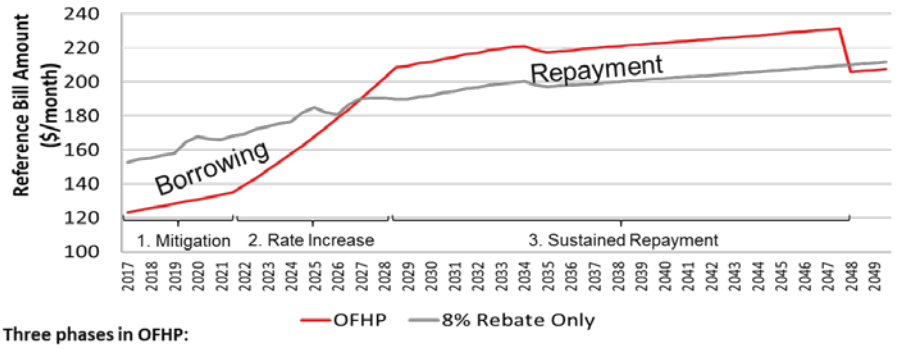
- The model the Ministry of Energy developed and used to support the March 2017 submission
- The financial model that was developed by the Ontario Power Generation (OPG) that provides details regarding the financing of the proposed structure

These models are based on high level aggregates and do not allow TBS to determine the financial impact of potential scenarios in which conditions and forecasts are different. TBS staff have met Ministry of Energy and OPG, and there is agreement for scenarios to be run and for further sensitivity analysis to be undertaken – both to create a risk-based outlook for the province, and to respond to questions that are expected from credit rating agencies.

The Model:

The OFHP can be thought of as having three phases (see diagram):

The model is high level and aggregate, built on other independent forecasts (e.g. IESO demand forecast). There are a large number of assumptions built into the model explicitly and implicitly (as a large number of assumptions are embedded into the other forecasts that are used as inputs into this model).



Three phases in OFHP:

Phase 1: Mitigation
- 2017 bill set 25% lower than original projection (that did not include 8% HST rebate)
- Increase in bill capped to 2% per year until 2021

Phase 2: Rate Increase
- Bill **increases 6.3% each year** to avoid exceeding borrowing limit of $28B
- Planned increases end in 2028 when sustained repayment starts

Phase 3: Sustained Repayment
- Bill remains **10.4% higher** than projected with 8% rebate until 2047
- Difference represents financing repayment
- Total interest paid: **$26.2B**

Model Inputs:

Exogenous Variables
- Interest Rates
- USD/CAD Exchange Rate
- Debt ceiling of $28B (borrowing limit 10% of bill)
- Natural Gas Prices

Policy Parameters
- Use of Toronto Hydro Customer @ 750 kWh as the reference bill
- 25% bill reduction in 2017
- Bill increase capped at CPI annually until 2021
- Rate increase accelerate starting in 2022 in order to never exceed the $28B cap
- Payments set to fully repay by 2047
- Implementation approach

Other Model Inputs
- IESO Demand Forecast (Outlook B)*
- IESO Global Adjustment Forecast*

* includes a large number of variables ranging from: generation costs, federal CO2 price, regulatory charges, energy conservation, technological disruption, exchange rates, load forecasting and seasonal adjustments, etc.)

Analysis of Variables and Risks:

- Interest Rates: the current model is based on a static interest rate of 5%. While this assumption is reasonable in the current low interest rate environment, an increase in interest rates would result in substantially higher residential bills after 2022. For instance, if the interest rates increase from 5% to 7% (historical 30 year average) between 2020 and 2024, financing costs would increase by $11.2B (for a total of $37B). Bill increases from 2022 to 2029 would need to

be 7.3% annually (compared to 6.3% in base case) and the bill would remain 12.5% higher from 2029 to 2047 (compared to 10.4% in the base case).

- Demand: The model uses electricity demand from IESO (Outlook B) as a key input.
    - While IESO forecasts have been very accurate in the short to medium term, historically the forecasts have overestimated demand in medium to long term. If the current forecast, used on the projections, has the same bias, the costs borne by customers in the future may be higher.
    - Similarly, other factors that lower demand (conservation, technology adoption, and self-generation) would increase the costs borne by remaining customers to decease the debt associated with GA refinancing.
    - It should be noted that the reverse is also true, that if higher levels of electrification are achieved and demand increases, the cost of paying off the debt will be spread over a greater number of consumers.

- Any scenario that results in higher financing costs for ratepayers in later years may increase the risk that the regulatory charge to repay would be characterized as an unauthorized tax.

- Appendix I provides a more detailed overview of risks.

Analysis is currently underway to better understand intergenerational costs and benefits and the impact of GA smoothing on recovery charges that would be allowed under the current Eurig compliance rules.

Depending on the legal determination, if the annual increases in bills or the commodity prices will be subject to caps, additional borrowing/provincial funding may be required.

With the shift of electricity social programs costs moving to being funded by government appropriations (Including the 8% rebate, total costs are forecast to be $1.4B in 2017-18), cost forecasting models/assumptions should also under go sensitivity analysis to inform future funding requests.

APPENDIX G: PROVIDING A CREDIT FACILITY TO IESO

After IESO's review of the proposed legislation, it has indicated to the Ministry and the Ontario Financing Authority (OFA)/MOF that IESO may need to cover clean energy costs if for some reason the Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. IESO noted that the proposed legislation does not compel the Trust to purchase 100% of the regulatory asset at anytime. Also, the establishment of the regulatory asset and purchase by the Trust is expected to take three to six months to implement following the introduction of enabling legislation.

The OFA currently provides a $975 million credit facility to the IESO for other purposes, it is proposed that the OFA provide a new credit facility to the IESO, in an amount of up to about $3 billion.

The use of this new credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO.

Approvals Required for OFA Financing

OFA indicates the recommended TB/MBC minute should note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An order-in-council will be sought to allow the OFA to be able to provide the new credit facility to the IESO, for an amount to be determined as per the requirements of the Fair Hydro Plan.

The following approvals are required by the OFA to accommodate the request to provide financing to the IESO:

1) An Order-in-Council is required for the Minister of Finance to lend to the OFA.
2) A Directive from Minister of Finance is required for the OFA to on-lend to the IESO.
3) An executed credit agreement between the OFA and the IESO.

1. Order-in-Council (OIC)

An OIC is required to authorize the Minister of Finance to lend to the OFA. Ministry of Finance Legal Services Branch would need to be engaged to facilitate the request.

- The existing $975 million credit facility was covered under OIC 675/97 which authorized the Minister of Finance to lend a revolving $2.16 billion to the OFA. This OIC was originally obtained in 1997.

It is understood that upon drafting the OIC (by MOF Legal), the OIC would need final approval from Lieutenant Governor in Council LGIC as required under section 22(1) of the *Capital Investment Plan Act*, 1993.

- The OIC would go through Deputy Minister of Finance, Minister of Finance, Chair of Cabinet for briefing/sign-offs and finally to the LGIC for approval.

To draft the OIC, the following details will be required:

i. Dollar Value of Loan from the Minister of Finance to the OFA
ii. Maturity Date of the Loan
iii. Interest Rate of the Loan

The following are recommended to accommodate IESO's need for financing:

i. Dollar Value of Loan:
   $3 billion, as per request. The OIC would provide the maximum limit of any loan to IESO and it may be advisable to add a cushion and provide an OIC for $3.5 billion.

ii. Maturity Date of the Loan:
OIC maturing March 31, 2048 would provide approximately 30-year term to match the Fair Hydro Plan. It may be advisable to add a cushion and set a maturity date to March 31, 2053 (cushion of 5-years).

iii. Interest Rate of the Loan
Interest rates on the loans from the Minister of Finance to the OFA have typically been a 1) Ontario 90-day t-bill rates, 2) flow-through of the rates charged to the third-party by the OFA and/or 3) the rate charged to the third-party by the OFA less 25bps.

OFA recommends to keep this unchanged to provide consistency with past OICs but also to provide flexibility in the rates that could potentially be charged to IESO, to be determined by the Minister of Finance, by way of the Minister's Directive.

2. Minister's Directive

Once the Minister of Finance has the authority under an OIC, a Minister's Directive can authorize the OFA to lend to IESO. The Directive can outline specific terms and conditions as needed.

3. Executed Credit Agreement

With a Minister's Directive approved, the OFA and IESO can work to execute a credit agreement, subject to any terms and conditions of the Directive and any policy considerations.

APPENDIX H: FINANCIAL, LEGAL, ACCOUNTING RISK ASSESSMENTS (MINISTRY)

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.
- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.
- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and
- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

<u>OPG Financing / OPG Equity Financing</u>

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.
- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG’s capital structure:

- OPG would require monthly “equity injections” from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;
- Funds from the Province would flow from the Ontario Financing Authority (OFA); and
- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.
- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset ”OPG Share Purchase” and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG’s business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy’s concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual ratepayers. Note: The reverse is also true in regards to decreasing demand.
- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted. **A statutory cause of action** may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation.The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

APPENDIX I: OVERVIEW OF RISKS

Prepared by TBS staff, the following chart provides an overview of strategic (versus operational) risks to inform the approval/decision making process regarding the proposed legislation. Each part, GA Partial Refinancing & Electricity social programs, is a separate table.

Global Adjustment Partial Refinancing:

Objective: Provide immediate ratepayer relief by capping rate increases at Consumer Price Index (CPI) for four years and refinancing GA costs over a longer period of time. Develop and implement a financing structure that increases provincial borrowing, but has no impact on annual provincial surplus/deficit.

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA smoothing being allocated to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there could be a negative impact on the province's fiscal plan up to $2.5B in 2017-18 and rising. • Rating agencies and investors in the Province's debt may view all of the borrowing as an obligation of the Province, especially taking into account the nature of provincial guarantees, which could put pressure on the Province's credit rating and overall borrowing capacity. • Proposed structure may result in a negative response from Ontario Auditor General (OAG) due to previous concerns regarding recognition of rate regulated assets and liabilities. The AG has already expressed concerns regarding the accounting treatment on the IESO's books which could lead to a qualification of the Province's consolidated financial statements. • Initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to justify structure of financial model and be utilized in discussions with the OAG. • Identify potential options to minimize the balance of rate regulated assets remaining on the IESO's books at fiscal year-end.

Risk	Level of Risk	Risk Response
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.
A legal determination that the Province is spreading the costs of GA financing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Medium **Risk Impact:** High **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and close monitoring of costs and changes in variables built into model. • Analyze the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Moderate **Time Scale:** 12 to 24 months **Rationale** • The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the government to offset a part of the scheduled increases. • Risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.	Risk can be avoided by: • Province providing a potential guarantee for the cost of borrowing – however, would redirect risk back to the Province and negate benefits of proposed financing structure. Risk can be mitigated by: • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • Proposed legislation to enable GA refinancing has been draft with input from third-party financers. Provides a 'narrow' provincial guarantee and ensuring that debt holders have the right of action against a future government to recover the amount outstanding including interest, fees, expenses and any damages.
Risk	**Level of Risk**	**Risk Response**

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA Refinancing having a fiscal impact to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there would be a negative impact on the province's fiscal plan of up to $2.5B in 2017-18 and rising. • Rating agencies and investors in Province's debt may view all of the borrowing as an obligation of the Province, which could put pressure on the Province's credit rating and overall borrowing capacity. • The proposed structure may result in an opinion from the Ontario Auditor General (OAG) considering previous concerns regarding recognition of rate regulated assets and liabilities. The OAG may take this into account when the provincial books are audited. • An initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards. Additional analysis is still required.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to support discussions of the financial model with the OAG.
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.

Risk	Level of Risk	Risk Response
A legal determination that the Province is spreading the costs of GA refinancing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Possible **Risk Impact:** Major **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and ongoing monitoring of costs and changes in variables built into model. • Analysis of the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Refinancing GA costs through an OPG SPV Trust may increase costs and/or require provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Major **Time Scale:** 12 to 24 months **Rationale** • The proposed borrowing structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on the interest rate for borrowing, the amount of equity / funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • There is a risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's own ratings and cost of borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B (in the March 1, 2017 Cabinet Submission) is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the province to offset a part of the scheduled increases. • Fiscal impacts will be subject to fluctuations in Ontario electricity demand, GA and interests rates in the medium-to long term.	Risk can be mitigated by: • Providing a "provincial guarantee" for the cost of borrowing. • Drafting legislation to provide assurance to OPG and investors regarding the permanence of the GA refinancing framework and the authority of the legislation to pass the legislation; and enable the Province to guarantee borrowing of the trust in the event of a market disruption. • Specifics of a guarantee are dependent on the negotiation of agreements not yet initiated. • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost.

Electricity social programs (Enhancing Electricity Support & Conservation Programs):

Objective: Shift funding of existing and new electricity support programs (RRRP, OESP, Affordability Fund, First Nations Credit) from rate to tax base.

Risk	Level of Risk	Risk Response
Uncertainty in forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated fiscal impacts for the Province.	**Risk Likelihood:** Possible **Risk Impact:** Major **Timescale:** 12 to 24 months **Rationale:** • The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate. • Fiscal projection is highly dependent on factors which can fluctuate from year to year, including: o electricity usage; o distributions costs; and o consumer consumption patterns that may change due to extreme weather or other factors. • Fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. o Enhanced RRRP may create disincentives from the eligible LDCs towards productivity and performance improvements and/or cause ineligible LDC's to drive up distribution costs to gain access to program.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the forecasting models.

From: Carlos Yep
To: John Kim; Bruno Amara
Subject: FW: OFHP - Outstanding business issues - new note#5 IESO
Date: Wednesday, May 31, 2017 10:50:54 AM
Attachments: Outstanding Business Issues Ontario Fair Hydro Plan markup_cy1.docx

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John & Bruno
Here are some initial comments .... I am still waiting for Opal and Mike to take a look and get back to me
C

-----Original Message-----
From: Carlos Yep
Sent: Tuesday, May 30, 2017 2:28 PM
To: Opal Kandelas <Opal.Kandelas@ofina.on.ca>
Cc: Mike Manning <Mike.Manning@ofina.on.ca>
Subject: FW: OFHP - Outstanding business issues - new note#5 IESO

-----Original Message-----
From: Carlos Yep
Sent: Tuesday, May 30, 2017 12:21 PM
To: Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Cc: Opal Kandelas <Opal.Kandelas@ofina.on.ca>
Subject: FW: OFHP - Outstanding business issues

fyi

-----Original Message-----
From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Tuesday, May 30, 2017 11:28 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
Subject: OFHP - Outstanding business issues

Hi all,

ENE MO asked for a quick note on 4 of the outstanding business issues that are being worked through and are hoping to see something tomorrow morning.

I've pulled together a high level explanation of each of the items and next steps/timing (to the extent I know).

Would greatly appreciate if you guys could take a look and provide any edits/comments today/early tomorrow if possible. I'm also not too involved in a few of these discussions so if there's others within OFA you think should review feel free to pass along.

Thanks in advance,
Kaitlin

Outstanding Business Issues – Ontario Fair Hydro Plan
Briefing Note

PURPOSE
Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Provincial Support Agreement Term Sheet (~~Service and~~ Performance and Payment Guarantees)**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA and working towards the development of a term sheet
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - The Province would like to minimize to the extent possible , the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers
   - The Province is considering regulation changes to exempt the income arising as a consequence of the Fair Hydro Plan from PILs
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity
   - **Next Steps:**
     - The Ministries of Finance, OFA and OPG are working together to determine required regulation changes
     - Timing: [Next steps for a decision / when is a decision required / when would these regulation changes occur]

3. **Fair Hydro Plan - Master Subscription Agreement Term Sheet (Equity Injection Process)**

- OPG will require equity injections on a monthly basis in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province
- The Ministry of Energy received appropriation for $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT
- **Next Steps:**
    - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
    - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June

4. Management Fees

- OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
- The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations which are currently in development
- OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements
- **Next Steps:**
    - OPG and OEB will bring forward a recommended framework for developing management fees
    - Timing: For incorporation into regulations being brought forward in June

5. IESO – Increased Credit Facilities

- The OPG financing entity has the right to purchase the regulatory asset from IESO but does not have to purchase it.
- IESO is working with the OFA to increase the credit facilities in the event that the OPG financing entity does not purchase the regulatory asset
- **Next Steps:**
    - OFA is …..
    - Timing: ……

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From: Carlos Yep
To: Bruno Amara; John Kim
Subject: FW: OFHP - Outstanding business issues - new note#5 IESO
Date: Wednesday, May 31, 2017 11:11:30 AM
Attachments: Outstanding Business Issues Ontario Fair Hydro Plan markup_cy1 (003).docx

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Fyi - here is the latest draft with IESO bullet

-----Original Message-----
From: Opal Kandelas
Sent: Wednesday, May 31, 2017 11:03 AM
To: Carlos Yep <Carlos.Yep@ofina.on.ca>
Cc: Mike Manning <Mike.Manning@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues - new note#5 IESO

Hi Carlos,

The information known regarding the IESO credit facility has been included in the Note.

Thanks,
Opal

-----Original Message-----
From: Carlos Yep
Sent: Tuesday, May 30, 2017 2:28 PM
To: Opal Kandelas <Opal.Kandelas@ofina.on.ca>
Cc: Mike Manning <Mike.Manning@ofina.on.ca>
Subject: FW: OFHP - Outstanding business issues - new note#5 IESO

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From: Carlos Yep
Sent: Tuesday, May 30, 2017 12:21 PM
To: Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Cc: Opal Kandelas <Opal.Kandelas@ofina.on.ca>
Subject: FW: OFHP - Outstanding business issues

fyi

-----Original Message-----
From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Tuesday, May 30, 2017 11:28 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
Subject: OFHP - Outstanding business issues

Hi all,

ENE MO asked for a quick note on 4 of the outstanding business issues that are being worked through and are hoping to see something tomorrow morning.

I've pulled together a high level explanation of each of the items and next steps/timing (to the extent I know).

Would greatly appreciate if you guys could take a look and provide any edits/comments today/early tomorrow if possible. I'm also not too involved in a few of these discussions so if there's others within OFA you think should review feel free to pass along.

Thanks in advance,
Kaitlin

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Briefing Note

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   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA and working towards the development of a term sheet
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - The Province would like to minimize to the extent possible , the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers
   - The Province is considering regulation changes to exempt the income arising as a consequence of the Fair Hydro Plan from PILs
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity
   - **Next Steps:**
     - The Ministries of Finance, OFA and OPG are working together to determine required regulation changes
     - Timing: [Next steps for a decision / when is a decision required / when would these regulation changes occur]

3. **Fair Hydro Plan - Master Subscription Agreement Term Sheet (Equity Injection Process)**

- OPG will require equity injections on a monthly basis in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province
- The Ministry of Energy received appropriation for $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT
- **Next Steps:**
    - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
    - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June

4. **Management Fees**
    - OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
    - The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations which are currently in development
    - OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements
    - **Next Steps:**
        - OPG and OEB will bring forward a recommended framework for developing management fees
        - Timing: For incorporation into regulations being brought forward in June

5. **IESO – Increased Credit Facilities**
    - The OPG financing entity has the right to purchase the regulatory asset from IESO but does not have to purchase it.
    - IESO is working with the OFA to increase the credit facilities in the event that the OPG financing entity does not purchase the regulatory asset
    - **Next Steps:**
        - OFA is drafting a new agreement for a $2 billion credit facility for the OFA to lend funds to IESO for FHP purposes. Concurrently, the OFA is seeking LRC approval for a new $2 billion OIC, as well as a Directive from the Minister of Finance, which are both necessary for the OFA to lend funds to IESO under the new Credit Facility. .....
        - Timing: The OIC is scheduled as item for the June 27, 2017 LRC meeting. The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017.....

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From:	Bruno Amara
To:	John Kim
Cc:	Gavin He; Shajee Kathirgamanathan; Salman Qadir
Subject:	FW: OFHP - Outstanding business issues
Date:	Friday, June 02, 2017 9:55:28 AM
Attachments:	2017 05 31 Outstanding Business Issues Ontario Fair Hydro Plan - v03.docx

Hi John

Did you notice the wording change on the timing of the OIC regarding OPG indemnity. It now says June 27. Our wording was not committal to the June 27 date, but to . I don't think there is that urgency for this OIC. Per our teleconference earlier this week, there are still internal discussions to be had regarding the Province's position.

This was our wording

- Upcoming Cabinet date is June 27, 2017, for which documents are past due. Next possible LRC/Cabinet date is scheduled for July 26, 2017.

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Thursday, June 01, 2017 1:39 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Hi – just wanted to loop back and provide the final version which also incorporates edits from OPG.

From: Montgomery, Kaitlin (MOF)
Sent: May 31, 2017 10:42 AM
To: Kim, John (OFA); Bruno Amara; Yep, Carlos (OFA)
Subject: RE: OFHP - Outstanding business issues

Hi all – just checking in on comments. ENE DMO is looking for this by noon so if you're able to share any comments shortly I would greatly appreciate it.

This version just includes one more item based on the term sheet OPG shared yesterday but I was unsure about timing on that one.

Please let me know if you have any questions.
Kaitlin

From: Montgomery, Kaitlin (MOF)
Sent: May 30, 2017 11:28 AM
To: Kim, John (OFA); Bruno Amara; Yep, Carlos (OFA)
Subject: OFHP - Outstanding business issues

Hi all,

ENE MO asked for a quick note on 4 of the outstanding business issues that are being worked through and are hoping to see something tomorrow morning.

I've pulled together a high level explanation of each of the items and next steps/timing (to the extent I know).

Would greatly appreciate if you guys could take a look and provide any edits/comments today/early tomorrow if possible. I'm also not too involved in a few of these discussions so if there's others within OFA you think should review feel free to pass along.

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Outstanding Business Issues – Ontario Fair Hydro Plan

Briefing Note

PURPOSE

Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

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1. **Provincial Support Agreement Term Sheet (Performance and Payment Guarantees)**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
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   - **Next Steps:**
     - OPG and OFA have discussed a draft term sheet and the OFA, MOF and Blakes will work together to provide comments
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July.

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - Provincial staff, with OPG's concurrence, recommends minimizing, to the extent possible, the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers.
   - The Province is considering regulation changes to exempt from PILs the income arising to the OPG financing vehicle / OPG as a consequence of the Fair Hydro Plan.
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity.
   - **Next Steps:**
     - The MOF, OFA and OPG are working together to determine required regulation changes.
     - Torys prepared a memo on the item
     - Timing: MOF will be setting up a call with tax policy, OPG and Torys to discuss a memo Torys prepared on the item in the next few days

3. **Fair Hydro Plan - Master Subscription Agreement Term Sheet (Equity Injection Process)**
    - OPG will require equity injections on a monthly basis, to match the timing of the purchase of the IESO regulatory asset, as applicable, in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province.
    - The Ministry of Energy received appropriation for a fiscally-neutral operating asset expenditure of $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT.
    - **Next Steps:**
        - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process, which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
        - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June.

4. **Management Fees**
    - OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
    - The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations, which are currently in development.
    - OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements.
    - There are two components to the model proposed by OPG:
        - Base fee: the structure will allow OPG to earn a commercial fee, an accounting consolidation requirement, with periodic OEB review of the commercial basis of that fee. OEB and OPG are in discussions in order to develop a model that satisfies the accounting requirements and is consistent with OEB's processes.
        - Performance management fee: OPG has the ability to gain or lose depending on the actual financing cost relative to a benchmark, which would be shared equally between ratepayers and OPG. Gain/loss is capped at 1% of annual incremental issuance amount.
    - **Next Steps:**
        - OPG and OEB will bring forward a recommended framework for developing management fees.
        - Timing: TBD

5. **Subordinated Debt Loan Agreement**
    - OPG will lend the equity injection from the Province to the Fair Hydro Trust by way of subordinated debt

- Based on monthly funding requirements of the GA asset, the Trust will use short term financing and take out bonds once short term funding reaches certain levels
- OPG and OFA are working on a Debt Loan Arrangement that would establish the interest rates on the subordinated debt
- **Next Steps:**
    - OPG and OFA will bring forward a recommended framework for determining interest rates
    - Timing: TBD

6. IESO – Increased OFA Credit Facilities

- THE OPG financing entity is not expected to be immediately operational, so the IESO will need to have transitional financing in place to manage the difference in the payments to generators and other service providers vs payments from loads / LDCs.
- There may also be on-going monthly cash flow timing differences that the IESO will need a credit facility for.
- In addition, the OPG financing entity has the right to purchase the regulatory asset from IESO but is not required to purchase it.
- IESO is working with the OFA to increase the credit facilities in the event that the OPG financing entity does not purchase the regulatory asset
- **Next Steps:**
    - OFA is drafting a new agreement for a $2 billion credit facility for the OFA to lend funds to IESO for FHP purposes. Concurrently, the OFA is seeking the Minister's approval for an LRC submission to approve an OIC for an additional $2 billion in borrowing capacity, as well as a Directive from the Minister of Finance, which are both necessary for the OFA to lend funds to IESO under the requested new Credit Facility.
    - Timing: The OIC is scheduled for the June 27, 2017 LRC meeting. The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017

7. OPG Indemnity

- OPG (and IESO) are asking for the Province to indemnify the IESO, OPG (the entities) and their respective directors, officers and employee in order to allow them to carry out their roles in implementing the Ontario Fair Hydro Plan and primarily the Global Adjustment refinancing.
- Indemnification will need to ensure separation between the Province and OPG is maintained
- **Next Steps:**

- Staff in Ministry of Finance and Treasury Board Secretariat have received initial documents and are currently reviewing.
- Depending on the structure of the indemnity requested, an OIC may be required to provide authority to the Minister of Finance
- Timing: If an OIC is required this would be included in the June 27th, 2017 submission

From:	Montgomery, Kaitlin (MOF)
To:	John Kim
Subject:	FW: OFHP - Outstanding business issues
Date:	Thursday, June 01, 2017 1:44:06 PM
Attachments:	2017 05 31 Outstanding Business Issues Ontario Fair Hydro Plan - v03.docx

Hey – you have any time this afternoon to touch base? I'm away tomorrow.

416.326.6343

From: Montgomery, Kaitlin (MOF)
Sent: June 1, 2017 1:39 PM
To: Kim, John (OFA); 'Bruno Amara'; Yep, Carlos (OFA)
Subject: RE: OFHP - Outstanding business issues

Hi – just wanted to loop back and provide the final version which also incorporates edits from OPG.

From: Montgomery, Kaitlin (MOF)
Sent: May 31, 2017 10:42 AM
To: Kim, John (OFA); Bruno Amara; Yep, Carlos (OFA)
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Hi all – just checking in on comments. ENE DMO is looking for this by noon so if you're able to share any comments shortly I would greatly appreciate it.

This version just includes one more item based on the term sheet OPG shared yesterday but I was unsure about timing on that one.

Please let me know if you have any questions.
Kaitlin

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ENE MO asked for a quick note on 4 of the outstanding business issues that are being worked through and are hoping to see something tomorrow morning.

I've pulled together a high level explanation of each of the items and next steps/timing (to the extent I know).

Would greatly appreciate if you guys could take a look and provide any edits/comments today/early tomorrow if possible. I'm also not too involved in a few of these discussions so if there's others within OFA you think should review feel free to pass along.

Thanks in advance,
Kaitlin

Outstanding Business Issues – Ontario Fair Hydro Plan

Briefing Note

PURPOSE

Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Provincial Support Agreement Term Sheet (Performance and Payment Guarantees)**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA have discussed a draft term sheet and the OFA, MOF and Blakes will work together to provide comments
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July.

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - Provincial staff, with OPG's concurrence, recommends minimizing, to the extent possible, the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers.
   - The Province is considering regulation changes to exempt from PILs the income arising to the OPG financing vehicle / OPG as a consequence of the Fair Hydro Plan.
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     - The MOF, OFA and OPG are working together to determine required regulation changes.
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    - OPG will require equity injections on a monthly basis, to match the timing of the purchase of the IESO regulatory asset, as applicable, in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province.
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- IESO is working with the OFA to increase the credit facilities in the event that the OPG financing entity does not purchase the regulatory asset
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- Depending on the structure of the indemnity requested, an OIC may be required to provide authority to the Minister of Finance
- Timing: If an OIC is required this would be included in the June 27th, 2017 submission

From: Bruno Amara
To: John Kim
Subject: FW: OFHP - Outstanding business issues
Date: Friday, June 02, 2017 10:20:21 AM

Doh! Just reminded me. I was going to ask for time off Monday a.m. Dog has a vet apt. Can we schedule meeting later in the morning, or go ahead without me?

Bruno

From: John Kim
Sent: Friday, June 02, 2017 10:15 AM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Let's have a branch meeting on Monday….I will schedule one and get a list of things that we are working on.

John

From: Salman Qadir
Sent: Friday, June 02, 2017 10:01 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

It looks like it also confirms this (to which we had an understanding but no concrete confirmation), re: the IESO credit facility:

The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017

From: John Kim
Sent: Friday, June 02, 2017 9:58 AM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Yeah, I'm fine with it as they took ownership of the wording. And I am of the view that various areas would try to squeeze in everything for the June 27.

From: Bruno Amara
Sent: Friday, June 02, 2017 9:55 AM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: OFHP - Outstanding business issues

Hi John

Did you notice the wording change on the timing of the OIC regarding OPG indemnity. It now says June 27. Our wording was not committal to the June 27 date, but to . I don't think there is that urgency for this OIC. Per our teleconference earlier this week, there are still internal discussions to be had regarding the Province's position.

This was our wording

- Upcoming Cabinet date is June 27, 2017, for which documents are past due. Next possible LRC/Cabinet date is scheduled for July 26, 2017.

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Thursday, June 01, 2017 1:39 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
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From:	John Kim
To:	Salman Qadir
Cc:	Bruno Amara; Shajee Kathirgamanathan
Subject:	FW: OFHP - TB Submission
Date:	Monday, May 08, 2017 3:39:22 PM
Attachments:	OFHP TB sub - 20170418_May7__clean.docx IESO Final Draft.pdf OPG - EY Letter on Fair Hydro Act May 5_FINAL.PDF GA Consolidated Memo_May 2_FINAL.PDF

Fyi.

From: Schlaepfer, Martin (ENERGY) [mailto:Martin.Schlaepfer@ontario.ca]
Sent: Sunday, May 07, 2017 1:59 PM
To: Felix Fung (MOF) <Felix.Fung@ontario.ca>; James Strang (MOF) <James.Strang@ontario.ca>
Cc: Pratima Gounden (ENERGY) <Pratima.Gounden@ontario.ca>
Subject: OFHP - TB Submission

Hi Felix and James,

Please find attached the final TB submission for the Ontario Fair Hydro Plan item. Also attached are the materials for the appendix.

This is Minister signed and hard copies will be delivered first thing on Monday morning.

Thanks,
Martin

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

May 9, 2017

CONFIDENTIAL
MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on following:

    i. Implementation of Global Adjustment (GA) Refinancing;

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program and First Nations On-Reserve Delivery Credit); and

    iii. Expansion of Industrial Conservation Initiative (ICI).

2) APPROVE the Ministry funding a media buy procurement with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record.

3) NOTE the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

4) NOTE the Ministry of Energy will return to TB/MBC to request a transfer of funds to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to fully recover the costs for the public education campaign.

5) APPROVE the creation of a new transfer payment line entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-01, Electricity Price Mitigation, with a $1,000 placeholder, to support future rate mitigation initiatives.

Note: The Independent Electricity System Operator (IESO) is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current lines of credit with the OFA and OEFC.

2.0 PURPOSE OF REQUEST

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower bills by 25 per cent for a typical residential consumer, starting in the summer of 2017. Up to half a million small businesses and farms are also expected to benefit. Any rate increases for residential consumers over four years would be held to the rate of inflation. Note: These measures include the 8 per cent rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

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As part of the OFHP approval process, TB/MBC requested that the Ministry "report back" before legislation to enable OFHP was introduced on the following items:

1) GA Refinancing;

2) Social Programs; and

3) ICI Expansion.

In addition to the report back, the Ministry is also requesting the creation of a new transfer payment line, "Price Mitigation Support Initiatives" in Vote 2905-01. The purpose for this is to provide the Ministry an appropriate transfer payment line to support future activities and initiatives around electricity price mitigation for Ontarians.

There is no fiscal impact associated with this request. All new funding placed into the transfer payment lines will be offset by services dollars previously approved within the Ministry's multi-year allocation.

In February 2017, the Ministry reported back to TB/MBC on the details related to the establishment of the new Affordability Fund announced in the OFHP. In April 2017, the Affordability Fund Trust was established. It is expected that electricity distributors will be able to begin applying to the Affordability Fund Trust in Summer 2017.

The Ministry has developed proposed legislation to implement key components of OFHP by summer 2017, and address financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations to enable implementation of OFHP.

1. GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

<u>Proposal</u>

On March 2, 2017, as part of OFHP, it was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and

future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. For example, by recognizing that generation assets are expected to continue to provide residual benefit to future ratepayers, beyond the term of current contracts, future ratepayers are expected to be able to utilize these assets and reduce the need to finance the development of new generation assets.

Under this proposal, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017. In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed proposed legislation to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations;

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY);

- Launched a third party research project to assist with implementation of GA refinancing; and

- Developed comprehensive risk-based costing, including forecast models and sensitivity tests on key assumptions.

Proposed legislation to enable GA refinancing is planned for a May 2017 introduction.

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2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The proposed legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

Proposal

The Government is proposing to introduce legislation and regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.

The legislative proposal enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers.

- R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province.

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Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

Proposed legislation will enable tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

Proposed legislation enables the establishment of a maximum monthly base distribution charge for those prescribed customers. If the proposed legislation is passed, the mechanism to set this charge will be established in regulation.

On-Reserve First Nations Delivery Credit

On July 12, 2016, the Province and First Nations in Ontario announced an agreement-in-principle for the Province to sell to First Nations for their collective benefit, shares of Hydro One Limited.

The Province would sell up to approximately 15 million shares (2.5 per cent of total current outstanding Hydro One common shares), depending on the level of First Nation participation, to a new collective investment fund owned by First Nations.

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The proposal is premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program proposal involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The resulting First Nations Delivery Credit is a reflection of First Nation leadership on this issue and an example of the Political Accord coming to life.

CONFIDENTIAL

Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program from the rate base to the tax base, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid by all Ontario consumers on May 1, 2017 ($0.0011 per kilowatt-hour of power consumed). On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will also come into effect on May 1, 2017.

The amendments to the *Ontario Energy Board Act, 1998* pertaining to OESP will move the program funding from the rate-base and transfer it to the tax-base, and enable alignment of the OESP with social assistance programs delivered by the Ministry of Community and Social Services.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB sets amount that LDCs charge for RRRP to all customers. Once the regulatory mechanism is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. Change to the funding structure of the program does not require any additional implementation risks or efforts.

CONFIDENTIAL

Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers would be prescribed in regulation, if the legislation is passed. Additionally, the Ontario Energy Board would be empowered by regulation to determine the rate at which affected LDCs would be harmonized.

The efforts required to implement the program will fall upon the impacted LDCs who will need to adjust their billing systems in order to carry out the program.

On-Reserve First Nation Delivery Credit

A new regulation will need to be passed to set out the program particulars including eligibility for the program.

The LDCs will need to enter into communication plans in order to work with local First Nations Band Councils and to increase awareness of the delivery credit to all eligible consumers.

There are transitional provisions for both the enhanced rate protection and First Nations Delivery Credit that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.

Ontario Electricity Support Program

A legislative amendment to the *Ontario Energy Board Act, 1998* will allow funding to shift from the rate base to the tax base. The amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

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3. ICI Expansion:

Ontario is committed to providing competitive electricity rates for energy intensive consumers in the manufacturing sector while also promoting electricity conservation.

In January 2011, the Industrial Conservation Initiative (ICI) was announced to help large industrial electricity power users better manage their electricity costs while reducing electricity consumption during peak periods.

ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. Reducing peak demand increases the reliability of the electricity system, reduces greenhouse gas (GHG) emissions and helps defer the need to procure new resources. There are currently about 300 participating consumers who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Proposal

On March 2, 2017, as part of OFHP), the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

- As of January 1, 2017, the regulatory amendments came into effect to make ICI available to electricity consumers with an average monthly peak demand greater than 1 MW. The lowering of the ICI threshold to 1MW and removal of sector restrictions was announced in the 2016 Speech from the Throne.

Implementation

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

- Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

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In addition, the Ministry has retained the Ontario Chambers of Commerce (OCC) and the Canadian Manufacturing and Exporting (CME) to undertake targeted stakeholder outreach on ICI and other cost saving energy programs/measures available to the commercial and industrial sectors in Ontario.

3.0 KEY CONTEXT

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would reduce the electricity bills of residential consumers by 25 per cent on average starting in summer 2017. In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and bend the future cost curve of electricity (see Background for details).

On April 20, 2017, the OEB announced new Regulated Price Plan (RPP) rates effective May 1, 2017 that include a portion of the bill reduction proposed under OFHP and the shifting of the funding of the OESP to provincial revenues. The full reduction from OFHP is expected to be addressed through a July 1st RPP rate adjustment.

The Ministry's report back to TB/MBC focuses on the following OFHP initiatives:

1) GA Refinancing:

As part of OFHP, it was announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

- Today's electricity consumers have been responsible for the costs of investments in developing the clean, modern and reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. There is an opportunity to recognize the long-term benefit of these generation assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

Refinancing a portion of GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

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To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing (i.e., dealers);

- Developed proposed legislation to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: The Ministry is also preparing a number of supporting regulations;

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY);

- Launched a third party research project to assist with implementation of GA refinancing; and

- Developed comprehensive risk-based costing, including forecast models and sensitivity tests on key assumptions.

Financing, Accounting and Legal Risk Considerations / Mitigations

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager

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(OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.

- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.

- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

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- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and

- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

OPG Financing / OPG Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

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These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG's capital structure:

- OPG would require monthly "equity injections" from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;

- Funds from the Province would flow from the Ontario Financing Authority (OFA); and

- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.

- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG's business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy's concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual

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ratepayers. Note: The reverse is also true in regards to decreasing demand.

- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

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IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".

- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust,

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additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.

- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.

- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-

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year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).

- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.

- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be

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imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and

- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted.

A statutory cause of action may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

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2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The proposed legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

If passed, the government proposes to identify Hydro One R2 customers, as having their RRRP funded through appropriated funds.

Distribution Rate Protection

New Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, would be established through proposed legislative amendments under the *Fair Hydro Act, 2017,* and the creation of consequential regulations. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhance protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

Eligible on-reserve customers will receive a 100% delivery credit or the elimination of their monthly service charge on their electricity bills. The eligibility requirements will be prescribed under regulation.

There are 11 LDCs identified by OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One,

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Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 customers may be eligible.

Ontario Electricity Support Program (OESP)

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by a rebate directly on bills. The OESP is currently funded by the rate base.

OESP credits vary by income level and family size, and there are two credit scales that include:

- The basic program credit ranges from $30/month to $50/month.
- An enhanced credit that ranges from $45/month to $75/month for consumers that are either Indigenous, use electric heat or use certain electrically intensive medical devices.

Ontario's Fair Hydro Plan (OFHP) committed to move the program from the rate base to the tax base, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

The proposed legislative changes will address the move to the tax base, and regulatory changes approved by Cabinet on April 10, 2017 will enable the expansion of the OESP effective May 1, 2017. Discussions are ongoing with the OEB and MCSS on aligning OESP delivery with other social assistance programs.

<u>Roles and Responsibilities</u>

Rural or Remote Rate Protection

The roles and responsibilities of the Board remain the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The Board would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would once again need to appropriate money from the legislature to cover the costs of administering the program.

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On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers. In addition, ENERGY would need to work with LDCs, Chiefs of Ontario and Band Councils to ensure the program is delivered to all eligible consumers.

Ontario Electricity Support Program

The OEB will continue to the deliver the OESP under the current legislative framework until the variance account is depleted. When legislative changes to shift the program from the rate base to the tax base are proclaimed, the OEB will continue to administer the program, but certain decision making responsibilities and oversights will shift to the Minister of Energy.

MCSS will begin supporting OESP uptake by helping social assistance clients to apply to the OESP. Legislative and regulatory changes will enable this work.

The IESO will continue to manage payments to utilities, unit sub-meter providers, and the OEB in relation to OESP credit delivery and program administration costs. When legislative changes are proclaimed, IESO will begin reporting costs to the Ministry to support forecasting and audit.

3) ICI Expansion:

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and “1114”) in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

In addition, the Ministry has retained the OCC and the CME to undertake targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants. **Note:** The extent of the impact will depend on the uptake in the newly

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expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

4.0 BACKGROUND

Decarbonizing and Modernize Ontario's Energy System

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity prices increasing.

The Ministry of Energy has taken a number of actions to lower electricity costs for all consumers by:

- Deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices; and

- Increasing cost effectiveness and improving efficiency by adopting new electricity market approaches (e.g., no new NUG contracting and demand response).

Following the 2016 Speech from the Throne, several actions were announced to further reduce electricity costs:

- As of January 1, 2017, Ontario is rebating an amount equal to the provincial portion of the HST to reduce eligible residential, small business and farm electricity bills by 8 per cent.

- Expanded support to eligible rural consumers by updating Rural or Remote Rate Protection (RRRP) with the additional relief, decreasing total electricity bills by an average of $45 each month when combined with the 8 per cent rebate.

- Expanding the Industrial Conservation Initiative (ICI) – up to one-third savings for participants.

- Suspending the LRP II and the Energy from Waste Standard Offer Program (EFWSOP) – up to $3.8 billion in savings.

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- Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – average annual savings of $15 million.

Ontario's Fair Hydro Plan

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP). The OFHP includes the following:

- Refinancing the GA over a longer period for Regulated Price Plan (RPP) eligible consumers, including residential consumers and most small businesses and farms.

- Shifting cost recovery for Rural or Remote Rate Protection (RRRP) and Ontario Electricity Support Program (OESP) from electricity bills to the tax base, lowering the regulatory charges paid by ratepayers. Consumers of all sizes would benefit from this change.

- Helping vulnerable electricity consumers by enhancing electricity support programs, including:

  - Broadening RRRP to provide delivery charge relief for the customers of the local distribution companies (LDCs) with the highest delivery charges. We currently support approximately 350,000 Ontarians living in rural or remote areas through RRRP. The enhancement would extend relief to approximately 800,000 households in total.

  - Expanding the OESP, which provides relief directly on the bills of low-income consumers who have applied and meet the eligibility criteria. The expansion would increase OESP credits by 50 per cent and allow more Ontarians to benefit from the program.

  - Establishing a new Affordability Fund, which would provide financial support to lower-income Ontarians who are not eligible for the Home Assistance Program to make home energy efficiency improvements, helping to manage their energy costs.

  - Establishing a Delivery Credit to eliminate delivery charges for all First Nations people living on reserve.

- Expanding the Industrial Conservation Initiative (ICI), which allows large consumers to reduce their electricity bills by up to one-third by reducing their consumption during peak hours. The expansion will allow manufacturers and greenhouses between 500 kW and 1 MW to

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participate, in addition to the consumers over 1 MW that are already eligible.

- OFHP also committed to reducing system costs by improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

Legislation to Enable the Refinancing of Global Adjustment

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the Ministry has developed proposed legislation (and is working on supporting regulations) that outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;
- A detailed Preamble, Purpose and Definitions;
- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;
- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and
- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the Global Adjustment.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the proposed legislation.

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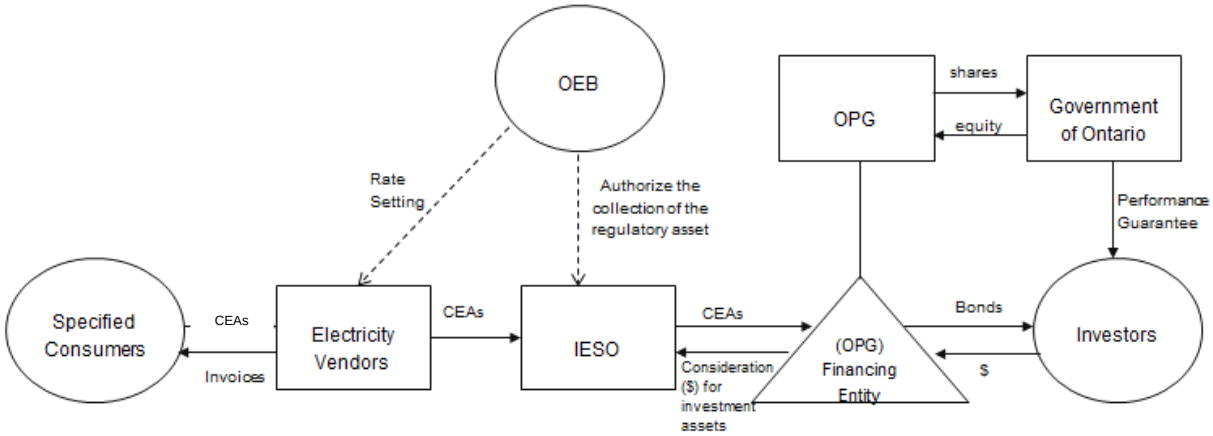
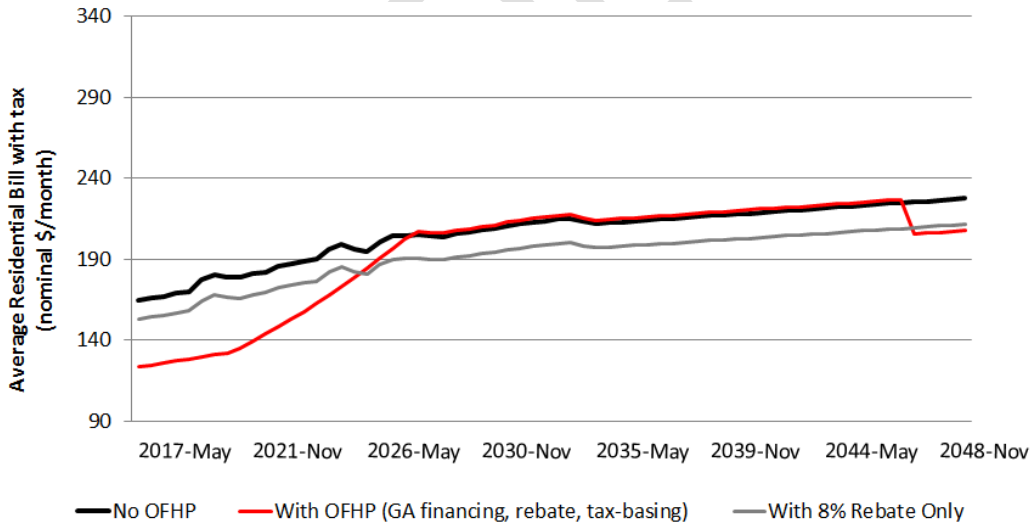
GA Refinancing Implementation Model – Overview

The diagram below outlines how the refinancing of GA would be implemented:



Note: CEAs are “clean energy adjustments”.

Multi-Year Profile of GA Refinancing / Assumptions



The chart above shows the expected multi-year profile under GA Refinancing for each Regulated Price Plan (RPP) period. In the first year, residential bills are projected to be 25 per cent lower as result of the OFHP. In the early years, bills increases are held to the rate of inflation – assumed to be 2% per year in the chart above. From July 1, 2021 onwards, prices increase at a higher rate compared to the first four years on the OFHP.

In the medium to longer term, residential bills exceed what they would have been but for the OFHP. However, in any given year, a typical residential bill under the OFHP cannot exceed what it would have been without OFHP by more than 10 per cent.

OPG's Financing Structure / Equity Financing

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected during four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a "Regulatory Asset".

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an "Investment Asset".

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG's capital structure:

- OPG would require monthly "equity injections" from the Province;

- Funds from the Province would flow from the Ontario Financing Authority (OFA); and

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- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.

Global Adjustment – Overview

The Global Adjustment (GA) accounts for the fixed costs, including capital costs, of running Ontario's generation fleet, as well as the cost of conservation programs. GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.

It is via GA that much of the costs of investments in developing a clean, modern and reliable electricity system with a diverse supply mix are recovered.

The vast majority of GA costs now stem from greenhouse gas (GHG) emissions-free renewable and nuclear generation facilities, as well as natural gas plants that were constructed to improve system reliability and replace coal-fired capacity. Generators in Ontario received contracted or regulated rates, which are typically designed to recover capital, financing and fixed operations costs. The GA recovers these fixed costs of running the province's generation fleet, as well as the cost of conservation programs.

The majority of the province's electricity generators are under 20-year contracts and account for under 50% of the GA. Some of these generators will continue to provide value to the electricity system beyond their contract lives (i.e., beyond 20 years). Similarly, conservation costs are recovered annually on an 'as incurred basis' through GA while conservation initiatives can reasonably be expected to provide benefits to the electricity system over many years.

The Ministry is proposing in legislation to recognize the long-term benefit of specific assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs. The proposed legislation outlines how costs would be fairly allocated among eligible consumers over time.

OEB's Regulated Price Plan (RPP) – Overview

On April 20, 2017, the OEB announced new Regulated Price Plan (RPP) rates effective May 1, 2017 that include a portion of the bill reduction proposed under OFHP and the shifting of the funding of the Ontario Electricity Support Program (OESP) to provincial revenues. The full reduction from OFHP is expected to be addressed through a July 1st RPP rate adjustment.

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Social Program

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 335,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.
- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.9 million.
- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.
- These customers still have high distribution costs and are often faced with significantly higher than average bills.

The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Energy is proposing legislative amendments that will broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

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- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the existing RRRP program costs and the proposed enhancements from the electricity rate base to the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

Ontario Electricity Support Program (OESP)

The OESP launched on January 1, 2016. By the end of March 2017:

- Almost 192,000 have been enrolled in the program, which is approximately 1/3 of all potentially eligible low-income customers in Ontario.

- Over $60 million in credits have been provided to vulnerable consumers.

- 172 intake agencies have been mobilized to assist low income consumers to apply for the OESP.

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Industrial Conservation Initiative (ICI)

Ontario is committed to providing competitive electricity rates for energy intensive consumers in the manufacturing sector while also promoting electricity conservation.

In January 2011, ICI was announced to help large industrial power users better manage their electricity costs while reducing electricity consumption during peak periods. ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. Reducing peak demand increases the reliability of the electricity system, reduces greenhouse gas (GHG) emissions and helps defer the need to procure new resources. There are now about 300 participating consumers who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Currently, ICI is available to electricity consumers who have an average monthly peak demand greater than 1 MW (i.e., Class A). Smaller electricity consumers – known as “Class B” consumers – are charged GA based on their total consumption regardless of when it occurs.

ICI provides a strong incentive for participating consumers to reduce their consumption during peak hours to reduce their cost. Note: ICI is administered by the Independently Electricity System Operator (IESO) and Local Distribution Companies (LDCs).

As of January 1, 2017, the regulatory amendments came into effect to make ICI available to electricity consumers with an average monthly peak demand greater than 1 MW. The lowering of the ICI threshold to 1MW and removal of sector restrictions was announced in the 2016 Speech From the Throne.

On March 2, 2017, as part of Ontario’s Fair Hydro Plan (OFHP), the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

- Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and CDM programs and/or OCCSDC programs and pilots.

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5.0 TIMING

As part of OFHP, the government announced that eligible electricity consumers would see the reduction to their electricity bills in the summer of 2017 (i.e., July).

On April 20, 2017, OEB announced that it has adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing. The Ministry anticipates that the OEB will set an interim rate adjustment following the passage of the legislation to enable GA Refinancing that would account for the full impact (i.e., 25 per cent).

The Ministry is planning to introduce legislation in early May 2017 and develop supporting regulations in early summer 2017 to enable GA Refinancing. Note: The OPG will require legislation and regulations to be in place to support its discussions with rating agencies and third-party financing.

The timeline for all of the social programs, with the exception of the OESP, is identical as the program implementation for the regulations that follow to be passed in unison for July 1, 2017.

Some of Ontario's Fair Hydro Plan commitments for the OESP came into effect on May 1, 2017 (e.g., removal of the OESP charge from customer bills; expanding credit amounts and program eligibility). Remaining changes associated with moving the program from the rate-base to the tax-base will be proclaimed at a later date when the OESP variance account is depleted. Additional regulatory amendments needed to implement this legislative change will come into effect on the same date.

As part of the OFHP, the government also announced the expansion of ICI to enable greater participation from the manufacturing sectors in Ontario.

The April 2017 ICI amendments enabled new electricity consumer's time to opt in to the expanded program ahead of the next ICI billing period (i.e., July 1, 2017). Note: Under ICI, as set out in Ontario Regulation 429/04, eligible electricity consumers must opt in to the ICI program on or before June 15 of each calendar each year.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

As it relates to the "equity injection", these changes are expected to have no impact on the Provincial net debt position as the Province's increased investment in OPG will be offset by the incremental borrowing to fund the

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equity injections. The Province has assumed incremental income from OPG arising from interest income on the subordinated debt which OPG will lend to the OPG Special Purpose Vehicle (SPV)/Trust. This offsets forecast increases in Provincial interest on debt expenses associated with equity injections.

Proposed legislation to enable GA refinancing has been drafted to mitigate financing, accounting and legal risks. In addition, IESO and OPG have sought independent advice and confirmation with respect to financing, accounting and legal matters.

Note: There would be a significant impact on provincial net debt and the fiscal plan if the legal, financing and accounting conditions change.

2) Social Programs:

As approved in the TB/MBC submission of Mach 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection	344,000,000
Ontario Electricity Support Program	140,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The IESO manages a variance account for the OESP, which holds the difference between the amount of OESP charge collected from the rate base, and the amount of OESP paid out in the form of credits. The amount in the variance account is about $109 million as of March 1, 2017. These funds will be used to fund the OESP program until the variance account is depleted, at which point the transfer payment line will be used to finance the program costs. Due to the potential range in costs of the OESP, which will depend on program uptake and any costs associated with supporting increased participation, the set allocation is required despite the variance account.

ENERGY will report back as part of PRRT with an update on out-year projections following analysis on rate applications before the Ontario Energy Board.

3) ICI Expansion:

Since ICI is funded through the electricity rate-based and not the provincial tax-base, ICI expansion will have no direct financial impact for the Province.

With respect to rate-base impacts, expanding ICI to consumers in the manufacturing and greenhouse sectors (i.e., between 500 kW and 1 MW) is

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expected to result in a modest increase on electricity bills for non-ICI participants starting in July 2017. For example, preliminary analysis estimates that the increase on a typical residential bill would by up to 0.66% or just over $1/month based on a 2016 bill of about $158.

Note: The extent of the non-ICI participant impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting in July 2017.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16 and April 19, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, 2017 to discuss implementation.
Future Industrial Conservation Initiative (ICI) Participants	• On March 9, 2017, the Ministry posted an ICI expansion proposal for comment on the Regulatory Registry for stakeholder comment. The Ministry has received 7 comments. • The Ministry is also working with the IESO, OCC and the CME regarding targeted outreach in relation to the ICI expansion.

8.0 RISK ASSESSMENT AND MITIGATION

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line.
Managing Interest Cost Risks	M	H	• Proposed legislation has been drafted with input from third-party financers (i.e., dealers). • OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%).
Provincial Guarantee is Triggered	L	H	• The proposed legislation sets out that the province would provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also establishes assurances that the Province would: - Through the Minister of Finance as provided by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and - Not hinder the charging and remittance of the under-collection of GA refinancing (i.e., through a provincial undertaking and guarantee).
IESO Failure to Establish a Regulatory Asset	L	H	• Under the proposed legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to do create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• Proposed legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • The degree of constitutional risk is in direct proportion to the extent the government is not able to show a

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date.
Social Program Cost Estimating	M	M	• OESP costs will depend on uptake of the program, which will be impacted by the 50% increase in credits, enhanced eligibility, and work with MCSS on aligning OESP delivery with their social assistance programs. • Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operatory (IESO) to ensure access to data for regular forecasting • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program.

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.
3) Industrial Conservation Initiative (ICI) Expansion			
Perceived Fairness Between Electricity Consumer Classes	M	L	• The expansion of the ICI program include electricity consumers in the manufacturing and greenhouse sectors with average monthly peak demand greater than 500 kW and less than 1 MW will impact those consumers that remain outside the program (i.e., Class B and RPP electricity consumers). • Increases to electricity bills will occur for non-ICI participants to ensure full cost recovery in the electricity system. Note: the extent of the impact on other non-ICI participants would depend on the uptake in the newly expanded ICI, but is expected to be modest. • Restricting eligibility to the manufacturing and greenhouse sector helps to ensure that the expanded ICI is focused on those consumers which are most impacted by GA costs and associated economic competitiveness pressures from neighbouring jurisdictions.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the proposed legislation is model on a those used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

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The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

The ICI program is unique to Ontario and the proposed expansion would not directly impact on other jurisdictions.

10.0 PERFORMANCE MEASURES

The proposed legislation sets parameters within which refinancing of GA can proceed. These parameters include the initial percentage reduction in eligible electricity rates, the number of years that rates will increase at a rate equivalent to CPI and the length of time within which the recovery of funds must take place (i.e., by 2047). In addition, OPG's existing financial reporting process provides an additional framework for monitoring and reporting of OPG's role in OFHP.

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. The Ministry will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing.

With respect to ICI, the Ministry regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting in July 2017.

11.0 COMMUNICATIONS

ENERGY has developed a comprehensive, two-phase media campaign to increase awareness of Ontario's existing rate mitigation measures and new proposed electricity initiatives under Ontario's Fair Hydro Plan OFHP):

- Phase I – Launched on March 13, 2017 and included radio and digital media in English and French. This was followed by multi-cultural extensions on radio in 19 languages. Phase I of the media campaign is complete.

- Phase II – Is expected to launch early Summer 2017 and will include television, radio, print, digital and social media advertising support.

ENERGY received TB/MBC approval on February 6, 2017 for an exemption from the competitive acquisition requirement under the *Procurement Directive on*

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Advertising, Public and Media Relations, and Creative Communications Services for the development of the electricity cost reduction public education campaign. Through this, ENERGY acquired the services of Rain43, an Agency of Record under Advertising Review Board's corporate vendor of record arrangement for advertising, public and media relations, and communication services, to develop this public education campaign with an estimates maximum value of $1,500,000.

As of July 20, 2015, PHD Canada is the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In 2016-17, through Phase I, ENERGY has spent approximately $1,000,000 on media planning and buying for radio and digital media. The cost of media space for television is substantially higher than radio; as such, ENERGY is forecasting to spend an additional $2,500,000 in 2017-18.

This campaign is integral for demonstrating Ontario's commitment to lower energy costs for ratepayers through the new proposed electricity initiatives. This campaign could also open the Ministry to increased scrutiny as critics may conclude savings are too little or too late to help those suffering from what the media has deemed energy poverty. Public perception may be unchanged as emotional triggers to rising electricity prices and the constant stream of negative news by the media could overpower the campaign.

The Ministry has assessed the risks, and deems the benefits for running this campaign outweigh any risks of not doing so. ENERGY anticipates reaction from electricity consumers is to be generally positive with an awareness that changes to the electricity system have led to a reliable, cleaner system that is now more affordable.

In addition, the communications for GA refinancing, delivery electricity social programs and ICI expansion will be referenced in ongoing announcements related to Ontario's Fair Hydro Plan (OFHP) broadly, and as necessary targeted communications for specific stakeholder group can be developed.

For example, the Ministry has retained the OCC and the CME to undertake targeted stakeholder outreach on ICI and other cost saving energy programs/measures available to the commercial and industrial sectors in Ontario.

The Ministry will ensure that the social programs are communicated effectively to stakeholders and specific target audiences. The Ministry will leverage its agencies and its relationship with LDCs to ensure eligible consumers are aware of the programs.

Chiefs of Ontario (COO) will be a vital partner in communicating the benefits of the First Nations Delivery Credit.

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The Ministry also believes there is opportunity for consultation on the design of the electricity bill, with a goal to refresh the regulatory framework to improve the value of the bill to the consumer across all LDCs. The Ministry proposes to convene with LDCs in July, once they've had sufficient time to implement the OFHP initiatives and prescribed messaging.

Changes of this nature will require more in-depth consultation with LDCs, as well as broader regulatory amendments to simplify the requirements, necessitating a longer period to implement. This refresh would also include opportunities to communicate OFHP savings in a more personalized and comprehensive manner. For example, each customer could receive a "personalized" message indicating how much they saved as a result of the plan.

Based on this feedback, the Ministry would aim to introduce regulatory amendments to simplify bill presentment and introduce dynamic OFHP messaging in the Fall 2017.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on following:

    i. Implementation of Global Adjustment (GA) Refinancing;

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program and First Nations On-Reserve Delivery Credit); and

    iii. Expansion of Industrial Conservation Initiative (ICI).

2) APPROVE the Ministry funding a media buy procurement with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record.

3) NOTE the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

4) NOTE the Ministry of Energy will return to TB/MBC to request a transfer of funds to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to fully recover the costs for the public education campaign.

5) APPROVE the creation of a new transfer payment line entitled "Price Mitigation Support Initiatives" under Vote/Item 2905-01, Electricity Price Mitigation, with a $1,000 placeholder, to support future rate mitigation initiatives.

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Appendix:

- KPMG Opinion
- E&Y Opinion (including OPG Management Memo)

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FINAL DRAFT

KPMG Letter to the Independent Electricity System Operator

An Accounting Opinion on the Application of PSAS to the Consolidation of a Trust and to the Recognition and Derecognition of a Variance Account in Relation to the Proposed *Ontario Fair Hydro Plan Act, 2017*

This letter has been prepared in draft form and will be updated upon receipt of the adopted legislation (including the amendments of the Electricity Act and the OEB Act) and finalized financial structure (including the bylaws and regulations of the OPG Trust) and other relevant agreements necessary for us to provide our final opinion, of which legislation and other relevant agreements are expected to be enacted/ finalized on or before September 30, 2017.

NOTICE OF NON RELIANCE

This Notice is regarding the accompanying Letter to provide an accounting opinion on the application of Public Sector Accounting Standards to the consolidation of a trust and to the recognition and derecognition of a variance account in relation to the proposed *Ontario Fair Hydro Plan Act, 2017* (the "**Letter**") prepared by KPMG LLP for the Independent Electricity System Operator ("Client").

The following terms apply to any review of the Letter and should you not agree to these terms, please do not review the Letter and delete copy of the same.

The Letter was prepared in connection with certain services we provided to the Client and should not be used for any other purpose or regarded as suitable for use by any person or persons other than the Client

No one other than the Client is authorized by KPMG to rely upon any information or views expressed in the Letter. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as the Letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

KPMG in no way accepts any duty of care to you or any other person or accepts any agreement or other arrangement of a contractually binding nature between our firm and such parties.

KPMG neither warrants nor represents that the Letter is accurate, complete, sufficient or appropriate for any purpose contemplated by you or any other person or body. You shall have no right to disclose the Letter to any other party, unless disclosure is required by law or to fulfill a professional obligation required under applicable professional standards.

Yours very truly,

KPMG LLP

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
Suite 4600
333 Bay Street
Toronto ON
M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
www.kpmg.ca

May 4, 2017

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120 Adelaide Street West
Suite 1600
Toronto, ON
M5H 1T1

The Board of Directors

Dear Sirs,

We have been engaged to provide you with an accounting opinion on the application of Public Sector Accounting Standards to the consolidation of a trust and to the recognition and derecognition of a variance account in relation to the proposed *Ontario Fair Hydro Plan Act, 2017* ("the proposed Act") (Appendix A, Version 6, to this letter). This letter is being issued to the Independent Electricity System Operator ("IESO" or the "Company") in connection with its evaluation of the consolidation requirements and the accounting for the variance account under Canadian Public Sector Accounting Standards ("PSAS"). Our engagement has been conducted in accordance with generally accepted standards in Canada for such engagements.

The ultimate responsibility for the decision on the appropriate application of PSAS for the specific issues described below rests with management of the Company as preparers of the financial statements.

The adoption of the proposed Act (including the subsequent amendments of the Electricity Act, 1998 ("the Electricity Act") and the Ontario Energy Board ("OEB" or the "Board") Act ("the OEB Act")), and the finalization of the financing structure (including the bylaws and regulations of the OPG Trust) and other agreements will take several weeks. Accordingly, our judgment on the appropriate application of PSAS for the specific matters described below is based on the facts, circumstances and assumptions provided to us. The finalization of the legislation, regulations, financing structure and other agreements may impact the comments and conclusions set out herein. Our comments and conclusions are based on the proposed Act and related matters as they exist at the date of this letter.

The following three issues are addressed in this letter:

Issue #1: Can the IESO recognize a regulatory asset related to the variance account created by the proposed Act?

Issue #2: Is the trust to be established by Ontario Power Generation (the "OPG Trust") controlled by the IESO according to the guidance issued under PSAS 1300 *Government Reporting Entity* and therefore subject to consolidation by IESO?

Issue #3: What is the accounting treatment for derecognition of the regulatory asset by the IESO upon transfer of the variance account to the OPG Trust?

Background for issue #1

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party) are as follows:

1. The IESO's legal status is a not-for-profit, non-taxable, corporation established pursuant to Part II of the Electricity Act. Management of the IESO has determined that the Company is an Other Governmental Organization and accordingly prepares its financial statements in accordance with PSAS.

2. IESO is rate regulated by the OEB in accordance with the Electricity Act and the OEB Act.

3. *Extract from the 2016 IESO financial statements, note 3 New Accounting Policies,* audited by KPMG *"*As of January 1, 2016, the IESO changed its accounting policy regarding the recognition of assets and liabilities subject to rate regulation. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model. This change has been applied retroactively and has increased amounts previously unrecorded for regulatory assets and decreased amounts previously reported for accumulated deficit."

4. *Extract from the 2016 IESO financial statements, note 2(d) Summary of Significant Accounting Policies, Regulatory assets and liabilities.* "As a rate-regulated entity, the IESO, in appropriate circumstances establishes regulated assets or liabilities and thereby defers the impact on the statement of operations of certain expenses or revenues because they are probable to be collected or refunded to market participants through future billings. The IESO applies guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, *Regulated Operations ("ASC 980")*, in this policy."

5. *Extract from Section 78(3.3) of the OEB Act:* In approving or fixing rates under subsection (3.1),

   (a) the Board shall forecast the cost of electricity to be consumed by the consumers to whom the rates apply, taking into consideration the adjustments required under section 25.33 of the Electricity Act, 1998 and shall ensure that the rates reflect these costs; and

   (b) the Board shall take into account balances in the IESO's variance accounts established under section 25.33 of the Electricity Act, 1998 and shall make adjustments with a view to eliminating those balances within 12 months or such shorter time periods as the Minister may direct.

6. Currently, IESO recognizes two regulatory assets for unrecovered smart metering expenses and unrecovered PSAB transition items as permitted by rates approved by the OEB. In addition, in accordance with section 25.33 of the Electricity Act, IESO also recognizes variance accounts (eg. OESP, RPP and RRRP variance accounts) to record all amounts payable or receivable by it in connection with the amounts paid to generators, the Ontario Electricity Financial Corporation ("OEFC"), distributors and to entities with whom the IESO has a procurement contract.

7. The Electricity Act, OEB Act and other regulations will be amended to reflect the following *extracts of the proposed Act:*

   Section 1xx Definitions, Transfer of regulatory asset

   (3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 22xx (3):

1. A reduction in the balance in the variance account.
2. The adjustment of the regulatory asset.
3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Section 20.1xx Variance account to be established

(1) IESO shall establish and maintain a variance account for the purposes of this section.

(2) IESO shall record the following in the variance account:

1. The amount of the IESO funding shortfall for each month.
2. All payments received by IESO resulting from the exercise of the right of recovery under section 21xx and any transfer under section 22xx.
3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences after May 1, 2017 and before the day this section comes into force.

(3) Subject to the correction of any obvious error by IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

(4) No change made by IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 22x, affect the rights of the investment interest owner acquired under the transfer.

Section 21xx Regulatory asset established

(1) Effective May 1, 2017, the IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

(2) Subject to subsection (3), the Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.

(3) IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

(4) The Board's powers under subsection (3) shall be exercised in accordance with the regulations.

Section 30.1xx Board's Authority

(2) Despite anything to the contrary in the OEB Act, the Board may exercise any of its responsibilities under this Act without a hearing.

8. It is expected that the funding shortfall recorded by the IESO in the variance account (the regulatory asset) will be transferred to an investment asset owner (ie a trust to be established by OPG) on a monthly basis and cash collected within a short period of time. The total IESO funding shortfall for the period from May 1, 2017 to April 30, 2047 is estimated at $28 billion plus interest.

Appropriate Accounting Principle for issue #1

ASC 980 Regulated Operations

– For general-purpose financial reporting, an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract. [980-10-05-6]

- Unless an accounting order indicates the way a cost will be handled for rate-making purposes, it causes no economic effects that would justify deviation from the GAAP applicable to business entities in general. The mere issuance of an accounting order not tied to rate treatment does not change an entity's economic resources or obligations. In other words, the economic effect of regulatory decisions—not the mere existence of regulation—is the pervasive factor that determines the application of GAAP. [980-10-05-8]
- The guidance in the Regulated Operations Topic applies to general-purpose external financial statements of an entity that has regulated operations that meet all of the following criteria:
  (a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
  (b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products. This criterion is intended to be applied to the substance of the regulation, rather than its form.
  (c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. [980-10-15-2]
- A cost arising from cash paid out or obligation to pay for an acquired asset or service, a loss from any cause that has been sustained and has been or must be paid for. [980-10-20] Glossary
- Failure of an entity's operations to continue to meet the criteria in paragraph 980-10-15-2 can result from different causes. Examples include the following:
  (a) Deregulation.
  (b) A change in the regulator's approach to setting rates from cost-based rate-making to another form of regulation.
  (c) Increasing competition that limits the entity's ability to sell utility services or products at rates that will recover costs (as used in paragraph 980-10-15-2).
  (d) Regulatory actions resulting from resistance to rate increases that limit the entity's ability to sell utility services or products at rates that will recover costs if the entity is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts. [980-20-15-2]
- Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
  (a) It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
  (b) Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date. [980-340-25-1]

- Rate actions of a regulator can reduce or eliminate the value of an asset. If a regulator excludes all or part of a cost from allowable costs, the carrying amount of any asset recognized pursuant to paragraph 980-340-25-1 shall be reduced to the extent of the excluded cost. Whether other assets have been impaired shall be judged the same as for entities in general and the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 shall apply. [980-340-35-1]
- If at any time an entity's incurred cost no longer meets the criteria for the capitalization of an incurred cost (see paragraph 980-340-25-1), that cost shall be charged to earnings. [980-340-40-1]
- In some cases, a regulator may approve rates that are intended to recover an incurred cost over an extended period without a return on the unrecovered cost during the recovery period. [980-340-55-2]
- The regulator's action provides reasonable assurance of the existence of an asset (see paragraph 980-340-25-1). Accordingly, the regulated entity would capitalize the cost and amortize it over the period during which it will be allowed for rate-making purposes. That cost would not be recorded at discounted present value. An exception to this general rule is provided for costs of abandoned plants. [980-340-55-3]

Issue #1: Can the IESO recognize a regulatory asset related to the variance account created by the proposed Act?

As noted above, as of January 1, 2016, the IESO changed its accounting policy to recognize the economic impacts of rate regulation and now applies guidance from US GAAP Topic 980, *Regulated Operations,* as PSAS does not have any specific guidance for entities with rate-regulated activities.

IESO concluded that it met the requirements of PS2120.02, which allows them to reflect the impacts of rate regulation, as it is considered that the change of accounting policy in its 2016 financial statements resulted in a more appropriate presentation of transactions in its financial statements. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The regulatory framework in Ontario relating to the generation and sale of electricity will be significantly impacted by the proposed Act. Currently, a substantial amount of the energy purchased from the generators is collected by IESO from the local distribution companies through the customer billing, with the remaining being recovered through variance accounts over a period of 12 months maximum. As mentioned above, the effect of the proposed Act is to defer the collection of a total estimated amount of $28 billion (plus interest) of energy purchased from the generators over a period of 30 years. The proposed Act will not permit IESO to collect the funding shortfall before May 1, 2021 and the recovery process will be established through regulations. Such a long-term deferred recovery plan requires IESO to consider whether the uncollected energy costs qualify for deferral as a regulatory asset and whether it continues to meet the criteria that allow IESO to use the guidance for regulated operations of Topic 980. These two accounting issues are analyzed in the two tables below.

Criteria for the recognition of regulatory assets

ASC 980-340-25-1 states that rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

Criteria	Comment	Evaluation
(a) It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. (b) Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. *(emphasis added)* If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.	The proposed Act states that, • *A recording of the balance in the variance account is determinative of the balance as of the time of the recording.* • *Effective May 1, 2017, IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.* • *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.* • *The IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.* Based on the proposed Act, IESO has the right to recover the balance recorded in the variance account. As a result, it is clear that IESO will be able to recover the amount previously incurred rather than to provide for expected levels of similar future costs.	Met

Criteria for the adoption and continued use of ASC 980 guidance

Deferred recovery plans are plans adopted by regulators or legislations in response to significant increases in costs (e.g. purchased power costs). These plans typically provide for rates to remain fixed or increase moderately with a variance account mechanism to capture costs in excess of the level allowed in current rates. A regulated utility subject to such plans is required to consider whether it continues to meet the criteria that allow it to use the guidance for regulated operations of Topic 980, especially criteria ASC 980-10-15-2 (b).

The proposed plan for the recovery of purchase power costs over a 30 year period is considered a deferred recovery plan as the rates for the first four years will remain fixed and subsequently the rates will increase moderately with a variance account to capture energy costs in excess of the level allowed in current rates. The following is an analysis of the ASC 980-10-15-2 criteria.

Criteria	Comment	Evaluation
(a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party	Currently, IESO recognizes regulatory assets related to smart meters and PSAS transition costs as permitted by rates approved by the OEB and regulatory liabilities related to the variance accounts (eg. OESP, RPP and RRRP variance accounts) established under section 25.33 of the Electricity Act related to the procurement of energy.	Met

Criteria	Comment	Evaluation
regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.	It is important to note that both Hydro One and OPG are classified as government business enterprises and are reporting under IFRS in their consolidated financial statements, are consolidated by the modified equity method into the province's books, are regulated by the OEB, and their respective regulatory assets and liabilities are reported in the province's books.	

(b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products.	Currently, the rates approved by the OEB are designed to recover the IESO's costs of providing the regulated services and the pass-through related to the energy purchased from the generators.
	
	As mentioned above, a regulated utility subject to a deferred recovery plan is required to consider whether it continues to meet the criteria ASC 980-10-15-2 (b).
	
	This criterion requires a cause-and-effect relationship between a reporting entity's costs and its revenue. In addition, the timing of cost recovery and the related frequency of ratemaking is important. A reporting entity should consider its rate case experience, including the design of its rates and timing of recovery, when determining whether this criterion is met. These factors are analyzed below.
	
	Frequency of rate case
	
	- Currently, IESO is subject to OEB's annual reviews
	- Although the recovery of purchase energy costs will be frozen at the approved rate on May 1, 2017 for the first four years, the IESO will be granted a right to recover after May 1, 2021 the funding shortfall recorded in the variance account during the four-year period.
	  - *A recording of the balance in the variance account of the balance is determinative of the balance, as of the time of the recording. (We note that this confirms that there will be no prudence review by the OEB)*
	  - *Right to recover the balance recorded in the variance account.*
	  - *Obligation on the part of the OEB to dispose the variance account in accordance with the regulation.*
	- Subsequent to May 1, 2021, the OEB will be required to determine and set rates payable by specified consumers to allow for IESO to recover the balance
		Met

Criteria	Comment	Evaluation
	recorded in the variance account. - *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.* - *Despite anything to the contrary in the OEB Act, the Board may exercise any of its responsibilities under this Act without a hearing.* *Rates are designed to recover incurred costs* - There is a cause-and-effect relationship between the purchase energy costs and revenue, as IESO will be allowed to recover the costs incurred. - *A recording in the variance account of the balance in the variance account is determinative of the balance as of the time of recording (We note that this confirms that there will be no prudence review).* - *Right to recover the balance recorded in the variance account.* - *Obligation on the part of the OEB to ensure IESO will recover the balance recorded in the variance account.* *Periods of alternative ratemaking (e.g., rate freezes)* Evaluation of the second criterion requires additional judgment if the regulated utility is subject to any form of ratemaking that introduces uncertainty about the cause-and-effect relationship between costs and rates. A rate freeze period is defined as a fixed rate that is charged to customers during a period of time (more than two years) and the utilities are exposed to increases in operating and energy costs with no ability to recover the variances. This is not the case as IESO will be granted the right to recover fully the funding shortfall recorded in the variance account, including the first four-year period. - *The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.*	

Criteria	Comment	Evaluation
	Costs uncertainty As the IESO will be granted the right to fully recover the funding shortfall recorded in the variance account, there is no uncertainty about the recovery of the costs. *Disallowances of costs* The OEB has never disallowed the recovery of any material costs incurred by IESO. More importantly, as the IESO will be granted by legislation the right to fully recover the funding shortfall recorded in the variance account, there is no risk of the potential disallowance of the purchase power costs. Based on the analysis of the above factors, there are no indications that this criterion would not be met. The above factors establish that there will be a direct cause-and-effect relationship between IESO's costs and its future collection.	
(c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs."	The remaining criterion is whether limitations, including considering demand levels at the approved rates, on the extent of recovery of the regulatory asset could prevent the IESO from recognizing a regulatory asset for the entire balance in the recovery right granted to the IESO. The proposed Act notes that: - *Effective May 1, 2017, the IESO's right to recover the balance in the variance account is subject to the following:* o *The Board shall, from time to time, determine and set rates payable by specified customers to allow for IESO to recover the balance recorded in the variance account.* o *IESO shall not be entitled to collect the variance account from specified consumers before May 1, 2021.* Although the process, especially the timing of the recovery of the regulatory asset has not been established yet by the OEB, the wording and intent of the proposed legislation is clear that it is intended by law to be recoverable over the period of 30 years. Further, given the nature and extent of customer demand for the power generated and distributed in Ontario, both at this time and projected in the future, it is reasonable to conclude that there will be sufficient demand to recover the regulatory asset. As with the other criteria, this will	Met

Criteria	Comment	Evaluation
	need to be continually evaluated throughout the recovery period.	

Management conclusion:

IESO management has concluded that the IESO can recognize a regulatory asset related to the variance account created by the proposed Act based on the foregoing analysis.

The variance account created by the proposed Act is subject to rate regulation by the OEB and the variance account will be established with the right to collect funds against the variance amount in the future. In these circumstances, the IESO is able to establish a regulated asset. The IESO financial statements are prepared in accordance with Canadian public sector accounting standards. Although PSAB does not provide specific guidance on rate regulated accounting, it does under PS 1150 *Generally Accepted Accounting Principles* allow for guidance to be followed from other accounting frameworks. IESO has applied guidance from United States Generally Accepted Accounting Principles (US GAAP) Topic 980, Regulated Operations in its accounting policies.

Our conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that the variance account created by the proposed Act will meet the criteria for the recognition of a regulatory asset stated in ASC 980-340-25-1. Furthermore, we have also considered the criteria stated in ASC 980-10-15-2 and believe that IESO should be allowed to continue to use the guidance for regulated operations of Topic 980.

Background for issue #2

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party), in addition to those described in the background for issue #1, are as follows:

1. The IESO currently has the right to collect the global adjustment ("GA") monthly from ratepayers through provisions in the Electricity Act. It is proposed that collection of a certain portion of the monthly GA be deferred in a regulatory asset for collection in the future, and that the right to recover the deferred GA from ratepayers be used as the basis for structured financing/ securitization.
2. In connection with the proposed Act, it is proposed that a trust to be created as a financial vehicle by OPG in connection with the deferred GA. The OPG Trust will finance the deferral of the GA by purchasing the regulatory asset from the IESO for the principal amount of the GA being deferred.
3. The OPG Trust is expected to finance these purchases from the IESO through a combination of senior secured financing raised in the capital markets, and subordinated financing from OPG (the funding for which will mostly be from equity injections from the OEFC/Province of Ontario).
4. OPG will be appointed as the Financial Services Manager and will be given the responsibility to direct the activities of the OPG Trust, through a services agreement and/or through the Trust's constating documents.

Appropriate Accounting Principle for issue #2

PS1300 *Government Reporting Entity*:

PSAS refer to government or government organizations. For the purpose of this analysis, the PSAS guidance below relating to government or government organizations should be read and understood as being the IESO (emphasis added).

- The government reporting entity should comprise government components and those organizations that are controlled by the government. [PS 1300.07]
- Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities. [PS 1300.08] (emphasis added).
- Whether a government controls an organization is a question of fact that must be determined by reference to the definition of control established in paragraph PS 1300.08 and the particular circumstances of each case. The determination of the fact that control exists will require the application of professional judgment. Government achieves its objectives through a wide range of organizations which individually will fall somewhere along a continuum. At one end of the continuum, it will be clear that an organization does not have the power to act independently and is controlled by the government. At the other end, the organization will have the power to act independently and, while government will have a level of influence on the organization, it will be clear that it does not have control. Along the continuum, consideration needs to be given to the nature of the relationship between the government and the organization in order to determine whether control exists. This Section provides guidance intended to assist in this assessment. [PS 1300.10]
- In applying this guidance, it is necessary to determine the substance of the relationship between the government and the organization. The true nature of certain relationships may not be completely reflected by their legal form. All relevant aspects and implications of the relationship would be considered in determining whether or not the government controls the organization. Where various aspects of the relationship are designed, in effect, to achieve an overall objective, they would be viewed as a whole. [PS 1300.11]
- Financial and operating policies are principles and practices that determine how an organization conducts its activities. The ability to govern these policies is an important element of government control because it establishes the fundamental basis for the conduct of the organization's operations and the achievement of its mission and mandate. [PS 1300.13]
- There are a variety of ways to govern the financial and operating policies of an organization. For example:
  (a) a government may establish an organization's fundamental purpose and eliminate or significantly limit the ability of the organization to make future decisions by predetermining the financial and operating policies of the organization;
  (b) a government may direct the financial and operating policies of an organization on an ongoing basis; or
  (c) a government may veto, overrule or modify the financial and operating policies established by an organization. [PS 1300.14]
- A government does not need to manage an organization's activities on a day-to-day basis to control the organization. It is the government's existing authority to determine the policies governing those activities that is important. [PS 1300.15]

– For the purposes of this Section, it is assumed that where the government has the power to govern the financial and operating policies of an organization, it expects to derive a financial or non-financial benefit. The government may also be exposed to the risk of loss. [PS 1300.16]

Issue #2: Is the trust to be established by Ontario Power Generation (the "OPG Trust") controlled by the IESO according to the guidance issued under PSAS 1300 *Government Reporting Entity* and, therefore, subject to consolidation by IESO?

Under PSAS, IESO is required to consolidate all entities that are considered to be part of its reporting entity, applying the guidance provided in *Section PS 1300 Government Reporting Entity.* Under PS 1300, IESO must consolidate all entities it "controls".

In determining whether or not the OPG Trust should be consolidated by IESO, it must first be determined whether or not the IESO exercises control as a consequence of power to govern the financial and operating policies of the OPG Trust resulting in expected benefits to the IESO or the risk of loss from the activities of the OPG Trust.

PS 1300.17 indicates that "whether a government controls an organization is a question of fact that requires the application of professional judgment based on the definition of control in this Section and the substance of the relationship in each case." Under PS 1300.08 control is defined as "the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities". Therefore, the determination of whether IESO will consolidate the OPG Trust will be based on an assessment of whether IESO is considered to control the OPG Trust based on the indicia of control set out in PS 1300. The assessment of the IESO's control of the OPG Trust is made based on the proposed Act, facts and nature of the relationship between the IESO and the OPG Trust and based on facts and assumptions provided by IESO. PS 1300.18 and .19 set out 11 potential indicia of control. Several of these indicia have been categorized as more persuasive of a finding of control (see the first four indicators in the table below). For each indicator that applies, the degree of government influence would determine its importance as evidence of control. Finally, the indicia are considered both collectively and individually.

A detailed analysis of the 11 Indicators of control is provided in the following table.

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
Primary (more persuasive) indicators (PS 1300.18):		
Government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization	- The proposed Act states: - *OPG is appointed as the Financial Services Manager for the purposes of this Act. (Section 13xx)* - *The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners. (Section 14xx (1))* - *Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees to recover, the costs of doing anything the*	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?

	Financial Services Manager is required or permitted to do under this or any other Act; and any other type of expenditure, the recovery of which is permitted by the regulations. (Section 14xx (3))
	- The Electricity Act, 1998 (EA) will be amended as follows:
	  - *In addition to the objects mentioned in subsection (1), the objects of OPG include exercising the powers and rights and performing the duties and obligations assigned to it under the Ontario Fair Hydro Plan Act, 2017 and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services." (Section 53.1 (1.1))*
	  - *"OPG may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects." (Section 53.1 (1.2))*
	- OPG will establish a trust to manage the collection of the regulatory asset and related financing and administrative expenses. The Board of Trustees of the OPG Trust will be the governing body of the Trust and will be appointed by OPG. OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees.
	- The IESO will not have any rights in respect of the appointment or replacement of the Board of Trustees of the OPG Trust.	

Government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses	- Section 23xx of the proposed Act states:
	  - *A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.*
	  - *Without limiting subsection (1), any transfer agreement that states an intention of the parties for*
		No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
	IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest. - *At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.* - Based on the proposed Act, *upon transfer by IESO of a portion of the regulatory asset to the OPG Trust, the investment asset resulting from the transfer is immediately vested in the OPG Trust, free and clear of any adverse claim.* (Section 24xx (1.1)) - Therefore, upon transfer of the regulatory asset to the OPG Trust, IESO will no longer have access/ability to direct the regulatory asset nor have the ongoing responsibility for losses. - The credit risk related to the collection of the investment asset is borne by the OPG Trust.	
Government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization	- IESO will not have any ownership in the OPG Trust and will not have the power to govern the financial and operating policies of the OPG Trust.	No
Government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations	- IESO will not have the power to dissolve the organization.	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
Other indicators that may provide evidence of control exist when government has the power to (PS 1300.18):		
Provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members	- OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees of the OPG Trust. - IESO will not provide input in the appointment of members of the Board of Trustees.	No
Appoint or remove the CEO or other key personnel	- OPG will have the power to unilaterally appoint or remove all members of the Board of Trustees of the OPG Trust and other key personnel.	No
Establish or amend the mission or mandate of the organization	- The Trust will be established by OPG and the mandate of the Trust will be set based on the proposed Act.	No

Approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis	- The proposed Act states:
	  - *OPG is appointed as the Financial Services Manager for the purposes of this Act. (Section 13xx)*
	  - *"The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of refinancing a funding obligation." (Section 16 (1))*
	- OPG is the Financial Services Manager, not IESO.
	- IESO is not involved in the preparation or approval of the business plans or budget of the OPG Trust.
		No

Establish borrowing or investment limits or restrict the organization's investments	- Section 17 of the proposed Act states: - *The Financial Services Manager shall ensure that funding obligations incurred for the purposes*	No

INDICATOR OF CONTROLS	EVIDENCE OF CONTROL	CONTROL EXIST?
	of this Act are incurred in a manner that is consistent with the applicable Financing Plan. - OPG not IESO, is responsible for ensuring that the borrowings of the OPG Trust meet the above conditions.	
Restrict the revenue-generating capacity of the organization, notably the sources of revenue	- N/A	No
Establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources	- As mentioned above, OPG will be granted by legislation the power to establish or amend the policies of the OPG Trust and the ability to appoint and remove all members of the Board of Trustees.	No

Management Conclusion:

IESO management has concluded that the OPG Trust to be established would not be controlled by the IESO and therefore is not subject to consolidation by the IESO.

Based on the foregoing analysis of the 11 indicators of control as defined in Section PS 1300 *Government Reporting Entity,* considered both individually and collectively there is no evidence of control by the IESO in respect of the OPG Trust. The IESO will not have the power to govern the Trust, nor have ongoing access to Trust's assets. The IESO will also not have any voting shares or future rights to the Trust nor the power to dissolve the Trust. Without control, the Trust is not subject to consolidation within the IESO financial statements.

Our Conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that based on the Proposed Act, none of the four primary (more persuasive) indicators of control are considered to be met, and none of the seven other indicators of control are considered to be met. Accordingly, we concur that the IESO does not control the OPG Trust under the proposed Act and hence would not consolidate the OPG Trust.

The adoption of the proposed Act (including the subsequent amendments of the Electricity Act and the OEB Act) and the finalization of the financing structure (including the bylaws and regulations of the OPG Trust) and other agreements will take several weeks. Accordingly, our judgment on the appropriate application of PSAS to the conclusion on control may change subject to further analysis of any changes to the terms of the proposed Act or review of the final regulations, financing structure and other agreements.

Background for issue #3

The facts, circumstances, and assumptions relevant to the specific transactions as provided to us by the management of the Company (responsible party), in addition to those described in the background for issues #1 and 2, are as follows:

1. The total IESO funding shortfall for the period from May 1, 2017 to April 30, 2047 is estimated at $28 billion plus interest and will be recorded by the IESO in a variance account recognized as a regulatory asset.
2. The IESO does not currently have the financial capability to finance the regulatory asset and will transfer the variance account to an investment asset owner (i.e. OPG Trust) on a monthly basis.
3. The IESO will obtain a written legal opinion as to the validity and enforceability of the transfer and sale of the regulatory asset.
4. Based on an assessment of control performed under the issue #2, IESO will not consolidate the OPG Trust. We understand that an assessment of control under International Financial Reporting Standards ("IFRS") has been performed by OPG and they have concluded that the OPG Trust will be consolidated by OPG; we note that the financial reporting framework used by OPG in preparing its financial statements for consolidation into the Province's books is IFRS.
5. The Electricity Act, OEB Act and other regulations will be amended to reflect the following *extracts from the proposed Act:*

   Section 11xx IESO to receive amounts

   (2) The IESO shall, as an agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the regulations and the market rules made under section 32 of the *Electricity Act, 1998*.

   (4) All amounts received by the IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment interest owner, be received and held in trust by the IESO for the investment interest owners.

   (5) The IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the accounts referred to in subsection (2), to or for the benefit of the investment interest owners in accordance with the regulations.

   Section 12xx Pro rating of payments

   (3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

   Section 22xx Transfer of regulatory asset

   (1) The IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

   (2) An agreement between the IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to the IESO in an amount equal to the amount of the specified portion.

(3) Upon receipt by the IESO of the payment by the financing entity,

(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) the IESO shall retain no further right, title or interest in the investment interest.

Section 23xx Validity of transfer

(1) A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.

(3) At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

Section 25xx Investment asset established

(1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that are imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, IESO and other prescribed parties.

Section 26xx Transfer of investment interest

(2) An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Section 28xx Investment interest owner may grant security interest

(1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

(3) All provisions of the Personal Property Security Act shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

6. The terms of the transfer agreement between the IESO and the OPG Trust that will be signed and executed upon transfer of the regulatory assets will be in compliance with the dispositions of the proposed Act.

Appropriate Accounting Principle for issue #3

The Derecognition Section of ASC 980-20-40 provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation. [ASC 980-20-40]

Failure of an entity's operations to continue to meet the criteria in paragraph 980-10-15-2 can result from different causes. Examples include the following:

(e) Deregulation.

(f) A change in the regulator's approach to setting rates from cost-based rate-making to another form of regulation.

(g) Increasing competition that limits the entity's ability to sell utility services or products at rates that will recover costs (as used in paragraph 980-10-15-2).

(h) Regulatory actions resulting from resistance to rate increases that limit the entity's ability to sell utility services or products at rates that will recover costs if the entity is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts. [ASC 980-20-15-2]

PS1000 *Financial statement concepts*:

- This Section is to be used by preparers and auditors of financial statements in exercising their professional judgment as to the application of generally accepted accounting principles and in establishing accounting policies in areas in which accounting principles are developing. [PS1000.03]
- Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness. [PS1000.24]
- An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph [PS3210.04]. Thus, for example, an item does not qualify as an asset of a government if the item involves:
  (a) no future economic benefit;
  (b) future economic benefit, but the government cannot obtain it; or
  (c) future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred. [PS1000.37]

PS3210 *Assets*:

- Assets are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. [PS3210.03]
- Assets have three essential characteristics:
  (a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.
  (b) The public sector entity can control the economic resource and access to the future economic benefits.
  (c) The transaction or event giving rise to the public sector entity's control has already occurred. [PS3210.04]
- Control of an economic resource and of access to the future economic benefits are essential characteristics of an asset, whereas possession or ownership is not. [PS3210.22]

PS3430 *Restructuring transactions* [1]

- Individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date. [PS3430.21]
- When a transferor continues to be involved in the individual assets and/or liabilities it transferred to a recipient subsequent to the restructuring date, it would assess the nature and extent of its continued involvement against the definitions of assets and liabilities and applicable recognition criteria to evaluate whether:
  (a) derecognition of the asset and liability transferred would be appropriate; and
  (b) its continued involvement gives rise to a new asset or new liability that needs to be recognized. [PS3430.24]
- A new asset or new liability may arise from a restructuring due to a transferor's continued involvement in the individual assets and liabilities transferred (for example, if it agrees to guarantee repayment of all or a portion of a transferred liability or leases back a portion of a transferred asset). As the new asset or new liability is not transferred, together with related program or operating responsibilities, they are not part of the restructuring transaction. They would be accounted for in accordance with individual Sections of the PSA Handbook by both the transferors and recipients. [PS3430.25]

1 This Section applies to fiscal years beginning on or after April 1, 2018. […] Earlier adoption is permitted."

Issue #3: What is the accounting treatment for derecognition of the regulatory asset by the IESO upon transfer of the variance account to the OPG Trust?

Although ASC 980-20-40 states that

> *"Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation."*

Subtopic 980-20 relates to discontinuation of rate-regulated accounting when an entity no longer meets the criteria in paragraph 980-10-15-2. ASC 980-20-15-2 provides examples of when an entity no longer meets the criteria, including deregulation and change of the form of regulation. Thus, ASC 980 does not provide clear guidance for the derecognition of a regulatory asset other than in connection with the discontinuation of rate-regulated accounting.

The above guidance in ASC 980-20-40 provides general principles for the derecognition of assets.

It should also be noted that PSASs provide limited guidance on derecognition of non-financial assets and liabilities. Section 3430 *Restructuring transactions,* which is applicable for fiscal years on or after April 1, 2018 with early application permitted, has guidance for the derecognition of assets and liabilities.

- Paragraph 21 states that individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date.
- As stated in paragraph 24, when a transferor continues to be involved in the individual assets and/or liabilities it transferred to a recipient subsequent to the restructuring date, it would assess the nature and extent of its continued involvement against the definitions of assets and liabilities and applicable recognition criteria to evaluate whether derecognition of the asset and liability transferred would be appropriate and whether its continued involvement gives rise to a new asset or new liability that needs to be recognized.

Recognizing the proposed transaction is not a restructuring transaction, Section 3430, which has recently been issued by PSAB, provides current evidence of thinking in the application of the general PSAS principles in respect of the recognition and derecognition of assets and liabilities. Accordingly, the analysis as to whether the regulatory asset transferred to the OPG Trust can be derecognized is based on the foregoing guidance.

Criteria for the recognition of an asset

PS3210.03 states that assets are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. More generally, PSAS PS1000.37 suggests that an asset would no longer be recognized when it fails to meet the definition of an asset:

Criteria	Comment	Evaluation
Assets (PS3210.04/ PS1000.36): Assets have three essential characteristics: (a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows,	Based on the guidance, the regulatory asset does not qualify as an asset of IESO if it cannot obtain the future economic benefits. Upon transfer of the regulatory asset, IESO will have no further rights or obligations in connection with the asset transferred. - *IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.* - *Upon receipt by IESO of the payment by the financing entity, IESO shall retain no further right, title or interest in the corresponding investment interest.*	Not Met

Criteria	Comment	Evaluation
or to reduce cash outflows. (b) The public sector entity can control the economic resource and access to the future economic benefits. (c) The transaction or event giving rise to the public sector entity's control has already occurred. *Financial statement concepts (PS1000.37):* An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph [see above]. Thus, for example, an item does not qualify as an asset of a government if the item involves: (a) no future economic benefit (b) future economic benefit, but the government cannot obtain it.	- *A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.* - *Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.* - *At the time a transfer of the regulatory asset is made, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor."* Upon transfer of the regulatory asset, the OPG Trust will have the right to sell the asset to another party or to grant a security interest in favour of any person to secure a funding obligation. - *Upon transfer, the financing entity becomes an investment asset owner and acquires an investment interest."* - *An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.* - *An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.* Based on the proposed Act, it is clear that IESO will have no rights to the benefits associated with the future cash inflows related to the regulatory asset as it will have transferred its right to recover the IESO funding shortfall to the OPG Trust. Further, it is also clear that IESO will have lost control over the regulatory asset once it is transferred to OPG Trust.	

Management conclusion:

IESO management has concluded that the regulatory asset will be derecognized upon transfer of the variance account to the OPG Trust.

The transfer of the variance account transfers the control and the benefits associated with the right to collect funds in the future against the variance amount to the OPG Trust. This will eliminate the IESO asset by the amount of the transfer as the IESO will no longer control an economic resource or have access to future economic benefits for that amount. The funds collected from the transfer will in turn reduce the associated debt held by the IESO, maintaining the IESO's net $ nil balance in the market accounts.

Our conclusion:

We have considered the foregoing analysis and management's conclusion. We concur that the regulatory asset should be derecognized on transfer to the OPG Trust as IESO no longer has rights or future economic benefits associated with the asset.

Other Matters

The ultimate responsibility for the decision on the appropriate application of PSAS for the specific transactions rests with management as preparers of the financial statements. Our judgment on the appropriate application of PSAS for the specific transaction is based solely on the facts, circumstances and assumptions provided to us as described above. Should these facts and circumstances differ, our conclusion may change.

This letter has been prepared in draft form and will be updated upon receipt of the adopted legislation (including the amendments of the Electricity Act and the OEB Act) and finalized financial structure (including the bylaws and regulations of the OPG Trust) and other relevant agreements necessary for us to provide our final opinion, of which legislation and other relevant agreements are expected to be enacted/ finalized on or before June 30, 2017. This letter will not be updated as a consequence of pronouncements by the Public Sector Accounting Board, or any other authoritative bodies, that occur subsequent to the date of this letter.

This letter is intended solely for the information and use of the Board of Directors and management of the Company, and is not intended to be and should not be used, quoted, relied upon by, or otherwise referred to by anyone other than these specified parties or for any other purpose.

No one other than the Board of Directors and management of the Company is authorized by KPMG to rely upon any information or views expressed herein**.** KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

per Michel Picard
Partner
(416) 777 8414
mpicard@kpmg.ca

Appendix A:

Draft of the Ontario Fair Hydro Plan Act, 2017

Version 6

This confidential draft document is provided for discussion purposes only. It should not be construed as representing the position adopted by the Government of Ontario on any of the topics included or not included in this document. The notes included in this document are intended only to help facilitate a discussion of the topics to which they relate. Any potential legislation is subject to the approval of the Ontario Legislature.

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A proposal to create Legislation.

Ontario Fair Hydro Plan Act, 2017, if enacted

A proposal to create Legislation.

Ontario Fair Hydro Plan Act, 2017, if enacted

EXPLANATORY NOTE TO BE ADDED BY LEGISLATIVE COUNSEL TO ANY FINAL BILL PRIOR TO INTRODUCTION.

Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects.[1] These commitments can only be achieved if costs are shared fairly among consumers, today and in the future.

Electricity rates have risen for two key reasons. First, decades of under-investment in the electricity system resulted in the need to invest more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable. Second, the decision to eliminate Ontario's use of coal and produce clean, renewable power has created additional costs.

The actions taken to achieve a clean, modern and reliable electricity system have resulted in significant costs to residential consumers. The burden of financing these system improvements and funding key programs has unfairly fallen almost entirely on the shoulders of those consumers.

The Government of Ontario is committed to ensuring that the costs of financing these investments and the associated charges to consumers are allocated fairly among present and future generations.

Recognizing that the electricity infrastructure that has been built and the policy decisions that have been made will create benefits for years to come, costs should be allocated fairly over time, so that residential consumers in the future pay their fair share for the benefits that they receive from the investments already made.

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[1] FLS: please see the preamble of the *Green Energy Act, 2009.*

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PART I
GENERAL

Interpretation
Definitions

1xx. (1) In this Act,

"Board" means the Ontario Energy Board; ("French")

"clean energy adjustment" means the amount determined under section 10xx and payable by specified consumers; ("French")

"clean energy benefits" means the value of the benefits determined to be derived by or accruing to specified consumers as a result of the clean energy initiative, including as a result of clean energy costs; ("French")

"clean energy costs" means the value of the costs allocated to specified consumers as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

(a) the amounts to be paid or reflected by IESO in adjustments made under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts or amounts for,

(i) renewable energy generation or capacity,

(ii) conservation and demand management,

(iii) energy storage,

(iv) energy efficiency,

(v) natural gas generation and capacity, excluding contracts relating to amounts payable by IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed,

(b) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(c) such other costs or estimated costs as may be prescribed; ("French")

"clean energy initiative" means the policies of the Government of Ontario related to,

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(a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,

(b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

(c) promoting conservation, demand management and energy efficiency, and

(d) investing in energy infrastructure to ensure a clean, modern and reliable system; ("French")

"electricity vendor"[2] means,

(a) a licensed distributor,

(b) a licensed retailer,

(c) IESO in circumstances where it directly invoices a specified consumer for electricity used in Ontario, or

(d) such other person as may be prescribed; ("French")

"fair allocation amount" means an amount calculated under section 15xx; ("French")

"finance amount" means the finance amount determined in accordance with the regulations; ("French")

"financing entity" means an entity established or caused to be established as described in subsection 17xx (3); ("French")

"Financial Services Manager" means the Financial Services Manager appointed under section 13xx; ("French")

"Financing Plan" means a plan prepared under section 16xx; ("French")

"funding obligation" means a payment obligation incurred by or on behalf of an investment interest owner to fund its ownership of an investment interest or a payment obligation that meets such other criteria as may be prescribed; ("French")

[2] FLS - this is similar to the definition of "electricity vendor" in the Ontario Rebate for Electricity Consumers Act, 2016

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"funding rebate" means a payment obligation incurred by IESO as part of the transfer of the regulatory asset; ("French")

"IESO" means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; ("SIERE")

"IESO deferral" means the amount determined under section 20xx; ("French")

"investment asset" means the rights and interests described in section 25xx; ("French")

"investment interest owner" means a financing entity that has acquired and holds an investment interest; ("French")

"investment interest" means,

(a) an ownership interest in the investment asset, and

(b) in circumstances where the ownership interest is transferred, the rights and benefits specified in the agreement under which the interest is transferred; ("French")

"licensed distributor" means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system within the meaning of the *Electricity Act, 1998*; ("French")

"licensed retailer" means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; ("French")

"Minister" means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; ("ministre")

"Ontario Power Generation Inc." means the corporation incorporated as Ontario Power Generation Inc. under the *Business Corporations Act* on December 1, 1998; ("Ontario Power Generation Inc.")

"prescribed" means prescribed by the regulations; ("prescrit")

"reference period" means,

(a) the period beginning on July 1, 2017 and ending on October 31, 2017, and

(b) during the period beginning on November 1, 2017 and ending on April 30, 2047 or ending on such later day as may be prescribed,

(i) every six-month period following the period mentioned in clause (a); or

(ii) any period shorter than six months, as may be prescribed; ("French")

"refinancing" means, subject to the regulations, the incurrence of debt in connection with a redemption, repayment or repurchase of a funding obligation; ("French")

"regulation" means a regulation made under this Act; ("règlement")

"regulatory asset" means the right and interest established under section 21xx; ("French")

"specified consumer" means,

(a) a person who has an account with an electricity vendor for the supply of electricity in Ontario and meets the criteria set out in subsection (2); or

(b) such other person as may be prescribed; ("French")

"transfer" includes, when used in relation to an investment interest, the assignment, conveyance, disposition or sale of the investment interest; ("French")

"true up amount" means a true up amount determined in accordance with the regulations; ("French")

"unit sub-metering" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("activités liées aux compteurs divisionnaires d'unité")

"unit sub-meter provider" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("fournisseur de compteurs divisionnaires d'unité")

"variance account" means the variance account established by IESO under subsection 20.1xx (1). ("French")

Specified consumer

(2) For the purposes of clause (a) of the definition of "specified consumer" in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of 50 kilowatts or less, or such other amount as may be prescribed.

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2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.

3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or has had the obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.

4. The person's account with the electricity vendor relates to,

    i. a dwelling,

    ii. a property within the meaning of the *Condominium Act, 1998*,

    iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or

    iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.

5. The person satisfies such criteria as may be prescribed.

Transfer of regulatory asset

(3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 22xx (3):

1. A reduction in the balance in the variance account.

2. The adjustment of the regulatory asset.

3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Effect of invalidity, etc.[3]

2xx. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if one or more provisions are held to be invalid, the intention of the

[3] FLS: this is from the *Climate Change Mitigation and Low-carbon Economy Act, 2016*

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Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect the validity or enforceability of a funding obligation incurred before the day that the provision is held to be invalid or ceases to be in effect, or any rights or obligations associated with the funding obligation.

Purpose

3xx. (1) The purposes of this Act are,[4]

(a) to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers;

(b) to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province; and

(c) to align clean energy costs with clean energy benefits, in order to provide fairness for specified consumers.

Crown bound

4xx. This Act binds the Crown.

Protection and assurances

Prohibition

5xx. (1) No action or omission by the Board, the Minister or the Crown shall be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.

Agreements

(2) The Minister and the Minister of Finance may together, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding the performance of IESO or electricity vendors under this Act or similar transactions.

Guarantee, indemnification

(3) The Lieutenant Governor in Council may by order,

[4] FLS: Please see the *Electricity Act, 1998* for much of the wording proposed in this section.

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(a) authorize the Minister and the Minister of Finance, acting together on behalf of the Province,

(i) to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and

(ii) to determine terms and conditions of the guarantee or indemnity and the maximum liability for the guarantee or indemnity;

(b) specify terms and conditions that must be included in any guarantee or indemnity given by the Minister and the Minister of Finance; and

(c) specify a maximum liability for the guarantee or indemnity.

PART II
FAIR ADJUSTMENT

Definitions

6xx. In this Part,

"regulated rate consumer" means a specified consumer who meets the following criteria:

1. The consumer is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1998* for the purposes of subsection 79.16 (1) of that Act.

2. The consumer would, if the consumer were not subject to this Act, be invoiced the rate determined by the Board under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*. ("French")

Regulated rate consumer, first adjustments

6.1xx (1) Despite any order under subsection 78 (3.1) of the *Ontario Energy Board Act, 1998* and despite section 79.16 of that Act, the electricity rates payable by regulated rate consumers for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would achieve the following outcome: a fictional regulated rate consumer who meets the prescribed criteria would be charged an invoice amount that is 25 per cent less than the invoice amount that would have been charged to that consumer under the comparison rates described in subsection (2).

Comparison rates

(2) The comparison rates are the rates that would have been effective May 1, 2017 if they had been determined by the Board solely using the method prescribed by the

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regulations made under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*, without taking into account any forecasted impact of any other provisions of this Act.

Invoice amounts

(3) Each invoice amount mentioned in subsection (1) shall be determined in accordance with the regulations.

Other specified consumers, first adjustment

6.2xx (1) For the period beginning on July 1, 2017 and ending on April 30, 2018, the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* shall, with respect to specified consumers who are not regulated rate consumers, be further adjusted by electricity vendors in accordance with the determinations of the Board under subsection (2).

Board to make determinations

(2) The Board shall, in accordance with the regulations, determine the adjustments to be made by electricity vendors.

Same, regulations

(3) The regulations may specify different adjustments to be made in respect of prescribed classes of specified consumers who are not regulated rate consumers.

Determinations by Board

6.3xx The Board shall make the determinations mentioned in sections 6.1xx and 6.2xx no later than fifteen business days after the day this section receives Royal Assent and, regardless of whether the Board makes the determinations before or after July 1, 2017, the determinations shall be effective as of July 1, 2017.

Implementation by electricity vendors

6.4xx (1) As soon as possible after the Board makes determinations under section 6.3xx, each electricity vendor shall, in respect of electricity used on or after July 1, 2017, ensure that its invoices reflect the determinations of the Board.

Same

(2) The electricity vendor shall ensure that, if any of its specified consumers have been invoiced in a manner that does not reflect the determinations of the Board under section 6.3xx, the specified consumer receives the difference between the amounts shown on the invoice and the amounts reflecting the Board's determinations, provided as a lump sum credit on the first invoice issued after the electricity vendor has adapted its invoices or by such other means as may be prescribed.

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Subsequent adjustments

7xx. (1) Despite clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998* and subject to subsection (2), the Lieutenant Governor in Council may prescribe the methodology to be applied by the Board after April 30, 2018 for the purpose of determining,

(a) electricity rates for specified consumers; or

(b) adjustments to be applied by electricity vendors to the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* in respect of prescribed classes of specified consumers.

Limitation

(2) Any prescribed methodology to be applied in respect of a period after June 30, 2021 shall have regard to the following:

1. The fair allocation amount in respect of the period.

2. Any clean energy adjustments payable in respect of the period.

3. Such other matters as may be prescribed.

Sub-metering

7.1xx (1) This section applies if a specified consumer provides to another person electricity in respect of which a determination of the Board referred to in section 6.3xx or section 7xx applies.

Same

(2) If an invoice for the electricity is issued to the person by the specified consumer or a unit sub-meter provider providing unit sub-metering for the specified consumer, the amount payable for the electricity by the person who is liable to pay the invoice shall be determined in accordance with the regulations.

PART III
CLEAN ENERGY ADJUSTMENT

Specified consumers to pay

8xx. (1) Upon receipt of an invoice from an electricity vendor that includes an amount in respect of the clean energy adjustment, a specified consumer shall pay the amount to the electricity vendor, as agent of the investment interest owners.

Same

(2) For greater certainty, subsection (1) applies regardless of,

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(a) whether the clean energy adjustment was determined in a manner that was inconsistent with this Act; and

(b) whether the amount payable in respect of the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan, including in a manner that failed to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Terms

(3) The payment shall be made in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Indebtedness of specified consumer

(4) An unpaid amount that is required to be paid by a specified consumer under this section constitutes indebtedness of the specified consumer to each investment interest owner to the extent of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer.

Unit sub-metering

(6) A specified consumer who provides electricity through sub-metering may collect amounts in respect of the clean energy adjustment payable under this section in accordance with the regulations.

Irrevocability of amount

9xx. (1) An amount in respect of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness resulting from the clean energy adjustment and is irrevocable upon invoicing the consumer and may not be set off or by passed.

Exception

(2) Subsection (1) does not apply to the extent that the invoice reflects a clerical, typographical or calculation-related error.

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Determination of clean energy adjustment
Financial Services Manager to determine

10xx. (1) The Financial Services Manager shall determine the clean energy adjustment payable by all specified consumers in respect of each month in a reference period by taking the following steps:

1. Calculate the sum of the following:

    i. The estimated finance amount in respect of the reference period.

    ii. The true up amount in respect of the reference period.

2. Divide the sum calculated under paragraph 1 by the number of months in the reference period.

Regulations re true up amount

(3) The Lieutenant Governor in Council shall, in making regulations with respect to the determination of the true up amount, have regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the finance amount when it is due.

2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

    i. differences between the estimated and actual finance amount for the applicable reference period,

    ii. differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and

    ii. variations in billings due to variations in electricity consumption.

Financial Services Manager to notify Board

(4) The Financial Services Manager shall, in accordance with the regulations, notify the Board of the clean energy adjustment in respect of a reference period and such other information related to the determination of the clean energy adjustment as may be prescribed.

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Board to determine rates

(5) Without changing the clean energy adjustment, the Board shall, in accordance with the regulations, determine the rate at which specified consumers are invoiced to recover the clean energy adjustment in respect of the reference period.

IESO to receive amounts

11xx. (2) IESO shall, as an agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the regulations and the market rules made under section 32 of the *Electricity Act, 1998*.

Account

(3) All of the following amounts received by IESO shall, until paid to or for the benefit of the investment interest owners in accordance with subsection (5), be deposited promptly into an account established for the purposes of receiving those amounts:

1. Amounts described in subsection 11xx (2).

2. Payments made by specified consumers directly to IESO as electricity vendor under subsection 8xx (1).

3. Proceeds of amounts described in paragraphs 1 and 2.

Same, held in trust

(4) All amounts received by IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment interest owners, be received and held in trust by IESO for the investment interest owners.

IESO to remit

(5) IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the accounts referred to in subsection (2), to or for the benefit of the investment interest owners in accordance with the regulations.

Electricity vendor to invoice specified consumers

12xx. (1) Each electricity vendor shall issue an invoice to each of its specified consumers for the amount payable by the consumer in respect of the clean energy adjustment, as determined by applying the rate set by the Board under subsection 10xx (5) and in accordance with the regulations.

Electricity vendor to report

(1.1) Each electricity vendor shall, in accordance with the regulations, promptly report to IESO the total amount invoiced to its specified consumers in respect of the clean

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energy adjustment, the amount collected and such other information as may be prescribed.

Electricity vendor to collect

(2) Each electricity vendor shall, as agent of the investment interest owners, collect amounts in respect of the clean energy adjustment from specified consumers in accordance with the regulations.

Pro rating of payments

(3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

Held in trust

(4) Payments received by an electricity vendor from or on behalf of specified consumers in respect of the clean energy adjustment and all proceeds of the payments shall, until paid to or for the benefit of the investment interest owners in accordance with subsection (5), be received by and held by each electricity vendor in trust for the benefit of the investment interest owners.

Remittance to IESO

(5) Each electricity vendor shall remit amounts in respect of the clean energy adjustment to IESO for the benefit of the investment interest owners in accordance with the regulations.

PART IV
IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

13xx. Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act.

Duties and powers

14xx. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

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Same

(2) The administration of the investment asset may include providing information to IESO in respect of obligations under Part III and such other activities as may be prescribed.

Fees, etc.

(3) Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees in relation to such matters as may be prescribed in accordance with the regulations.

Same, Board approval

(4) Before establishing fees under subsection (3), the Financial Services Manager shall submit them to the Board for approval in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Minister to calculate fair allocation amount

15xx. (1) Subject to subsections (2) and (3), before the first funding obligation is incurred, the Minister shall calculate a fair allocation amount in respect of each reference period, applying such method as the Minister considers appropriate and in accordance with the following steps:

1. Determine the estimated clean energy costs and estimated clean energy benefits allocated to specified consumers in respect of the reference period.

2. Determine the estimated reduction in the amounts payable by specified consumers as a result of rates determined under Part II in respect of all previous reference periods, including the estimated reduction in clean energy costs described in clause (a) of the definition of "clean energy costs" in subsection 1 (1) that would otherwise have been payable by specified consumers in the absence of this Act.

3. Determine the amount, if any, by which the determination under paragraph 1 exceeds the determination under paragraph 2.

4. Calculate the sum of the amount determined under paragraph 3 and such other amounts as may be prescribed.

Principles

(2) In calculating the fair allocation amount, the Minister shall have regard to the following principles:

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1. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among the specified consumers in respect of each reference period.

2. Calculations should be made having regard to the need to align each fair allocation amount with the estimated finance amount payable during the reference period.

3. Estimated clean energy costs allocated to specified consumers in respect of a reference period should be allocated in proportion to the estimated clean energy benefits attributed to the specified consumers in respect of the reference period.

4. Such other principles as may be prescribed.

Assumptions

(3) In calculating the fair allocation amount, the Minister shall make such assumptions as the Minister considers to be reasonable regarding the following:

1. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.

2. The expected number of specified consumers in respect of each reference period.

3. The expected electricity consumption rates in respect of each reference period.

4. Such other assumptions as may be prescribed.

Minister to provide amount to Financial Services Manager

(4) The Minister shall provide the fair allocation amount in respect of each reference period to the Financial Services Manager.

Recalculation

(5) A calculation of the fair allocation amount under this Part may be changed by such person as may be prescribed in accordance with such requirements as may be prescribed.

Same

(6) No change under subsection (5) shall affect any clean energy adjustment that has already been determined under section 10xx or any funding obligations that have already been incurred before the change.

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Information

(7) The Minister, IESO, the Financial Services Manager, the Board and electricity vendors shall provide such information as may be prescribed in accordance with the regulations for the purposes of facilitating a change to a calculation of the fair allocation amount.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

16xx. (1) The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of a refinancing.

Plan to be provided to Minister

(1.1) The Financial Services Manager shall provide the Financing Plan to the Minister.

Principles

(2) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Funding obligations should be incurred such that, along with any funding obligations already incurred, the estimated finance amount that would, subject to any refinancing, become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period, in each case after reducing the fair allocation amount to reflect determinations of the Board under Part II in respect of the reference period.

2. Incurrences should be implemented in a manner that, in the opinion of the Financial Services Manager, is reasonable, cost effective and that reflects prevailing market terms and conditions.

3. Reasonable assumptions should be made regarding such matters as may be prescribed.

Limitation

(4) In respect of each reference period from May 1, 2017 to April 30, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment in respect of the reference period unless,

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(a) the amounts are payable in respect of a reference period in respect of which the Board has not made any determinations under Part II; or

(b) if the Board has made a determination under Part II in respect of the reference period, the funding obligations incurred would not result in amounts payable in respect of the clean energy adjustment during the reference period in an amount that exceeds the limit determined in accordance with the regulations.

Other reports

(3.1) The Financial Services Manager shall submit to the Minister such reports and information as the Minister may require from time to time and shall, if required by the Minister to do so, examine, report and advise on any question relating to the Financing Plan.

Amendments to plan

(6) The Financial Services Manager may amend the Financing Plan at any time.

Same

(7) In the event that the Financing Plan is amended, any reference in this section to the Financing Plan is deemed to be a reference to the plan as amended.

Implementation of Financing Plan

17xx. (1) The Financial Services Manager shall ensure that funding obligations incurred for the purposes of this Act are incurred in a manner that is consistent with the applicable Financing Plan.

Financing entities

(3) In accordance with the Financing Plan, the Financial Services Manager may establish or cause to be established one or more financing entities that may incur funding obligations.

Prohibition

(3.1) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, Ontario Power Generation Inc., the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation or other agreement.

Effect of amendment to fair allocation amount

(4) Each funding obligation incurred and each transfer made by a financing entity is deemed to be consistent with the Financing Plan and to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

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Same

(2) For greater certainty, subsection (4) applies despite the failure of the Financial Services Manager to comply with subsection (1).

PART V
THE REGULATORY ASSET

IESO deferral

20xx. (1) The IESO deferral for each month, commencing May 1, 2017, shall be determined by IESO in accordance with the regulations.

Same, retrospective amounts

(1.1) For greater certainty, the regulations may provide for the IESO deferral to include an amount that was incurred by IESO on or after May 1, 2017 and before the day this Act comes into force.

Electricity vendors to provide information

(2) Electricity vendors shall provide to IESO such information as IESO may reasonably request for the purposes of determining the IESO deferral under subsection (1) and such further information as may be prescribed.

Same

(3) IESO may rely on information provided by electricity vendors for the purposes of the determination under subsection (1).

Variance account to be established, maintained

20.1xx (1) IESO shall establish and maintain a variance account for the purposes of this section.

Recording in variance account

(2) IESO shall record the following in the variance account:

1. The IESO deferral for each month.

2. All payments received by IESO resulting from the exercise of the right of recovery under section 21xx and any transfer under section 22xx.

3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences on or after May 1, 2017 and before the day this section comes into force.

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Recording determinative

(3) Subject to the correction of any obvious error by IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

Rights of investment interest owner

(4) No change made by IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 22x, affect the rights acquired by the investment interest owner under the transfer.

Regulatory asset established

21xx. (1) Effective May 1, 2017, IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

Board to set rates

(2) Subject to subsection (3), the Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.

Limitation

(3) IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

Same, limitations

(4) The Board's powers under subsection (3) shall be exercised in accordance with the regulations.

Transfer of regulatory asset

22xx. (1) IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

Agreement

(2) An agreement between IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to IESO in an amount equal to the amount of the specified portion.

Effect of payment

(3) Upon receipt by IESO of the payment by the financing entity,

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(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) IESO shall retain no further right, title or interest in the corresponding investment interest.

Validity of transfer

23xx. (1) A transfer of a specified portion of the regulatory asset under section 22xx constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

Same

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.

Deemed perfection, etc.

(3) At the time a transfer of the regulatory asset is made under section 22xx, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI
THE INVESTMENT ASSET

Effect of transfer

24xx. (1) The transfer of a specified portion of the regulatory asset under section 22x creates an investment asset or, if it is not the first transfer, adds to the investment asset.

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Same

(1.1) Upon transfer of a specified portion of the regulatory asset under section 22xx to a financing entity, the investment asset resulting from the transfer is immediately vested in the financing entity, free and clear of any adverse claim.

Investment asset established

25xx. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.

2. The right to receive, collect and recover the clean energy adjustment that are imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, IESO and other prescribed parties.

3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.

4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge and invoice for the clean energy adjustment.

5. The right to enforce the duties and obligations under this Act of each electricity vendor and IESO to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by any electricity vendor to recover payment of the clean energy adjustment.

6. All rights of any kind related to any of the other property rights or interests that comprise the investment interest, including any rights to receive funding rebates.

7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether it is invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

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Not affected by failure to impose etc. clean energy adjustment

(1.1) An investment interest is not affected by any failure to impose, attribute, invoice, accrue or collect amounts in respect of the clean energy adjustment.

No set off, etc.

(2) The investment asset shall not be set off,

(a) by a consumer, an electricity vendor, IESO, an agent of the investment interest owners or an owner in the Province of a distribution system within the meaning of the *Electricity Act, 1998*;

(b) in connection with any default of a person mentioned in clause (a); or

(c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(3) The rights of the investment interest owners to collect and enforce their rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with Part III of this Act.

Collective action required

(4) If one investment interest owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment interest owner collectively and in coordination with all other investment interest owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment interest owners as a collective in accordance with its terms.

Transfer of investment interest

26xx. An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

27xx. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the transferee a valid property right and interest in, to and under the applicable investment interest acquired in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment interest owner's right, title and interest in, to and under an

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investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected as described in the *Personal Property Security Act*, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer, and the property rights and interests acquired by the investment interest owner shall have priority over any liens in favour of such other persons.

Investment interest owner may grant security interest

28xx. (1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment interest owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may

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subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any account of any electricity vendor, an agent of an electricity vendor or other person who may have commingled such revenues or other proceeds with other funds.

Notice required

(7) The secured party shall be entitled to exercise the rights of an investment interest owner only after the secured party has given notice of the enforcement of its security interest to IESO.

Definition

(8) For the purposes of this section, a security interest is perfected when it is perfected as described in the *Personal Property Security Act*.

PART VII
MISCELLANEOUS

Appointment of agent, invoicing or collection

29xx. If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Not Crown agent

30xx. For greater certainty, a person appointed under section 29xx is not an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Board's authority

30.1xx (1) Each electricity vendor, IESO and the Financial Services Manager shall maintain such accounts and provide such information to the Board as the Board may require for the purposes of carrying out its responsibilities under this Act, in the form and manner and within the time required by the Board.

No hearing required

(2) Despite anything to the contrary in the *Ontario Energy Board Act, 1998*, the Board may exercise any of its responsibilities under this Act without a hearing.

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Sequestration

31xx. (1) A court in the Province may, upon application by an investment interest owner or a secured party, order the sequestration and payment of amounts in respect of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment interest owner or secured party by any person or entity authorized to collect amounts in respect of the clean energy adjustment, including defaults on any required remittance of amounts in respect of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Choice of law

32xx. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to a transfer under this Act or the creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section 5XX shall be the laws of the Province.

Conflict

33xx. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

34xx. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required to be taken under the Financing Plan or in relation to the determination of the fair allocation amount.

Liability

35xx. (1) No action or other civil proceeding shall be commenced against any employee of the Province or Ontario Power Generation Inc. for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under this Act, the regulations under this Act or for any alleged neglect or default in the exercise or performance in good faith of such a power or duty.

Same

(2) Nothing in subsection (1) shall be read as limiting the effect of subsection 19 (1) of the *Electricity Act, 1998* or subsection 11 (1) of the *Ontario Energy Board Act, 1998*.

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Same

(3) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act*, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.

References in marketing materials and offering documents

36xx. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under section 5xx unless the prescribed requirements, if any, are satisfied.

Regulations

38xx. (1) The Lieutenant Governor in Council may make regulations in respect of the following matters:

1. [5]Governing anything that is required or permitted to be prescribed or that is required or permitted to be done by, or in accordance with, the regulations or as authorized, specified or provided in the regulations.

2. Defining, for the purposes of a regulation, words and expressions used in this Act that are not defined in the Act.

3. Prescribing types of payment obligations that constitute funding obligations.

4. Governing the determination of classes of specified consumers, which may include determination based on the manner in which rates are determined for different classes of specified consumers.

5. Governing the determination of the finance amount and the true-up amount and how those amounts are to be applied to the clean energy adjustment.

6. Governing the inclusion of information under this Act on or with invoices, which may include requiring notice to be provided by electricity vendors to specified consumers and other prescribed persons regarding the adjustments, including providing for different requirements in different circumstances and for different classes of specified consumers.

7. Governing the inclusion of information about the clean energy adjustment and any other matters provided for under this Act on or with invoices issued to specified consumers, including the form that the information must take and the

[5] FLS - see s. 78 (1) of the Climate Change Mitigation and Low-carbon Economy Act, 2016 - paras. 1 and 2.

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form of the invoices and the form of any notice to be provided to the specified consumer under this Act[6];

8. Governing the manner by which invoices or notices provided for under this Act are to be provided to specified consumers and other prescribed persons.

9. Governing the Financial Services Manager's power to establish and charge fees, including the ability to recover costs and expenditures and to earn a return.

9.1 Providing for a right of compensation for investment interest owners affected by a breach of section 25xx and the manner in which such a right may be enforced under this Act.

10. Prescribing the time within which any action required by this Act may be required to be done.

11. Providing for such other matters as the Lieutenant Governor in Council considers advisable to carry out the purpose of this Act.

Limitation

(2) Despite subsection (1) or any other Act, no regulation under this Act shall have the effect of reducing, impairing, postponing or terminating the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or impairing or postponing the invoicing, collection, remittance or recovery of the clean energy adjustment.

PART VIII[7]
AMENDMENTS TO OTHER ACTS

ELECTRICITY ACT, 1998

200x. (1) Subsection 6 (1) of the *Electricity Act, 1998* would be amended by adding the following clauses:

(q.0.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,

[6] FLS - see *OEBA s.79.17 and 88(1)(z.11) and (z.12)*

[7] FLS: These amendments are drawn from previous drafting contained in gov2016.146.e05 (which was drafted as amendments to the EA, 1998).

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(i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*;

(ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities;

(iii) engaging in activities related to the transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,

(A) incurring liabilities in relation to the regulatory asset,

(B) transferring the regulatory asset under section 22x for consideration, and

(C) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

200.1xx (1) Subsection 25.33 (1) of the Act would be amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*;

(1.1) Subsection 25.33 (2) of the Act would be amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*;

(2) Subsection 25.33 (3) of the Act would be amended by adding the following paragraph:

4. A consumer who is a specified consumer within the meaning of the *Ontario Fair Hydro Plan Act, 2017* or such other consumer as may be prescribed.

(3) Clause 25.33 (4) (b) of the Act would be amended by adding "or as may be required by a regulation made under this Act or the *Ontario Fair Hydro Plan Act, 2017*" at the end.

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(4) Subsection 25.33 (5) of the Act would be amended by adding "or under the *Ontario Fair Hydro Plan Act, 2017*" at the end

201x. Section 53.1 of the Act would be amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

53.1 (1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

Deemed assets, non-subsidiary

(1.3) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is not a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of the financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries shall not form part of the assets and liabilities of the financing entity.

Deemed assets, subsidiary

(1.4) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of that financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries; and,

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries shall not form part of the assets and liabilities of that financing entity.

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Definition, financing entity

(1.5) For the purposes of this section, "financing entity" has the same meaning as in the *Fair Hydro Plan Act, 2017.*

AMENDMENTS TO ONTARIO ENERGY BOARD ACT, 1998

205x. Subsection 70 (2.1) of the Act would be amended by adding the following paragraph:

4. The licensee is required to comply with the *Ontario Fair Hydro Plan Act, 2017*.

205.1x Section 70 of the Act would be amended by adding the following subsection:

(2.3) Every licence issued to a unit sub-meter provider is deemed to contain the condition that the unit sub-meter provider is required to comply with the *Ontario Fair Hydro Plan Act, 2017* and the regulations made under it.

206x. Section 78.1 of the Act would be amended by adding the following subsection:

Same, limitation re Ontario Power Generation Inc.

(3) The determination of a payment to Ontario Power Generation Inc. under this section shall not include any consideration of amounts related to activities of Ontario Power Generation Inc. carried out in relation to the *Ontario Fair Hydro Plan Act, 2017*.

Same

(3.1) The amounts referred to in subsection (3) include, without limitation, the following:

1. Amounts related to the appointment of Ontario Power Generation Inc. as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

2. Amounts related to the charging of fees for performing duties as the Financial Services Manager.

3. Amounts related to exercising the powers and performing the duties of the Financial Services Manager.

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4. Amounts related to the consolidation of the assets and liabilities for accounting purposes of any special purpose financing entities established under and for the purposes of that Act.

207xx. Subsection 79.16 (3) of the Act would be repealed.

PART IX
COMMENCEMENT AND SHORT TITLE

Short Title - this proposal for legislation would, if approved by the Legislature, have a short title to be determined by Government.

Timing – this proposal for legislation would, if approved by the Legislature, come into force on a date to be established by Government.

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Ernst & Young
222 Bay Street
P.O. Box 251
Toronto ON
M5K 1J7

Tel: +1 416 943 2615
Fax: +1 416 943 3767
ey.com

The Special Committee of the Board of Directors
Ontario Power Generation Inc. (the "Company")
700 University Avenue
Toronto, ON M5G 1X6

May 5 2017

Dear Sirs/Madames:

This letter is being issued to the Special Committee to assist them in their evaluation of management's analysis of the application of International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB")) to the specific transaction described in the Company's memorandum entitled *OPG Accounting Considerations of Ontario Fair Hydro* dated May 2 2017, herein referred to as "the Management Memorandum". We are issuing this letter in our role as auditors of the Company for the year ending December 31, 2017. As the Province consolidates OPG on an IFRS basis, this letter pertains solely to management's IFRS analysis as contained in the Management Memorandum.

We have read the Management Memorandum and we agree with management's analysis therein, subject to all of the assumptions and limitations identified therein. Specifically, we concur that the existing in draft legislation, along with the yet undrafted Regulation and special purpose vehicle (TRUST) documents, and various other agreements assuming they include the required criteria that Management has identified as outstanding in its Appendix A, would be sufficient to support consolidation of the TRUST with OPG Inc.

Additionally, we specifically refer you to the section entitled "Conclusion" in the Management Memorandum, which indicates that their analysis is based on draft legislation as well as their assumptions regarding the terms and conditions of certain contractual arrangements and other documentary evidence that is not yet drafted. Therefore, the Management Memorandum will be required to be updated to reflect the final contents of the legislation and other relevant contractual arrangements and documentary evidence. We will review the updated Management Memorandum once it is available, and update you on our viewpoints once our review of such updated Management Memorandum is completed.

The scope of this letter and any views expressed herein are limited to the transactions, facts, circumstances and assumptions provided to us by management or the Company as described in the Management Memorandum. If such facts, circumstances or assumptions differ, our conclusions may change.

We have not performed an audit or a review of the Management Memorandum. Additionally, we have not performed an audit as of any date or for any period subsequent to December 31, 2016.

The ultimate responsibility for the proper accounting treatment under IFRS and US GAAP rests with the Company.

We have not been asked for, nor do we express, an opinion on the tax consequences of the transactions described herein.

The accounting for such transactions could be affected by actions of the International Accounting Standards Board, the IFRS Interpretations Committee, the Ontario Securities Commission, or other regulatory bodies. Any such actions occurring prior to the finalization of the 2017 IFRS consolidated financial information will be required to be analyzed by management, and such analysis will be reviewed by us in the context of the audit procedures we will perform on the consolidated IFRS financial information for the year ending December 31, 2017.

Our work does not include the provision of legal advice and we make no representations regarding questions of legal interpretation of any possible structure or strategy. We make no representation regarding the sufficiency of our work for any purpose.

This report is intended solely for the information and use of the Special Committee, Board of Directors and management. We understand that a copy of this letter may be provided to the Province of Ontario, the Independent Electricity System Operator, and/or the Ontario Energy Board. It is not intended to be, and should not be, used by anyone other than these specified parties.

This analysis, or portions thereof, should not be referred to or distributed to any other person or entity, other than those noted in the paragraph directly above. It is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document.

Yours sincerely

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Tracy E Brennan
Partner
416-943-2615

May 2, 2017

OPG ACCOUNTING CONSIDERATIONS OF ONTARIO FAIR HYDRO PLAN

Purpose:

The purpose of this document is to summarize the preliminary views of Ontario Power Generation (OPG) on the ability for OPG to consolidate the Financing Entity Trust associated with the Ontario Fair Hydro Plan.

This memo is assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. Note that this assessment is preliminary pending the finalization of the Legislation, the Trust indentures, Regulations, financing structure and other detailed terms, and all related documentary evidence. This assessment will be updated once final documentation is available.

Background:

On March 2, 2017, the Province of Ontario (the Province) announced Ontario's Fair Hydro Plan (the Plan) aimed at reducing electricity bills by 25 percent on average for all residential consumers in the province. As part of the Plan, the Province has proposed financing a portion of the Global Adjustment costs over a longer time period for Regulated Price Plan eligible customers (e.g., residential, farm, small businesses).

On April 13th, the Province requested that OPG consider administering the financing associated with the Plan, because of OPG's participation in the market, regulatory knowledge and the potential ability to consolidate the related financing activities. To undertake this financing, OPG will establish a Financing Entity Trust (the Trust) to finance and administer the Global Adjustment costs through a mixture of external financing and an equity injection from the Ontario Financing Authority. It is expected that OPG will control the Trust for accounting purposes and that its financial position and results will be consolidated within OPG's consolidated financial statements.

Assumptions made to perform accounting analysis which are not yet addressed in Legislation – it is expected that these matters will be addressed in Regulations, Trust documents, and various other agreements:

- The Regulation must require interest, carrying and administrative costs to be paid to the Trust in cash on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs.
- The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.
- The Minister of Energy will have the ability to replace the Financial Services Manger (OPG) if there is a failure to perform. There will be a bifurcation of roles where the Province could not remove OPG as manager/administrator with respect to the existing debt placed by the Trust, but could remove OPG's responsibility/right to prepare the Financing Plan going forward. The ability for the Minister of Energy to remove OPG as the Financial Services Manager should not impact the recoverability of existing intangible assets.

- The calculation of the Fair Allocation Amount will be performed by the Minister of Energy.
- OPG has the ability to appoint and remove the Trustee (or Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust.
- Neither the OEB nor any other party can discretionally reduce the management fee or performance fee except due to a calculation error.
- The margin on the interest rates associated with Tranche B and Tranche C which will be recovered from the ratepayers will be reflective of the risk profile of the debt and the associated market terms.
- The indemnification provided to the Trust by the Minister of Finance on behalf of the Province as described in *Part I – General - Section 5.3 Guarantee, indemnification Protection and assurances* will be subject to terms and conditions in a separate Provincial support agreement. The guarantee is expected to be in place only in the event of a Payment Guarantee Event, such as if the Legislative Assembly of Ontario repeals the Fair Hydro Act or amends the Act in a way that adversely impacts the ability of the Trust to fully recover an intangible asset in order to pay the obligations of the Trust.
- The approval by the Ontario Energy Board of the Financial Services Manager (i.e. OPG's) fees as described in *Part IV – Implementation - Section 14.4 Same, Board Approval* will not allow them to change or limit the management fee structure, but only ensure that it is prudent by ensuring it is calculated in accordance with the Regulations.
- In the event that a different Financial Services Manager is appointed by the Minister of Energy, the IESO is required to continue to make cash payments for interest to the Trust for the existing debt. Principal repayments on existing debt will continue to be repaid by ratepayers to the Trust in accordance with the terms of the issued debt.
- All other items as indicated in *Appendix A.*

Accounting Analysis:

In order to meet the accounting definition of 'control', accounting guidance must be considered. There are no bright lines to determine whether OPG has exposure, or rights, to variable returns from its involvement with the Trust, or whether it has the ability to affect the returns of the Trust through its power over the Trust. Rather, all facts and circumstances are considered when assessing whether an entity has control over another entity.

In order to consolidate the Trust, OPG must be able to demonstrate that it controls the Trust.

Control

An investor controls an investee if and only if the investor has all the following:

a) *power over the investee;*
b) *exposure, or rights, to variable returns from its involvement with the investee; and*
c) *the ability to use its power over the investee to affect the amount of the investor's returns.* [IFRS 10, paragraph 7]

Purpose and design of the investee
When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities. [IFRS 10, paragraph B5]

Criteria	Analysis
Purpose and design of the Trust	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
Relevant activities of the Trust and how decisions are made about those activities	Relevant activities: The relevant activities of the Trust are: • To evaluate and make decisions on financing alternatives, duration, and the strategy to minimize financing costs. • To effectively manage funding obtained through the capital markets and be able to make or lose any spread from financing • To provide funding to the IESO in return for an interest in a future cash flow stream • To obtain funding through the capital markets and other vehicles available to OPG to be able to provide the IESO funding. • To make capital and funding decisions required to meet the Fair Allocation Plan objectives as set out in Legislation • To finance the requirements associated with the short-fall amount • To raise debt, pay bond debt holders, and determine capacity for the Trust to raise additional financing Financing Plan (Legislation: Part IV – Implementation) • OPG's plan for managing the assets of the Trust will be dictated through a 'Financing Plan'. • The Financial Services Manager (i.e. the Trust) shall provide the Financing Plan to the Minister. The Financing Plan is expected to follow Principles as stipulated in the Legislation which indicate that the assumptions must be reasonable and that the Trust has the power to determine what is reasonable and cost-effective. The Trust makes all the decisions in determining the relevant activities as listed above. • OPG can amend the Financing Plan at any time without the approval of the Minister. Fair Allocation Amount (Legislation: Part IV – Implementation) • The 'Fair Allocation Amount' ("FAA") is the amount of the deferral for the reference period and includes finance amounts. The current Legislation dictates that the Minister of Energy is to calculate the FAA. • This does not impact OPG's relevant activities in the Trust as OPG's variable returns are based on financing decisions which are not dictated by the FAA. OPG can choose to accept or reject the purchase of the intangible asset which is based on the Fair Allocation Amount.

Purpose and design of the investee *When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.* [IFRS 10, paragraph B5]	
	<u>Decisions made and voting rights of the Trust:</u> OPG has the ability to appoint and remove the Trustee (and if applicable Board of Trustees) and there are no veto rights by the Province. No party has the ability to remove OPG from its role and authority in the Trust. **[NOT YET ADDRESSED IN CURRENT LEGISLATION]** *Voting of members:* Except as otherwise stated, all decisions of the members (if applicable) shall be made by the Trustee who will be appointed by OPG. <u>Termination Rights</u> OPG cannot be removed from its role in the Trust. The Province has the right to remove OPG as the 'Financial Services Manager' for failure to perform. This will not impact debt that has already been issued for which OPG is already managing through the Trust or the recoverability of existing intangible assets. It the right is exercised, it serves to reduce or eliminate the scope of new business activities of the Trust but it does not affect OPG's ability to control the Trust. Should a new Financial Services Manager be appointed, a separate assessment would be made as to which party if any would control it.
Assessment	The purpose of the Trust is to allow OPG to earn a return on the Intangible Asset from the IESO by effectively managing financing to earn a spread, earn management fees, and earn interest fees. For the reasons noted above, OPG has control over the decisions to be made about the relevant activities.

Power over the investee	
Criteria	**Analysis**
Identify whether OPG's rights give it the current ability to direct the relevant activities of the Trust (Substantive rights)	See above for relevant activities of the Trust.
Assessment	OPG has the ability to direct the relevant activities of the Trust. OPG can amend the Financing Plan at any time, without approval from the Minister. Further, if the Minister of Energy chooses not to continue with OPG's current Financing Plan, OPG can withdraw its Financing Plan, without impacting the existing debt and related intangible assets that is already in the Trust. The Province would just appoint a new party to participate in future securitizations and OPG would continue to manage the debt that already exists in the Trust. If future financing transactions are with a different SPV, a separate consolidation analysis would be prepared at that time as to which party if any would consolidate the SPV.

Exposure or rights to variable returns	
Criteria	**Analysis**
Dividends, other distributions of economic benefits from an investee and changes in the value of the investor's investment in that investee [IFRS 10, paragraph B57(a)]	OPG is expected to realize management fees from its activities with the Trust.
Remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee [IFRS 10, paragraph B57(b)]	**[NOT YET ADDRESSED IN CURRENT LEGISLATION]** OPG has exposure and rights to variable returns from the Trust in the form of the following: • The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns. • OPG, through ownership of the most subordinated debt, is exposed to risk of non-collection. Given that the program is expected to run until 2047, this 30 year time period results in uncertainty about the future collection of OPG's amount at risk. OPG and the OFA (5% out of 44% contribution) would be the last parties to get paid in the event that the program stops running due to a change in Government, if electricity demand is not high enough to allow for collection from ratepayers in a timely manner, etc. The end date of 2047 that is prescribed in the Legislation results in uncertainty toward whether this program will continue and whether OPG will have collected its amount at risk at that time. • In the event that there is a market disruption whereby OPG is not able to obtain debt from the financial markets (e.g. due to a recession), the Province will provide funding in the event that OPG wishes to continue purchasing intangible assets from the IESO. This is considered to be a protective right as it does not impact the relevant activities of the Trust, but is designed to protect both parties and does not give either party more or less power over the Trust. It is designed to allow OPG to keep purchasing intangible assets if it wishes to. • Protective rights are typically held to prohibit fundamental changes in the activities of an investee that the holder does not agree with and usually apply only in exceptional circumstances (i.e., upon a contingent event). This is true for this right as it is only applicable if there is a market disruption and the Trust is not able to obtain financing from external markets. Further, the fundamental activities of the Trust would change if it were not able to obtain financing from external markets.
Returns that are not available to	• OPG will have synergistic benefits from combining operating

Exposure or rights to variable returns	
other interest holders. For example, an investor might use its assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the investor's other assets [IFRS 10, paragraph B57 (c)]	functions with the Trust given its extensive knowledge on the market and current regulatory knowledge.
Assessment	To determine which party is the most 'at risk' in the event that the loans default, expected loss rates were obtained from Moody's and DBRS. Using the *Moody's Investors Service – Loss Given Default for Speculative Grade Companies* dated December 4, 2015, the 4-year Idealized Expected Loss ranges from 0.00% for a triple A rated bond to 0.30% for an A3 rated bond. DBRS Expected Loss Ratings give an indication of the expected loss of a loan portfolio. As per a November 2016 publication, the 10-year expected loss rates range from 0.1% for a AAA rated bond to 1.7% for an A (low) rated bond. Given that OPG's subordinated debt is equal to 5% of the total debt, which is higher than the default rates above, 100% of the risk is with both OPG and the OFA since they are the last parties to get paid should there be any default with the debt. OPG is also exposed to variable returns from the Trust from its performance on decisions made on financing alternatives, duration, and the strategy to minimize financing costs through the variable fee component of the management fee. Therefore, OPG has the exposure to variable returns from the Trust.

Ability to use power to affect returns	
Criteria	**Analysis**
Ability of investor to use its power to affect the investor's returns from its involvement with the investee	OPG needs to have both power over the Trust (i.e. as a Principal, not an agent), exposure or rights to the variable returns from the Trust, and the ability to use its power to affect OPG's returns from its involvement with the Trust OPG has the ability to use its power over the relevant activities of the Trust to affect its returns from its involvement with the Trust through the variable fee component.

Ability to use power to affect returns	
	Further, the Trust's ability to use its power to affect returns is in a manner that is consistent with being a principal. See *Appendix B* for Principal-Agent analysis.
Assessment	OPG has the ability to use its power to affect returns of the Trust.

Conclusion:

Based on the current **[May 1, 2017]** draft of the legislation, the conditions to ensure the ability of OPG to consolidate the operations of the Trust have not fully been reflected. As noted in Appendix A, several conditions must be evident in the Regulations, Trust documents, and various other agreements which are not yet drafted and therefore not yet available for our review and assessment. In OPG's assessment, while no current clause of the Legislation would hamper the ability to effect a consolidation within OPG Inc.'s financial statements, there are several key conditions for consolidation that are currently not present within the Legislation. On the assumption that future Regulations, Trust documents and various other agreements fully capture these operating conditions, and that no new conditions that would conflict with OPG's control of the trust are introduced, OPG believes that consolidation of the Trust is supportable.

APPENDIX A:

Terms necessary for OPG to consolidate the Global Adjustment Trust

Note that these are assessed against the Legislation proposal 'Ontario Fair Hydro Plan Act, 2017, if enacted V6' sent by Carolyn Calwell on May 1, 2017. These are subject to change as subsequent drafts of the Legislation are issued.

Legend:

✓ **- Addressed by the Legislation drafted May 1, 2017**

RT – Not addressed by Legislation and must be addressed in Regulations, Trust Documentation or various other agreements

Ω - Will not be addressed in Legislation/Regulations or Trust but is the intended plan

Issue	No.	Requirements
Directive	1 ✓	The Trust must be undertaken by OPG as a business initiative on its merits. A Shareholder Directive is to be limited to direct OPG to investigate the option of establishing a Trust vehicle to administer, finance and operate the Global Adjustment plan and the operation of that Trust and the control, risk and rewards of that Trust will determine its consolidation into OPG as a business enterprise. ***MET - The Province will not direct OPG to participate in the Fair Hydro Plan. A letter was issued from the Minister of Energy to OPG on April 13th requesting OPG's involvement in the implementation of the Fair Hydro Plan. OPG's Board Chair responded to the Minister on April 18th committing OPG to work with the IESO and OEB to develop a plan. OPG will have the option to prepare, implement and amend a financing plan (in accordance with principles set out in legislation) and propose the adoption of such plan as the 'Financing Plan'. OPG will have the right to withdraw its financing plan at any time.***
Trust	2 **RT**	The Trust should not operate in a predetermined way such that OPG does not have decision-making authority over the Trust's ongoing activities after its formation (i.e. should not operate on 'autopilot'). ***OPG will be the sole unit holder of the Trust. All decisions over the relevant activities of the Trust (as described above) will be made by OPG.***
	3 **RT**	OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the Trust. ***OPG will be the sole unit holder of the Trust. The Province will be involved in the Board of Trustees, but OPG is expected to have the majority vote.***

<table>
<tr><th>Issue</th><th>No.</th><th>Requirements</th></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td>4
RT</td><td>The Province cannot have the right to veto OPG's decisions about the relevant activities of the Trust. OPG must have the power over the relevant activities of the Trust and be compensated. The relevant activities of the Trust include (but are not limited to) the evaluation and decisions on financing alternatives, duration, and the strategy to minimize financing costs. OPG must have the power to establish operating and capital budgets of the Trust.

OPG will have the ability to make decisions about the financing alternatives, duration, and the strategy to minimize financing costs. OPG will have the power to establish operating and capital budgets of the Trust with no veto right by the Province.</td></tr>
<tr><td></td><td>5
RT</td><td>OPG must have the power to determine or change operating and financing policies of the Trust, which will affect the variability of risks and returns.

The Regulations, Trust documents and various agreements will provide that OPG will have significant variability and exposure from the activities of the Trust relative to the rate of return that OPG would recognize from its role as the Financial Services Manager of the Trust. The performance fee will be meaningful and allow OPG to make decisions that will significantly impact its returns.</td></tr>
<tr><td></td><td>6
Ω</td><td>The Province or its agencies must not directly or indirectly fund (through debt or equity) more than 50% of the following:
a. The Trust
b. The most subordinated debt of the Trust

See below for financing structure.

<table>
<tr><th></th><th>Risk Profile</th><th>Source</th><th>% of Total Fundin Requirement</th></tr>
<tr><td>Tranche A Senior Debt</td><td>the least risky</td><td>Capital Markets</td><td>51%</td></tr>
<tr><td>Tranche B Sub Debt</td><td>In between A&C</td><td>OPG via OEFC</td><td>39%</td></tr>
<tr><td>Tranche C Sub Debt</td><td>the most risky</td><td>OPG via OEFC</td><td>5%</td></tr>
<tr><td></td><td></td><td>OPG via Capital Markets</td><td>5%</td></tr>
</table>
</td></tr>
<tr><td></td><td>7
Ω</td><td>OPG must own at least 50% of the most subordinated debt and must be no less than 5% of the debt of the Trust. Such ownership must be financed entirely by OPG through operating cash flows or external debt, without assistance from Provincial sources.

See chart in Point 6 above.</td></tr>
</table>

Issue	No.	Requirements
	8 **RT**	OPG must have the ability to earn variable returns by exercising its authority, which shall be accomplished as follows: a. The cash flow from the restructured asset shall include interest determined based on a relevant benchmark that is appropriate relative to the restructured asset, plus an appropriate margin consistent with the relevant market and other risks ***The cash flow from the restructured asset will include interest income that is equal to the interest expense (i.e. interest expense is passed back to the ratepayers). The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	✓	b. OPG shall have the authority to determine the financing strategy, which will vary the financing costs with the objective of enabling the Trust to achieve a more favourable return compared to the benchmark for interest on the restructured asset ***OPG will determine the financing strategy through the proposal of its 'Financing Plan'. The 'Financing Plan' will only be required to follow general Parameters and Principles as set forth in the Legislation but funding decisions will be made entirely by OPG. The Trust will also receive a margin as discussed in the 'Exposure or rights to variable returns' section above.***
	Ω	c. The Trust shall establish classes of liabilities (senior, subordinated and the most subordinated). The classes would allow the Trust to delineate financing of lower risk investment and investment that would bear higher residual risk. The delineation would limit OPG's self-funded investment to a reasonable level in order to allow OPG to remain a self-sustaining entity. ***OPG's portion of the most subordinated debt will be limited to a reasonable level. If it is determined that OPG's portion is not at a reasonable level, OPG has the option to withdraw its Financing Plan.***
	RT	c. OPG shall, through its ownership of the most subordinated liability, be able to capture and retain the pricing difference between cost of financing and benchmark for interest on the restructured asset, or any residual risk of restructured asset. The targeted return of the subordinated liability should be reflective of the underlying risks and compensate holders for active management that would be required.

Issue	No.	Requirements
		OPG will be able to capture the pricing difference between cost of financing and benchmark for interest through the performance fee which is described in point 5) above and the 'Exposure or rights to variable returns' section above.
	Ω	d. OPG should participate in the detailed design of the above and the Trust documentation to ensure that it has substantive power and variability, which will allow OPG's Board of Directors to evaluate the opportunity as a business initiative instead of through a shareholder directive. ***OPG will be involved in the Trust documentation.***
	RT	Defined Forced Majeure for emergency events (e.g. unlikely credit market event or disruption where it is not possible to borrow from the market at a reasonable rate), OFA may provide bridge financing beyond the designated percentage for a defined period. ***This will be structured through a separate indemnification agreement. This is not expected to impact consolidation of the Trust because this is seen as a protective right which is only in affect when a contingency arises and not as a result of the relevant activities of the Trust.***
Legislation	9 ✓	The Legislation must require interest, carrying and administrative costs to be paid to the Trust on a monthly basis, so that the Trust is able to recognize appropriate revenue to offset any ongoing costs. ***Under Part III – Clean Energy Adjustment – Section 8.3 Terms, of the Legislation, the expectation is that the Legislation will allow for interest payments to be paid to the Trust on a monthly basis in cash. The Trust will not accrue interest to the current intangible asset balances but this interest amount could form part of future intangible assets that are purchased from the IESO.***
	10 RT	The Legislation must dictate the manner in which the restructured asset would be determined, collected, and the period of collection, so that the determination of the restructured asset will not be subject to the Province's decisions on an ongoing basis, but determined based on a formula. Alternatively, the Legislation may allow for an adjustment to the pre-determined deferral formula based on specific parameters that would limit the adjustment to the restructured asset. Adjustments beyond the specific parameters would require approval by the Board of Trustee. **The Regulations are expected to dictate the 'Fair Allocation Plan' which will be based on high level Principles and Parameters of the Plan, including the attribution methodology. The Legislation or Regulation determines the following principles:** • **25% Reduction (June 1, 2017) where the average bill will**

Issue	No.	Requirements
		reduce by 25% including of HST and social programs noted above • **Inflation Period (November 2017 – April 2022) where bill increases are capped at inflation** • **Straight-line Increase Period (May 2022 – April 2027) where bills increased at a straight-line rate (i.e., 8% per year) which is set so that borrowing will not exceed the Trust's capacity.** • **Amortization Period (May 2027 – April 2047) where debt built up over the previous periods is repaid by ratepayers.** **OPG will determine the manner in which the intangible asset, once purchased from the IESO will be collected and the period of collection.** **The recoverability of the existing intangible assets cannot be impacted by the Province.** **Although the Province may determine the Principles and Parameters around the 'Fair Allocation Plan', it does not impact the activities of the Trust once OPG has purchased the intangible asset.**
	11 **RT**	The Legislation must be written to avoid legal or constitutional challenges and be irrevocable to reduce the cost of borrowing and with a specific formula which determines the deferral amount. **See above.**
	12 **RT**	The spirit of the above terms should be reflected in the Trust Indenture Agreement as well as Legislation, wherever possible. ***Trust Indenture and Regulations still outstanding.***

APPENDIX B:

Link between power and returns: principal-agency situations

The third criterion for having control is that the investor must have the ability to use its power over the investee to affect the amount of the investor's returns. When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether the decision-maker is a principal or an agent to determine whether it has control. This is because if the decision-maker has been delegated rights that give it power, the decision-maker must assess whether those rights give it power for its own benefit, or merely power for the benefit of others. As an agent cannot have control over the investee, it does not consolidate the investee. A principal may have control over the investee, and if so, would consolidate the investee.

A decision maker shall consider the overall relationship between itself, the investee being managed and other parties involved with the investee, in particular all the factors below, in determining whether it is an agent:

a) the scope of its decision-making authority over the investee

   As discussed above, OPG has decision-making authority over the Trust and its relevant activities. The Province has no right to determine what sort of funding decisions OPG should make to fund the intangible assets that they will purchase and OPG can choose not to purchase future intangible asset purchases.
   Terms and Conditions to support this point: 1, 2, 3, 4, 5

b) the rights held by other parties (paragraphs B64–B67).

   There are no substantive removal rights held by the Province for debt that already exists in the Trust.

   Terms and Conditions to support this point: 3, 4, 5

c) the remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs B68–B70).

   See section on 'Exposure or rights to variable returns' above.

   Terms and Conditions to support this point: 6, 7, 8, 9

d) the decision maker's exposure to variability of returns from other interests that it holds in the investee (paragraphs B71 and B72).

   See section on 'Exposure or rights to variable returns' above.

   OPG will receive a 44% equity injection from the Province of Ontario, indirectly through the Ontario Financing Authority. Given that currently, the majority (currently 51%) of the Trust debt will be from External Markets and not the Province, it can be argued that OPG did not receive the majority of its interest in the investee as a contribution or loan from the Province. This shows that OPG is a principal, not a de-facto agent.

   Terms and Conditions to support this point: 6, 7, 8, 9

Conclusion: OPG is not an agent for the Province as the arrangement does not provide for the Province to directly absorb any variability associated with the structure. If the Province decides to intervene at a later date due to evolving market conditions, an assessment would be made at that future date.

Analysis on whether OPG is an agent for ratepayers

OPG is not an agent for the ratepayers because OPG has substantive exposure to risk of loss of its own funds. The ratepayers do not have any of their own funds in any of the subordinated tranches and further, no decision making authority is delegated to the ratepayers relating to the relevant activities of the Trust.

Analysis on whether OPG is an agent for the IESO

OPG is not an agent of the IESO because the IESO faces no continuing risk of loss after sale of the intangible asset to OPG.

From:	John Kim
To:	Ronald Kwan
Cc:	Deena Padamadan; Bruno Amara
Subject:	FW: OFHP Placemat/definitions
Date:	Wednesday, May 03, 2017 4:56:25 PM
Attachments:	2017 05 03 OFHP Summary v05.pptx

Sorry, I thought you had it as it….

John

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 03, 2017 12:50 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP Placemat/definitions

Here's the revised version with Rons edits…not sure if you'll get a chance to review or not this afternoon but if you do, just wanted to make sure you had the latest.

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 3, 2017 11:24 AM
To: Montgomery, Kaitlin (MOF)
Subject: RE: OFHP Placemat/definitions

That's the 8% equal to the provincial portion of the HST…

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 03, 2017 11:20 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP Placemat/definitions

Thanks john - No worries – but what does the acronym OREC stand for?

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 3, 2017 11:19 AM
To: Montgomery, Kaitlin (MOF)
Subject: RE: OFHP Placemat/definitions

Hi Kaitlin,

I've been so swamped so haven't gone through Ron's comments yet but I think he's referring to OREC estimates coming down due to FHP-related prorams.

Let me know if more is needed but I will be taking a look this afternoon…

John

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 03, 2017 11:01 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: OFHP Placemat/definitions

Hoping you can help me with something…any idea what Ron is referring to highlighted below? What is OREC?

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: May 3, 2017 2:38 AM
To: Nelms, Scott (MOF); Kennedy, Nancy (MOF); Mayman, Gadi (OFA)
Cc: Skoberne, Vivienne (MOF); Montgomery, Kaitlin (MOF)
Subject: RE: OFHP Placemat/definitions

Hi Scott,

On the numbers for the second slide, they do not appear to reflect the numbers from the March 1, 2017, Energy CabSub in each year (see attached). Also, the 17-18 numbers in the fiscal plan were adjusted to reflect ¾ of a year, per a July 1, 2017 implementation date (see attached Q&A file). With regard to the latter file, it might be useful to add to the second slide the revised OREC estimated cost numbers too.

On slide 1, I'd suggest separating out the Province and OFA bubble, to show the credit facility and equity injection separately.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-02-17 8:01 PM
To: Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Subject: OFHP Placemat/definitions

Hi Nancy, Ron, Gadi,

Attached is an early cut at products we thought may be helpful as guides for the Fair Hydro plan. We have developed a two page overview placemat that follows Brandon's format. We also have a 1-pager with definitions that help to decode language in the OFHP legislation.

These products still require some refinement particularly on next steps for the tax based social programs (2nd slide). I need to check back with Energy to get some dates and to ensure what we have is correct. Ron, it would also be very helpful if your group could take a look at the numbers to ensure they align with the Budget

forecasts. If anyone has additional key issues they would suggest flagging, please let us know and I we will drop them in. Also happy to take suggestions on format as we crashed this together fairly quickly (note that some of the numbers show up small on the screen, but hopefully look better on 11x17 sheets). We will treat this as an iterative product over the next few days / week.

While not perfect, I realize fiscal prep and MMP meetings are occurring tomorrow. I wanted to get this into the system in case it is helpful to have a reasonably accurate summary of a very complex initiative.

Thanks,
Scott

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Ontario's Fair Hydro Plan

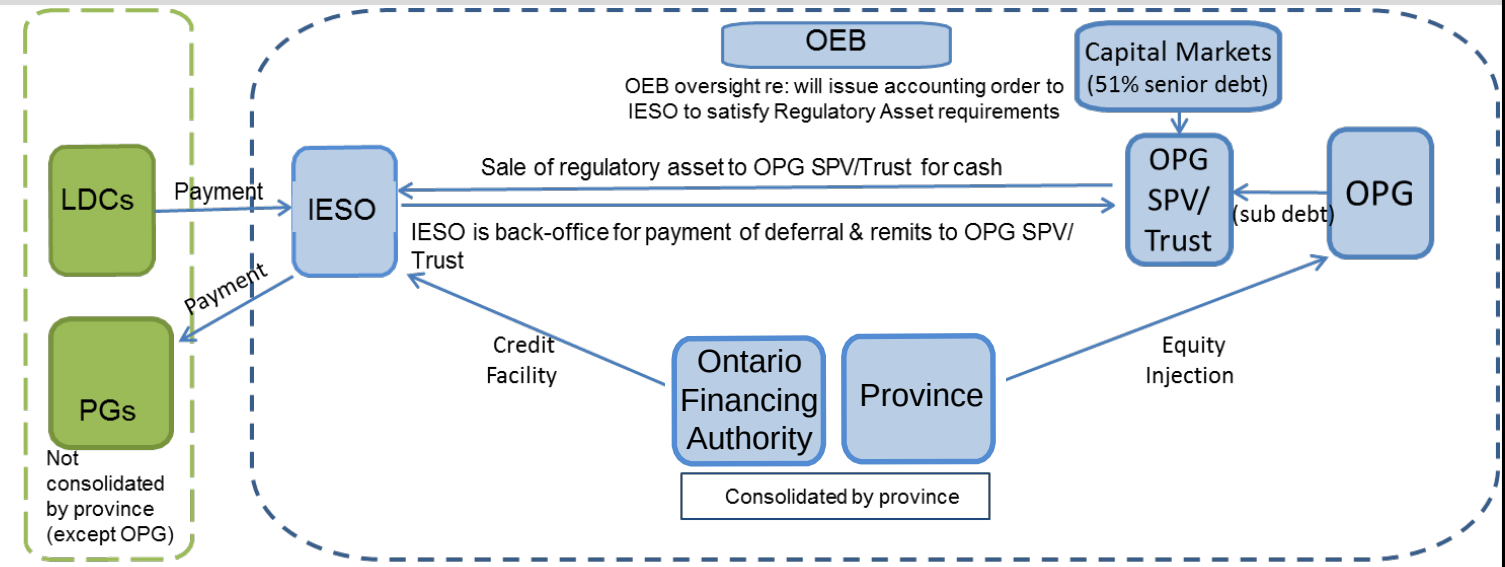
Context

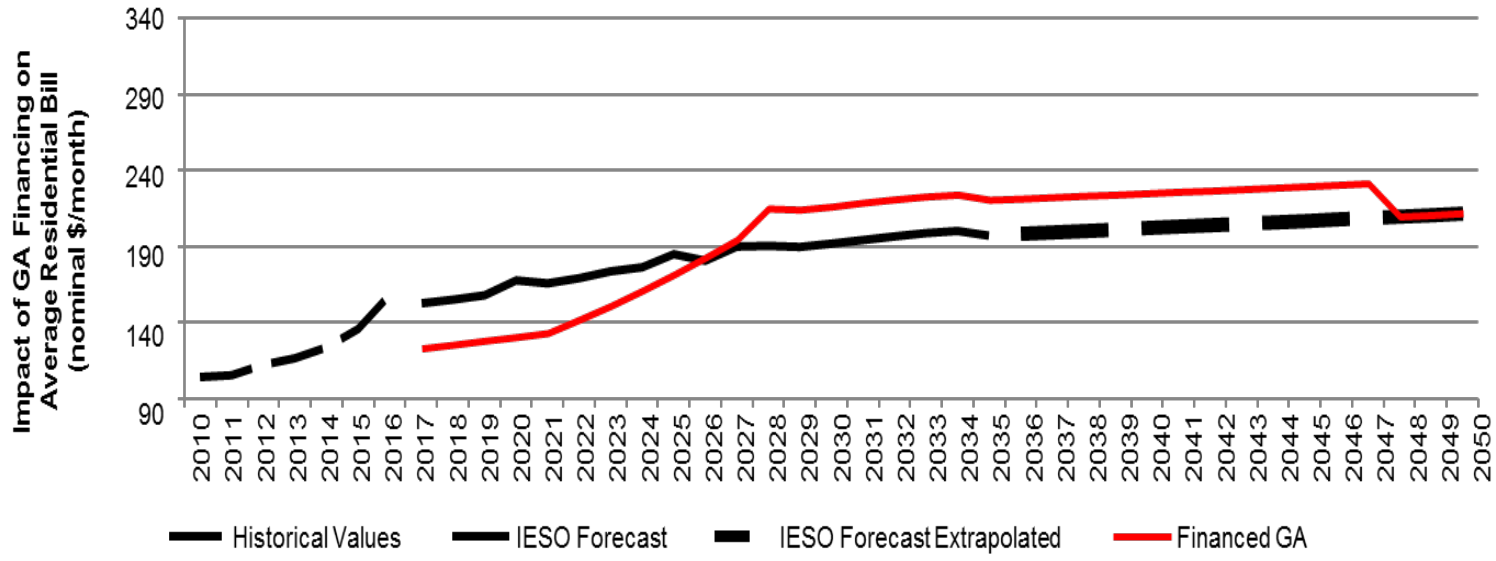
- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. Up to 500,000 small businesses and farms would also benefit.
- Any rate increases for typical residential consumers over the next four years would be held to inflation
- To implement the OFHP, ENERGY has prepared legislation (Ontario Fair Hydro Plan Act) in close collaboration with the OEB, Independent Electricity System Operator (IESO), Ontario Power Generation (OPG), partner ministries (TBS, MOF and MAG), external advisors.

OFHP Act Overview

- The Legislation balances ratepayer interests, accounting objectives, market expectations and legal considerations
- Built around core principle that costs incurred to move to a clean, reliable system creates benefits across generations, and costs that should be spread more fairly. Pre-defined terms (see definitions) form the building blocks for this structure
- Roles and responsibilities are established in legislation:
  - Minister of Energy: sets Fair Allocation Amounts for all periods, at the beginning of the plan
  - OPG: Financial Services Manager, sets the Financing Plan, establishes financing entities, purchases assets from IESO, and will drive invoice amounts to customers
  - IESO: creates funding shortfall / regulatory asset, sells to OPG, acts as agent to collect from ratepayers and fund initial interest costs
  - OEB: sets customer rates, establishes regulatory asset for IESO, reviews OPG's admin. costs
- Large part of legislation designed to ensure the financeability of the program
- Key considerations
  - Legislation sets the first Fair Allocation Adjustment and end date of 2047; amounts for intervening years set in regulation
  - Several Provincial guarantees to be negotiated to enable financing without imposing undue cost / risk on Province
  - Province's role constrained once the program underway (e.g. cannot remove OPG as financial services manager)
  - Modelling underway to ensure principle of cost / benefit alignment underlying the program is justifiable
  - Energy has received approval to provide monthly equity injections to OPG to fund sub-debt (see diagram)
  - OFA working with IESO to provide an additional credit facility (see diagram)

GA Financing Overview





	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly residential bill w GA financing impact and tax *($/month)*	104	105	112	116	124	136	158	123	126	128	131	133	142	151	161	172	183	195	215	214	216	219	221	223	224	221	222	222	223	224	225	226	227	228	229	230	230	231	210
Year-over-year change in bill *(%)*	-	1.0	6.7	3.9	6.1	9.8	16.7	-22.1	2.0	2.0	2.0	2.0	6.5	6.5	6.5	6.5	6.5	6.5	10.5	-0.4	0.9	1.2	1.0	0.8	0.6	-1.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-9.3
Impact of GA financing pre-tax *($/month)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-26.1	-26.1	-26.2	-32.8	-28.7	-23.9	-19.9	-13.5	-11.8	2.0	4.2	21.8	21.8	21.7	21.7	21.5	21.4	21.3	21.0	20.9	20.8	20.7	20.6	20.5	20.4	20.4	20.3	20.2	20.1	20.0	19.9	0.0
Total Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	5.1	7.9	11.4	14.6	17.8	20.8	23.2	25.6	26.7	27.7	26.8	26.0	25.1	24.1	23.1	22.0	20.9	19.7	18.5	17.2	15.9	14.4	12.9	11.3	9.7	7.9	6.1	4.2	2.1	0.0	0.0
Total Change in Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.6	2.8	3.5	3.2	3.2	2.9	2.4	2.4	1.1	0.9	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Ontario's Fair Hydro Plan (cont'd)

Electricity Support to Help the Most Vulnerable

Rural / Remote Electricity Rate Protection	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	344	472	484	497
Overview	Expand the existing program and harmonize distribution rates for customers in the top 1/8 of distribution rate classes, and shifting costs to the tax base				
Updates	Amend S. 79 of OEBA to provide through regulation classes of customer costs to be shifted to tax base, and create distribution rate protection program to complement RRRP				
Next Steps	Amend regulation to prescribe H1's R2 customers as receiving RRRP & prescribe by regulation program details/customers eligible for broadened distribution rate protection				

Ontario Electricity Support Program	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	140	261	325	375
Overview	Improve the existing program to enhance benefits and increase uptake through streamlined applications and expanded eligibility to include additional households				
Updates	Shift program funding to tax base and authority to allow data sharing between OEB/MCSS to support participation of Ontario Works/Ontario Disability and Support Program clients				
Next Steps	Move to tax base once variance account depleted (exp. fall 2017), with legislation to be proclaimed via OIC at that time to ensure OEB authorities while ratepayer funding is used				

On-Reserve First Nations Delivery Credit	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	15	20	20	20
Overview	Establish a credit to remove delivery charges for 21,500 on-reserve First Nations residential customers				
Updates	Establish authority to create delivery credit and provide for tax-based funding				
Next Steps	Regulatory amendments with details - class of customers eligible, determine what is considered on-reserve and determine the method of calculating the delivery credit				

Affordability Fund	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	100		Up to 100 additional		
Overview	Fund has been established through local distribution companies to help consumers in need to make energy efficiency improvements				
Updates	Advisory committee established and has recommended reps. from Hydro One, Alectra and Thunder Bay Hydro to act as trustees; 2 social services trustees to be selected soon				
Next Steps	Report back to TB/MBC in June 2017 with final program details and a performance management framework; LDCs begin to apply to the Trust for funds in summer 2017				

Other Elements / Considerations

- *Revised cost forecast for 8% rebate:* Key measures announced in OFHP are expected to reduce the cost of the 8% rebate for the Province as the total cost of electricity paid by eligible customers, upon which the rebate is based, will be reduced. The revisions are as follows compared with estimates in August 26, 2016*:

	2017-2018	2018-2019	2019-2020	2020-2021
ENERGY Estimate (August 26, 2016) ($ million)	1,006	1,004	944	n/a
ENERGY Revised Estimate (March 15, 2017) ($ million)	939	882	882	895
Change: March 15, 2017 vs August 26, 2016	*-7%*	*-12%*	*-7%*	*n/a*

***NOTE:** The estimates are subject to variances as result of uncertainties in demand, natural gas prices and other factors. These uncertainties also impact the variance account for the Regulated Price Plan (RPP).

- *Industrial Conservation Initiative:* Program expanded to include greenhouses. Energy working with CME and OCC on outreach campaigns on benefits of ICI and other conservation initiatives
- *Bill Presentment:* Targeting a re-design of the bill for Fall 2017. For the interim period the Ministry plans to include bill inserts describing the program
- *Auditor General (AG) / Financial Accountability Officer (FAO):* The Ministry has met with both offices and is circulating information in response to follow up requests. The AG also engaged with IESO through its IT value-for-money audit

From:	Montgomery, Kaitlin (MOF)
To:	John Kim
Subject:	FW: OFHP Placemat/definitions
Date:	Wednesday, May 03, 2017 11:01:31 AM
Attachments:	2017-03-01 - Cabinet Submission - Electricity Price Mitigation.pdf QA - Revised Rebate Cost Post FHP - to DMO_ESPD ADM Approved_ESP_v0.2 - ....docx

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Sent: May-02-17 8:01 PM
To: Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
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Ontario

Electricity Price Mitigation

Ministry of Energy

March 1, 2017

Minister

Deputy Minister

Context

- Electricity costs are increasing as the necessary investments are made to decarbonize and modernize the province's electricity infrastructure (i.e., $35 billion+ investment in cleaner generation and $15.5 billion investment in transmission and local distribution systems).

- Ontario has taken a number of actions to lower electricity costs for all consumers by:
  - Deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement (LRP)).
  - Increasing cost effectiveness and improving efficiency by adopting new electricity market approaches (e.g., no new NUG contracting and demand response).

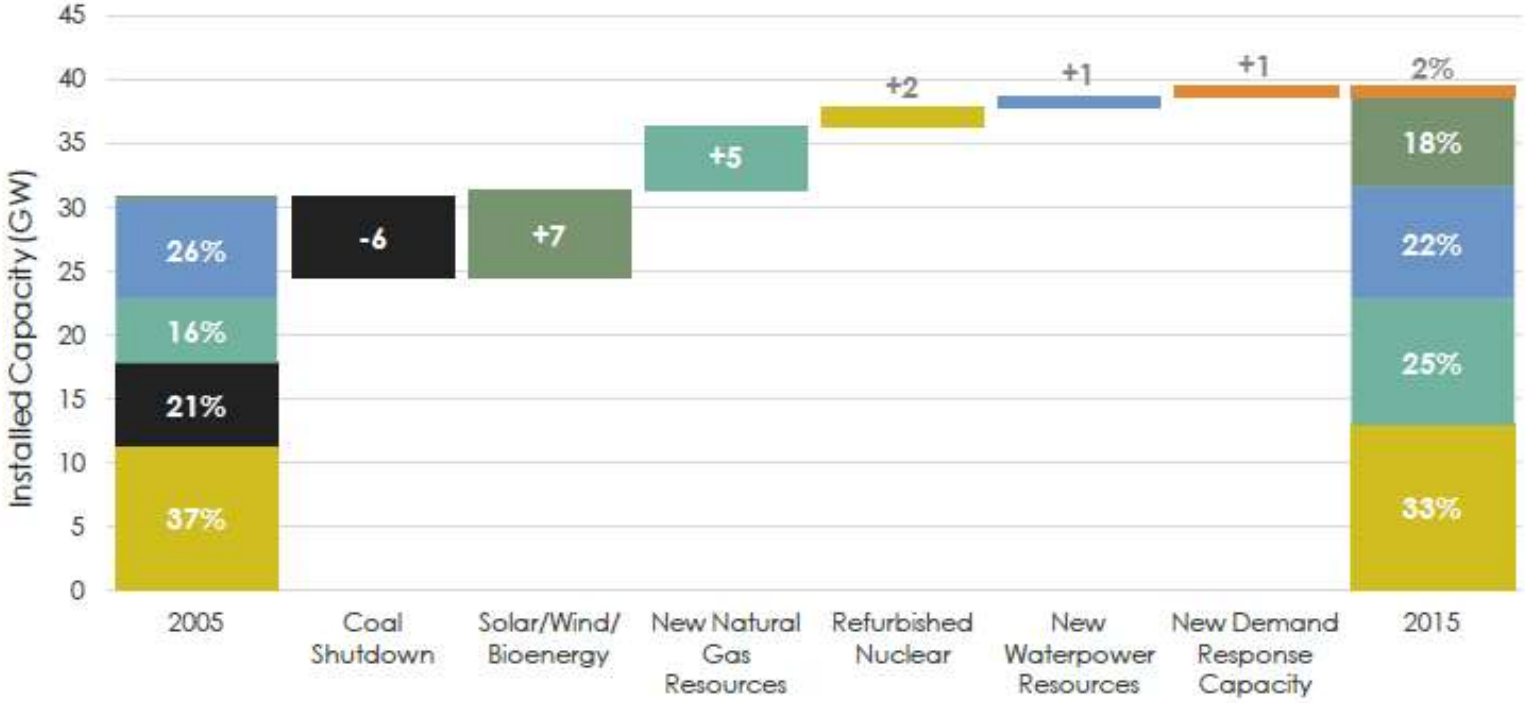
- On November 28, 2016, the Minister of Energy announced the need for changes in how electricity resources are procured, the need for wholesale market renewal and greater electricity consumer choice.

- The Ministry of Energy is currently updating its Long-Term Energy Plan (LTEP), which provides an opportunity to consider a range of policy changes to how the Ontario energy sector operates.

- On a number of occasions the Premier has indicated publicly that further relief on electricity prices will be provided to consumers in the near term.

Context – Infrastructure Investments

- In the eleven year period between 2005 and 2015, government added new electrical capacity to Ontario's grid to restore reliability, replace coal and meet environmental objectives.



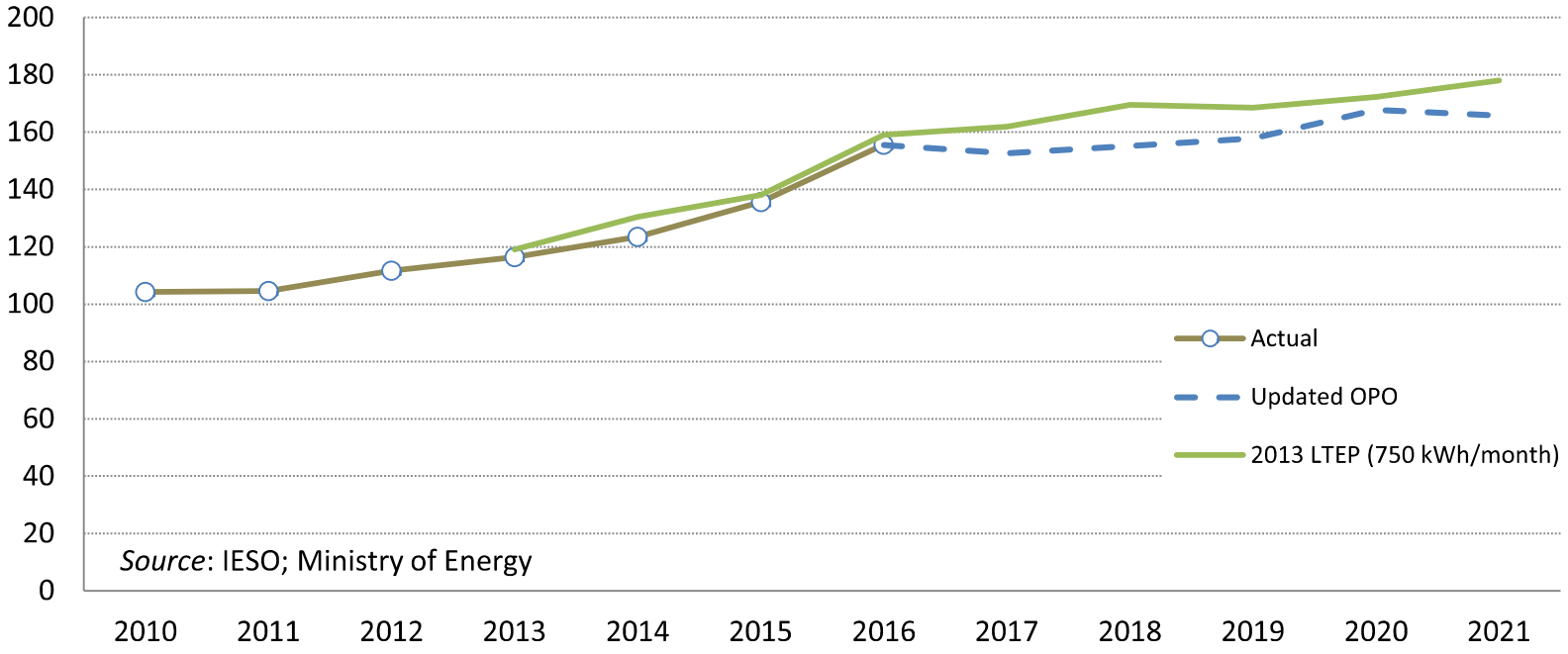
Source: IESO Ontario Planning Outlook

Context – Electricity Prices

- Electricity price increases have generally outpaced inflation. There have been several government policies that have impacted electricity prices over the past several years, including: HST, the Industrial Conservation Initiative, the Ontario Clean Energy Benefit (OCEB) and the Debt Retirement Charge (DRC).

Illustrative Typical Residential Electricity Bills

Historical and Forecast in $/month



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Context – Recent and Existing Government Funded Electricity Cost Mitigations

($Millions)	14-15	15-16	16-17[1]	17-18[1]	18-19[1]	19-20[1]	20-21[1]	Who Benefits
Ontario Clean Energy Benefit (OCEB) [2]	1,078	860	***OCEB ended on December 31, 2015***					• Residential customers, farms, small business (i.e., 10% off, on up to 3,000 kWh/month)
Ontario Rebate for Electricity Consumers (OREC or 8% rebate)*	-	-	300	1,100	1,200	1,200	1,200	• Residential customers, farms, small business (i.e., amount equal to the 8% Provincial portion of HST)
Ending Debt Retirement Charge (DRC) for Residential[3]	-	85	330	330	--	--	--	• Residential customers (i.e., saves about $70 per year for a typical residential consumer)
Northern Ontario Energy Credit (NOEC) [4]	24	26	25	25	25	25	25	• For eligible northern Ontario residents (i.e., for 2017, single people can receive up to $148,and families up to $227, depending on adjusted family income)
Ontario Energy and Property Tax Credit (OEPTC) (Energy component only)[4]	429	444	450	460	470	481	481	• For eligible low-to moderate-income individuals and families, & qualifying seniors (i.e., for 2017, up to $227, depending on adjusted family income)
Northern Industrial Electricity Rate Program (NIERP)	108	120	120	120	120	120	120	• Qualifying northern Ontario large industrial electricity consumers (i.e., rebate of 2cents/kilowatt-hour)
TOTAL	**1,639**	**1,535**	**1,225**	**2,035**	**1,815**	**1,826**	**1,826**	

Notes:

1. 2016-17 to 2020-21 based on forecasted numbers
2. OCEB ended December 31, 2015
3. 2015-16 estimated for 3 months of reduced DRC revenue. Estimated impact up to March 31, 2018.
4. Part of the Ontario Trillium Benefit. While related to energy generally, key policy driver for OEPTC when introduced in 2010 was electricity, as prices were forecast to rise, while fossil fuel prices, particularly natural gas, were low and falling.

* Sourced from Energy PRRT submission

Source: Ministry of Finance

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Context – Recent Actions Taken To Mitigate Electricity Rates

- Following the 2016 Throne Speech, the several actions were announced to further reduce electricity costs.

1. As of January 1, 2017, Ontario is rebating an amount equal to the provincial portion of the HST to reduce eligible residential, small business and farm electricity bills by 8%.

2. Expanded support available to eligible rural ratepayers by updating Rural or Remote Rate Protection (RRRP) with additional relief, decreasing total electricity bills by an average of $45 each month when combined with the 8% rebate.

3. Expanding the Industrial Conservation Initiative (ICI) – up to one-third savings for participants.

4. Suspending the LRP II and the Energy from Waste Standard Offer Program (EFWSOP) – up to $3.8 billion in cost savings.

5. Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – an average annual savings of $15 million.

Rate Mitigation Proposal

- The following approaches are proposed:

1) Smoothing the global adjustment (GA) to provide significant and immediate rate relief through cost deferral of the GA:
   - Smoothing Mechanism (i.e., 25% reduction); and
   - Implementation Model.

2) Enhancing competitiveness for Class B electricity consumers (i.e. manufacturing) by lowering the eligibility threshold for Industrial Conservation Initiative (ICI).

3) Helping vulnerable electricity consumers by enhancing electricity support and conservation programs and shifting cost onto the tax-base:
   - Rural or Remote Electricity Rate Protection (RRRP) Enhancement (Delivery Charge Relief);
   - Ontario Electricity Support Program (OESP) Expansion;
   - New Affordability Fund; and
   - On-Reserve First Nations Delivery Credit.

4) Ongoing activities to bend the future cost curve of electricity:
   - Ontario Energy Board (OEB) – Identify opportunities for future LDC efficiencies and rates;
   - Independent Electricity System Operator (IESO) – Modernize Ontario's electricity market through electricity Market Renewal initiatives.

GLOBAL ADJUSTMENT (GA) SMOOTHING

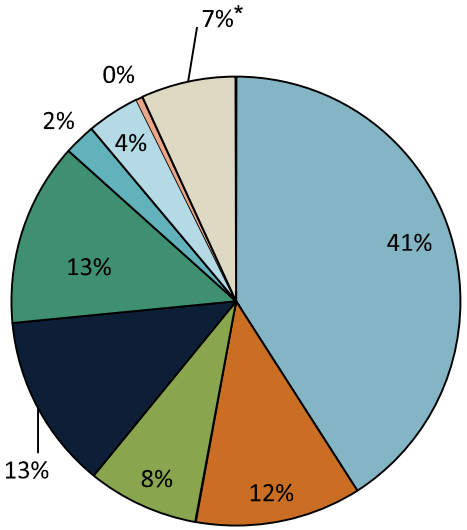
Overview – GA Smoothing

- The Global Adjustment (GA) has risen over the past decade as the province's electricity system has decarbonized.
  - The vast majority of GA costs now stem from greenhouse gas (GHG) emissions-free renewable and nuclear generation facilities, as well as natural gas plants that were constructed to restore system reliability and replace coal-fired capacity.
  - Generators in Ontario received contracted or regulated rates, which are typically designed to recover capital, financing, and fixed operations costs. The GA recovers these fixed costs of running the province's generation fleet, as well as the cost of conservation programs.
- The majority of the province's electricity generators are under 20-year contracts and account for less than half of the GA. Some of these generators will continue to provide value to the electricity system beyond their contract lives (i.e., beyond 20-years).
  - There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.
  - GA Smoothing would spread these costs over a longer period and provide immediate ratepayer relief (i.e., similar to re-financing a mortgage). By recognizing that generation assets are expected to continue to provide residual benefit to future ratepayers, beyond the term of current contracts, future ratepayers are expected to be able to utilize these assets and reduce the need to finance the development of new generation assets.
- The GA Smoothing option under consideration is illustrative and show potential rate mitigation measures to meet a targeted 25% reduction from the projected residential bill in 2017.
  - These residential impacts are based on a forecast for a household connected to Toronto Hydro that consumes 750 kWh per month.
  - Actual ratepayer savings would vary due to differences in consumption patterns.
  - Targeted to Regulated Price Plan (RPP) -eligible;
  - Rate increases would be capped at Consumer Price Index (CPI) for the first four years. Subsequent years would be set above CPI in order to ensure that bill increases due to repayments are capped at around 10% of the total bill.

GA Smoothing – Cost Breakout

- The Global Adjustment (GA) accounts for the fixed costs, including capital costs, of running Ontario's generation fleet, as well as the cost of conservation programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
  - Generators in Ontario received contracted or regulated rates, which are typically designed to recover capital, financing and fixed operations costs. Most generators are on 20-year contracts with the exception of hydroelectric and nuclear plants. They operate on longer contracts (or are regulated on a cost-of-service basis by the OEB) in recognition of the much longer operating lives of these facilities.
- Chart below shows the breakout of the GA by generator and program types. In 2016, the GA costs were $12.3 billion. These costs will evolve over time as 2,181 MW of previously contracted generation comes online in the coming years.

2016 GA Cost: $12.3 billion



	GA ($M)
Nuclear	5,053
Hydro	1,473
Natural Gas	985
Wind	1,552
Solar	1,630
Biomass, Landfill and Byproduct	278
Conservation	467
IEI Program	60
OEFC*	842

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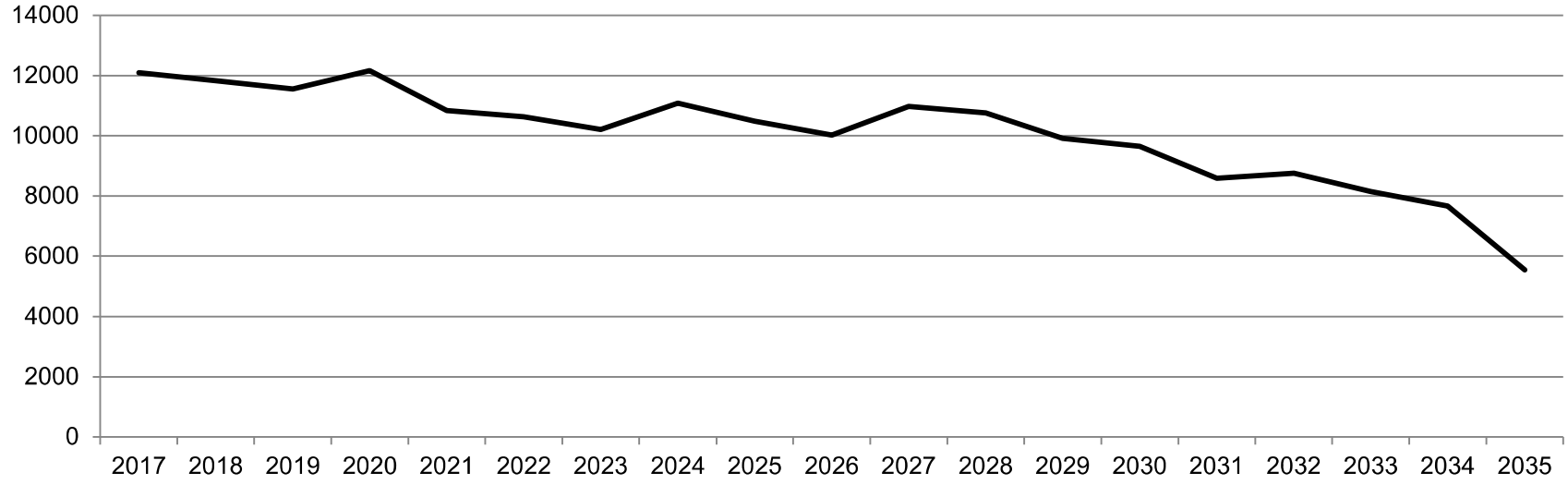
***Note:** OEFC indicates the cost of generator contracts managed by the OEFC which include contracts for natural gas, hydro and biomass generators**.**
**** Note:** Conservation measures, not quantified here, serve to reduce Ontario energy demand. Actual electricity generation would be larger than 155 TWh in the absence of conservation programs.

GA Smoothing – Global Adjustment Forecast

- The amount of Global Adjustment (GA) is forecast to decrease through the forecast period. Several factors contribute to the decline of GA, including:
  - Expiry of electricity generation contracts;
  - Cost of existing contracts reduced due to Inflation; and
  - Higher wholesale electricity prices due to higher natural gas/carbon prices, higher demand and reduced nuclear generating capacity.

Forecast Global Adjustment Cost (nominal $ million)



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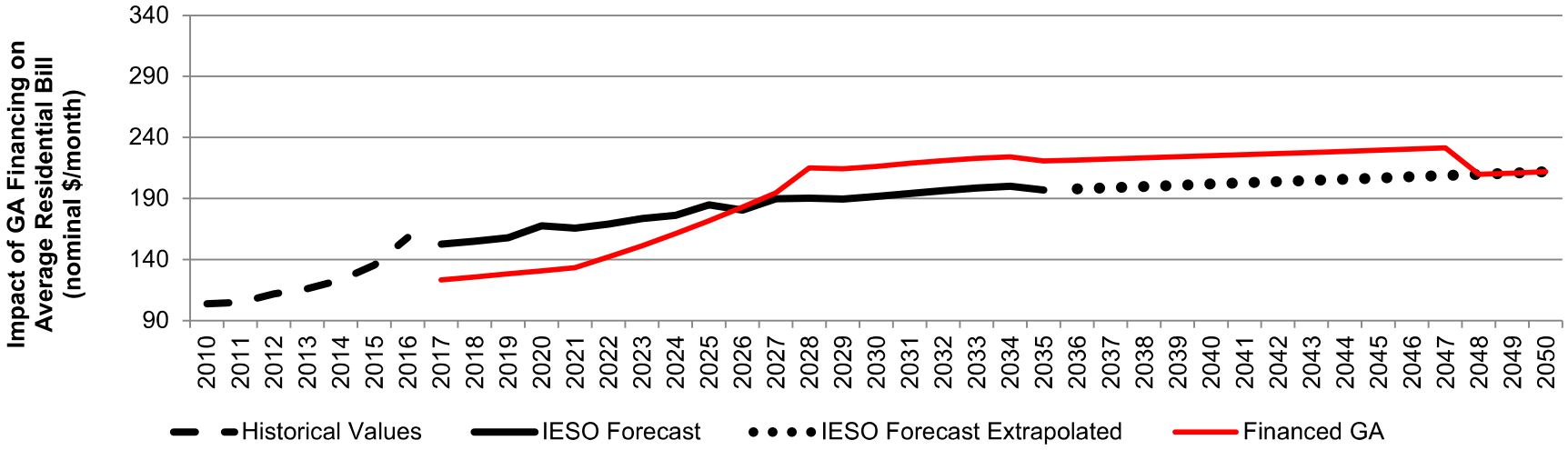
GA Smoothing – Expected Life of Electricity Generating Assets

- Gas, wind and solar generators are typically contracted for a 20-year period (e.g., with the Ontario Electricity System Operator (IESO), etc).
  - Nuclear and hydroelectric generators are contracted for a much longer period or regulated by the Ontario Energy Board (OEB) on a cost-of-service basis.
- While it is likely that gas, wind and solar generators will be able to operate beyond their current contracts, IESO advises that generators will need to decide what level of capital investment is appropriate for ongoing operations (i.e., by replacing and/or refurbishing major facility components).
  - In IESO's 2016 Ontario Planning Outlook (OPO), it was assumed that the service lives of generators could be extended beyond their contract term based on additional investments and ongoing costs. **Note:** This was not an assessment of the cost/benefits or a prediction of what the generators would actually do at the end of their contracts.
- The table below outlines IESO's current estimates for service lives of gas, wind and solar facilities. The ongoing service lives of these facilities depend on: initial facility design & build, operating activities (e.g., hours of operation, etc.) and level of facility maintenance (i.e., ongoing component repair and replacement).

Technology	Contract Life (yrs)	Expected Life (yrs)	Expected Cost Post-Contract Life
Gas	20	Up to 30	Life varies with initial design, how it is operated and maintained.
Wind	20	Up to 30	Older technologies may deteriorate faster. Elements such as foundations and electrical integration can last longer.
Solar	20	Up to 30	Performance deteriorates to about 80% by end of contract. Some facilities built in the initial contract periods may deteriorate more; however, technology is improving rapidly. Components need to replaced 5 to 30 years depending on design.

Source: IESO consultant reports (2014 and 2015)

A. GA Smoothing for RPP-Eligible Only (Borrow $2.5 billion in 2017, Residential Bills Lowered 25%, Lower Total Debt)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly residential bill w GA financing impact and tax *($/month)*	104	105	112	116	124	136	158	123	126	128	131	133	142	151	161	172	183	195	215	214	216	219	221	223	224	221	222	222	223	224	225	226	227	228	229	230	230	231	210
Year-over-year change in bill *(%)*	-	1.0	6.7	3.9	6.1	9.8	16.7	-22.1	2.0	2.0	2.0	2.0	6.5	6.5	6.5	6.5	6.5	6.5	10.5	-0.4	0.9	1.2	1.0	0.8	0.6	-1.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-9.3
Impact of GA financing pre-tax *($/month)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-26.1	-26.1	-26.2	-32.8	-28.7	-23.9	-19.9	-13.5	-11.8	2.0	4.2	21.8	21.8	21.7	21.7	21.5	21.4	21.3	21.0	20.9	20.8	20.7	20.6	20.5	20.4	20.4	20.3	20.2	20.1	20.0	19.9	0.0
Total Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	5.1	7.9	11.4	14.6	17.8	20.8	23.2	25.6	26.7	27.7	26.8	26.0	25.1	24.1	23.1	22.0	20.9	19.7	18.5	17.2	15.9	14.4	12.9	11.3	9.7	7.9	6.1	4.2	2.1	0.0	0.0
Total Change in Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.6	2.8	3.5	3.2	3.2	2.9	2.4	2.4	1.1	0.9	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

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A. GA Smoothing for RPP-Eligible Only – Residential Bills Lowered 25% (with Tax-base Funded 8% Rebate and Social Programs, 2% increase)

- Total bill below is based on a revised IESO forecast. See footnotes for more information.

Residential (750 kWh/month)	Actual 2016	2017	2018	2019	2020	2021
Total Bill (includes HST)	**158**	**164**	**167**	**170**	**181**	**178**
Total Bill (excludes HST)	140	145	148	150	160	158
Impact of GA Financing		-26	-26	-26	-32	-28
Impact of Tax-Basing Social Programs		-2	-2	-2	-3	-3
Subtotal		117	120	122	125	127
8% rebate		-9	-10	-10	-10	-10
HST		15	16	16	16	17
Revised Bill (includes HST)	**158**	**123**	**126**	**128**	**131**	**133**
Year-over-Year Change		-22%	2%	2%	2%	2%
Change from Forecast		**-25%**	**-25%**	**-25%**	**-28%**	**-25%**

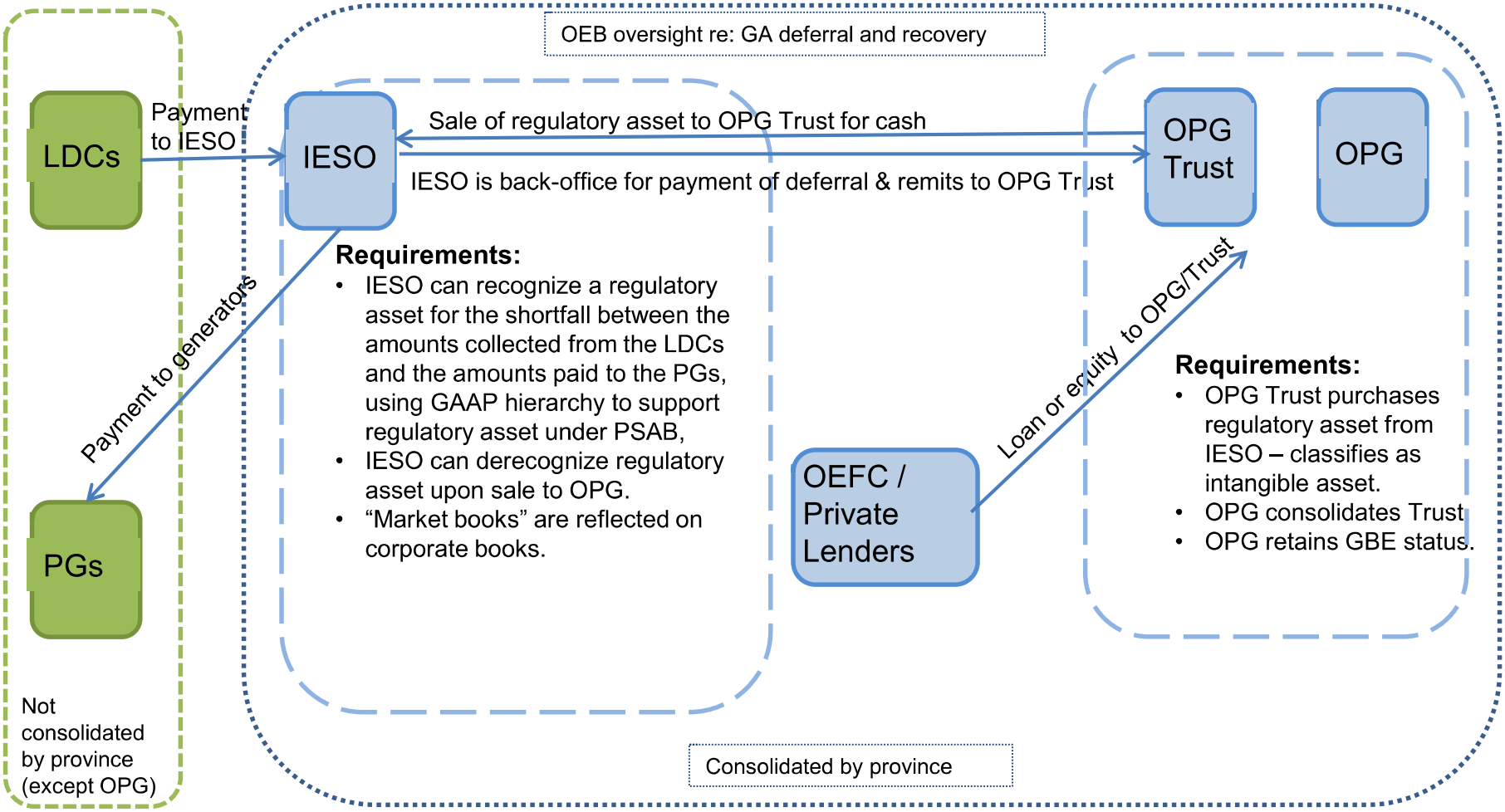
Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	**160**	**165**	**160**	**162**	**173**	**169**
Class B Revised Total (excludes HST)	**160**	**162**	**157**	**159**	**170**	**166**
Year-over-Year Change		1%	-3%	1%	7%	-2%
Change from Forecast		-2%	-2%	-2%	-2%	-2%

Large Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class A Total (excludes HST)	**90**	**91**	**93**	**88**	**95**	**96**
Class A Revised Total (excludes HST)	**90**	**88**	**90**	**84**	**92**	**93**
Year-over-Year Change		-2%	2%	-6%	9%	1%
Change from Forecast		-4%	-4%	-4%	-4%	-4%

Notes: Based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing.

B. GA Smoothing – Potential Structure

- The following diagram provides an overview of a potential GA smoothing structure, as well as interactions between sector entities and elements required to meet accounting objectives.



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Note: Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

B. GA Smoothing – Accounting Considerations

- OPCD advises that analysis is not complete; several requirements (below) are high risk re: satisfactory resolution.
- Complexity of the structure and length of deferral/recovery increase risk and decrease transparency
- If all requirements can be met, an accounting analysis is expected to support: (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit, but depending on funding to OPG/Trust from Province, an increase in interest on debt and an increase in income from OPG will result.
- IESO requirements – IESO Finance, KPMG (Energy advisor and IESO auditor), OPCD and EY (OPCD advisor) are evaluating accounting risks:
  - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB
  - IESO can derecognize regulatory asset upon sale to OPG; and
  - "Market books" are reflected on corporate books.
- OPG requirements – OPG Finance, EY (OPG auditor), PwC (OPG Advisor), and OPCD are evaluating accounting risks:
  - OPG Trust purchases regulatory asset from IESO – classifies as intangible asset;
  - OPG consolidates Trust; and
  - OPG retains GBE status.
- No discussion with OAG; in previous Annual Reports, the OAG has raised concerns about the appropriateness of recognizing rate regulated assets and liabilities.

B. GA Smoothing – IESO Considerations

- The Electricity Act enables the Independent Electricity System Operator (IESO) to recover from ratepayers the amounts paid to generators, distributors or other contracted entities.
- The accounting advice received by IESO is that reflecting market balances and regulated assets is a more appropriate presentation for its financial statements going forward.
- IESO is characterized as an "Other Government Organization" (OGO) and consolidated on a line-by-line basis into the Provincial books.

Issue	Response
1. Can IESO adopt regulatory accounting?	• Public sector accounting does not address regulated assets. • Guidance can be drawn from other accounting bodies. • US Federal Accounting Standards Advisory Board (FASB), US Governmental Accounting Standards Board (GASB) and International Accounting Standards Board (IASB) do provide guidance. • FASB accounting standard 980 and IASB have specific references that support the adoption of regulatory accounting. **Conclusion:** There is a hierarchy of accounting principles that support this approach.

B. GA Smoothing – IESO Considerations

Issue	Response
2. Can IESO recognize the GA deferral as a regulatory variance account?	Criteria for recognition are: • Rates are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers. • Rates are designed to recover the specific costs of regulated business-type activities. • In view of demand, it is reasonable to assume that rates will be set to recover the regulated business-type and can be collected from customers. **Conclusion:** Legislation creates the right to collection, currently and in the future. With either OEB or IESO board involvement a regulatory asset can be recognized.
3. Can IESO sell the variance account related to the deferral of the annual Global Adjustment account?	• The sale of the variance account to OPG Trust must be structured as an absolute assignment of future economic benefits of the Asset with no obligations, rights or benefits remaining of IESO. • In that case, this would represent a sale of the future right to collect these amounts from the ratepayer. **Conclusion:** Based upon proposed terms of the sale agreement, there would be no future economic benefit for IESO. Risk and rewards are entirely transferred to OPG Trust.

B. GA Smoothing – OPG Accounting Considerations

- OPG's Special Purpose Vehicle (SPV)/Trust is a stand-alone entity able to conduct business separately under a Trust agreement. **Note:** The conditions required for OPG to consolidate the SPV/Trust are outlined in the following table:

Issue	Response
1. Decision Making	• OPG must have decision making authority on the operation of the SPV/Trust (without a veto right by the Province), including naming of trustees, establishing operating plans and budgets, setting or changing financing policies. • The SPV/Trust while operating within the legislation, must be controlled by OPG to operate freely and to alter terms and conditions not specified in the legislation to ensure recovery of the deferred amounts.
2. Business Risk	• The SPV/Trust must have variability of returns as a normal business enterprise would, including such things as interest charged on deferred amounts, decisions on how to finance these deferred amounts, the ability to make / lose and keep any spread from financing.
3. Funding	• The Province cannot directly or indirectly fund more than 50% of SPV/Trust or any investment in the SPV/Trust. • OPG must own at least 50% of the most exposed equity /sub-debt in the SPV/Trust.
4. Directive	• Directive that is issued should not be prescriptive or direct OPG to set up this business. The directive should only be "guiding" i.e. to allow OPG to evaluate options and put forward to the OPG Board a recommended plan for Shareholder approval.

B. GA Smoothing – OPG Accounting Considerations (cont'd)

Issue	Response
5. Other required Attributes	• The legislation that supports the formation of the SPV/Trust must have the following attributes: – Must require interest, carrying and administrative costs be paid to the Trust to allow for Revenue recognition; – The amount to be deferred must either be specified or be calculated based on a specific formula that is not subject to ongoing decision making by the Province. **The Province cannot have the ability to override this formula;** – SPV/Trust and its debt holders will require their capital guaranteed and paid for directly by the Province if the Province revokes the legislation; and – The spirit of the legislation should be reflected in the Trust Indenture Agreement.

B. GA Smoothing – OPG's Financing Structure Requirements

KEY ELEMENTS REQUIRED TO ENSURE THE DEFERRAL OF GA CHARGES CAN BE FINANCED:

Creating the Right to Recover Deferred GA

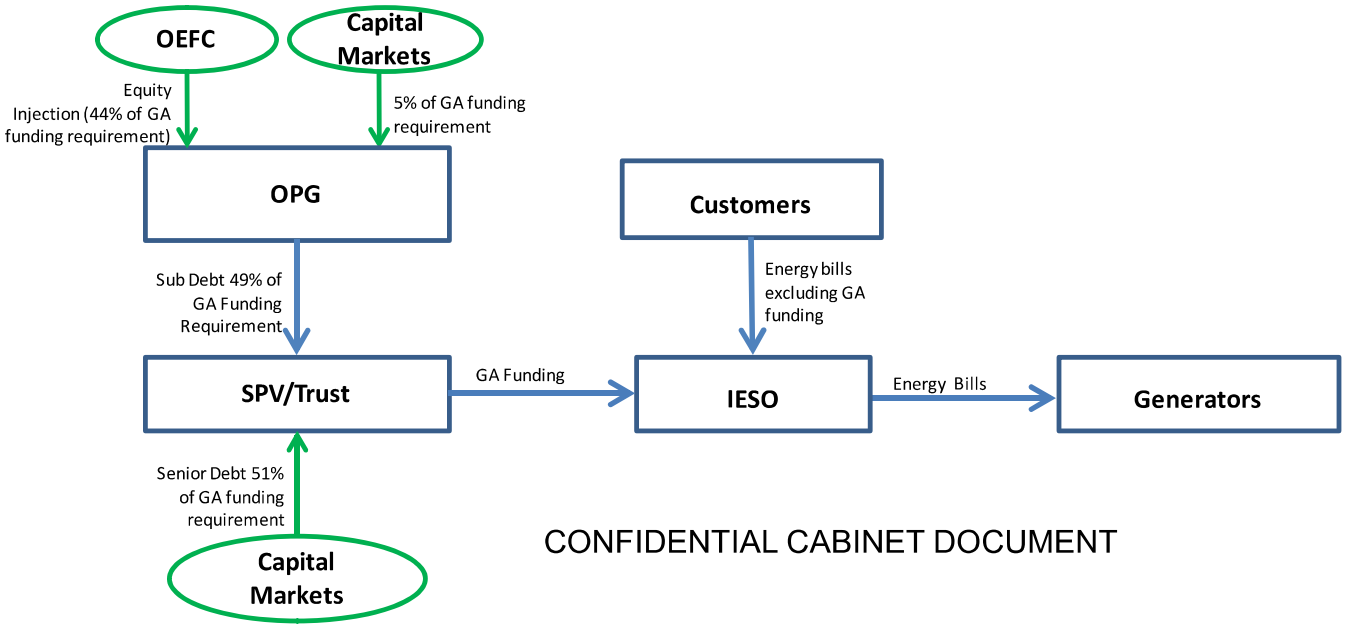
- Legislation enshrines the ability of the IESO to create a Right to charge customers in the future for the Global Adjustment (GA) deferred today including principal amount deferred, interest and other financing costs on the amount deferred and fees, expenses and other administrative costs.
- The Right can be sold to an appropriate Trust or Special Purpose Vehicle (SPV) to obtain funds to pay amounts due to generators under contracts or regulation. These SPVs are generally single purpose entities with no other operations that could add risk to the entity, dilute debt holder rights, allow parties from other operations to claim rights to the future recovery from customers or allow these other parties to initiate bankruptcy proceedings.
- Right must be irrevocable and if the Right is amended by future governments the debt holders have the right of action against the government to recover the amount outstanding including interest, fees, expenses and any damages resulting from the amendment.
- Right must specify the recovery period or the mechanism for setting the recovery rate including true up of the rate to ensure all amounts are recovered.

Economic Factors

- Limits on the recovery amount (principal, interest, fees and expenses) charged to customers in future periods must have compensating elements such as longer recovery period to ensure the full amount deferred plus interest, financing and other administration costs is recovered from customers.
- Need to balance customer relief with debt holder risk. Longer recovery periods and larger deferred balances increase risk to the debt holder of future government intervention.
- The amount required by the SPV to purchase and service the Right will be funded 51% from debt holders, 5% from OPG through capital markets and 44% from OPG via equity injection to OPG from the Province. The funding from OPG will be loaned to the SPV as subordinated debt.

B. GA Smoothing – OPG's Financing Structure Requirements (cont'd)

- Special Purpose Vehicle (SPV) will be used to raise the GA financing and ring fence OPG from its legal obligations
- SPV will be structured to allow for GBE accounting consolidation into OPG
- Given that SPV will be consolidated into OPG for accounting purposes, the significant amount of debt required to fund the GA deferral will have a severe impact on OPG's credit rating. If 100% of the requirement is funded by debt OPG would be downgraded.
- To manage this exposure and minimize the cost of funding. The required funding would be split into 2 buckets:
  1. 56% from capital markets; and
  2. The remainder provided by the Province via equity injection, which would be loaned to SPV as subordinated debt.
- The use of equity to fund a portion of the GA deferral also allows for an improvement in both Net Income and EBITDA as incremental revenue is captured by the increase in the value of the deferral which would offset the fiscal impact of the borrowing at Province level.
- Credit rating metrics are generally maintained within established limits.



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Ontario

GA Smoothing – OEB Considerations

- Ontario Energy Board (OEB) oversight may be required as part of creating a regulatory asset.
- Subject to final confirmation, there are several other spheres for possible OEB oversight:
  - The rate payer impact of IESO deferral account and eventual repayment of the deferred Global Adjustment (GA), within pre-defined legislative parameters;
  - The administrative costs of the OPG's Special Purpose Vehicle (SPV) /Trust (e.g., as the OEB reviews and approves IESO's expenditure and revenue requirements and makes orders fixing just and reasonable rates for the Smart Metering Entity);
  - The SPV/Trust's returns (e.g., as the OEB does with OPG's regulated assets) and whether any income to OPG can be used for the benefit of rate payers;
  - The review of the final structure of the debt issuance for the limited purpose of ensuring requirements of law have been met; and
  - In out years, review of the collection of charges to ensure that collection is sufficient, and not greater than necessary, to pay debt service.
- The scope of OEB oversight will ultimately need to balance the interests and needs of rate payers, the market, OPG and the Province.

B. GA Smoothing – Ontario Financing Authority (OFA) Considerations

- Under the proposed structure, the financing of the deferred Global Adjustment (GA) costs would be effectively done in part by each of the OPG Special Purpose Vehicle (SPV)/Trust, the Province and OPG: the OPG SPV/Trust would borrow 51%, the Province 44% and OPG 5% of the required GA amounts needed to be financed.
  - In the alternative, the Province (through the OFA/OEFC) could borrow the required amounts each year, likely at a lower cost. However, the target for an arms-length trust and potential risk transfer would not be achieved.

	OPG Structured Financing	OFA/OEFC/Provincial Financing
Financing Considerations	• As the OPG SPV/Trust would be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • This would increase the cost of GA smoothing and the ultimate rate impact on future consumers. • The Trust would be exposed to interest rate changes. • Availability of debt financing may also be limited, depending on the overall amount of deferral, and the subsequent rate impact during the recovery period. OPG has cited examples of a 10% threshold on overall rate impacts of the deferral recovery amounts. • With a potential guarantee from the Province for the borrowing of the OPG SPV/Trust, OPG could see borrowing costs closer to the Province. However, this would redirect the risk back to the Province, removing the intended benefits of using this particular structure, and could add risk to the targeted accounting treatment. • With, or potentially even without a provincial guarantee, OPG SPV/Trust's borrowing could be seen as debt effectively supported by the Province by credit rating agencies and included in their analysis and determination of the Province's ratings. • If a Provincial guarantee endangers the targeted accounting treatment, it may be hard to justify the higher cost borrowing by OPG SPV/Trust to be passed through to ratepayers.	• Province's borrowing from the public markets would add to the borrowing program and the Province's gross debt. • The Province would expect to be able to finance the GA deferral at a lower financing cost than the OPG SPV/Trust, but would likely not achieve the targeted accounting treatment based on OPG's analysis. • Net debt would not increase, to the extent supported by increased equity in OPG under that model, and/or if the accounting treatment can be achieved as backed by a GA-related asset (OPG does not consider that the accounting can be achieved if the SPV/Trust is financed by the Province). • The Province's interest on debt (IOD)cost would need to be effectively recovered through the GA. – E.g., an OPG equity return to cover the cost of borrowing for the equity injection. – Or more directly if the Province is providing financing directly to the GA entity. • The cost of borrowing for the Province could change: 1. The Province's credit rating could be at risk of being re-evaluated by Rating Agencies, which may negatively impact the cost at which the Province borrows and 2. An increase in the Province`s borrowing rates, as a result of increased borrowing. The market may not have adequate demand for the Province to carry-out these borrowings without increasing the interest rate on the debt issues for GA financing and for all of the Province's borrowings. • The interest cost of GA deferral would be exposed to changes in the interest rate environment generally.

GA Smoothing – Legal Considerations

- In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the short term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

- Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:
  - The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
  - If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
  - By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
  - The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

GA Smoothing – Policy Considerations

- Borrowing money to smooth the Global Adjustment (GA), while lowering costs in the short term, results in a more rapid rise in electricity prices beyond the rate of increase already expected.
  - In addition, should Ontario electricity demand be lower than forecasted, the cost of paying off the debt will be spread over a smaller pool of consumption, further increasing future costs for individual ratepayers.

- The impacts are also based on a GA forecast. Since the GA fluctuates, actuals will vary based on demand, the addition of new generation and natural gas prices.
  - A "true-up" mechanism will be required to account for the difference between the "estimate" and "actual" GA costs.

- Although Class B electricity consumers, such as commercial and small industries, do not receive the benefit of GA smoothing (i.e., because it is only targeted to RPP consumers), the Ministry has a proposal later in the submission to address competitiveness for Class B consumers (i.e., targeted lowering of the Industrial Conservation Initiative (ICI) eligibility thresholder from 1 MW to 500 kW).
  - Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness.
  - **Note:** Although Class B and Class A consumers will not receive the rate relief benefits of GA smoothing, both consumers will benefit from tax-basing the electricity social programs.

- Given the legal framework the amount of GA smoothing needs to be proportionate to the generating contracts (i.e., 20-year) and the additional years of generation services still available (i.e., additional 10-years of service).

- Rating agencies and investors in the Province's debt may view this borrowing as an obligation of the Province, regardless of accounting treatment. Depending on the magnitude of the debt to be incurred could have an impact on the Province's borrowing cost.

- The GA smoothing proposal will accrue total interest of $25 billion based on the proposed option. This amount of interest is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.
  - An increase in the borrowing rate from 5% to 6% would increase the total interest costs by almost $9 billion and would require an extension of the financing term beyond 30 years.

GA Smoothing – Fiscal Considerations

- If the proposed legal and accounting treatment of the GA financing smoothing proposal is not implemented, there would be a negative impact on the province's fiscal plan, as shown below.

Fiscal Impact ($M)	2017-18	2018-19	2019-20	2020-21	2021-22
Bills Lowered by 25%, RPP-Eligible Only*	2,534	2,668	2,942	3,420	3,232

*Numerical values represent amount borrowed in indicated fiscal year plus accumulated interest from previous year's accumulated debt

Source: Ministry of Energy

ENHANCING COMPETITIVENESS FOR CLASS B ELECTRICITY CONSUMERS

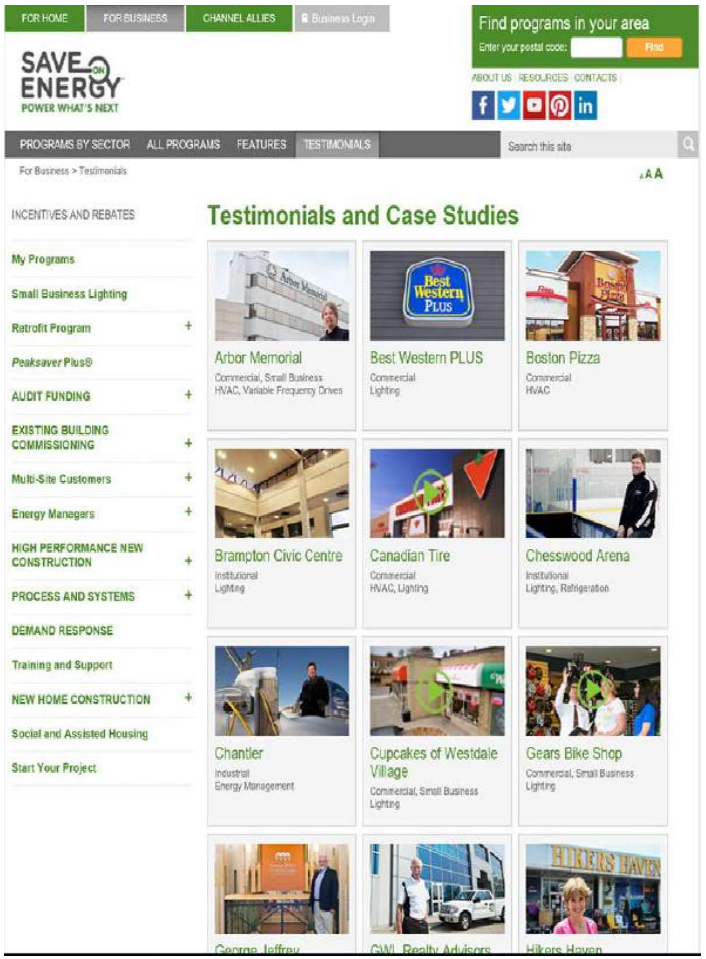
Support for Class B Consumers

- Class B electricity consumers comprise about 50,000 customers, including many mid-size manufacturers (i.e., automotive parts suppliers, plastics manufacturers), large commercial buildings (i.e., office blocks, mid-sized shopping malls) and broader public sector facilities (i.e., hospitals, college campuses).

- Through saveONenergy, many Class B consumers have already taken advantage of energy efficiency programs.

  - Although saveONenergy programs like Process and Systems Upgrade Incentive exist, these programs generally require significant investment on behalf of the customer in addition to the incentives and therefore may be difficult to take advantage of.

  - For Class B manufacturers whose electricity consumption is primarily based on process activities (e.g., injection moulding, welding, etc), traditional conservation measures like lighting and ventilation upgrades have limited benefit.



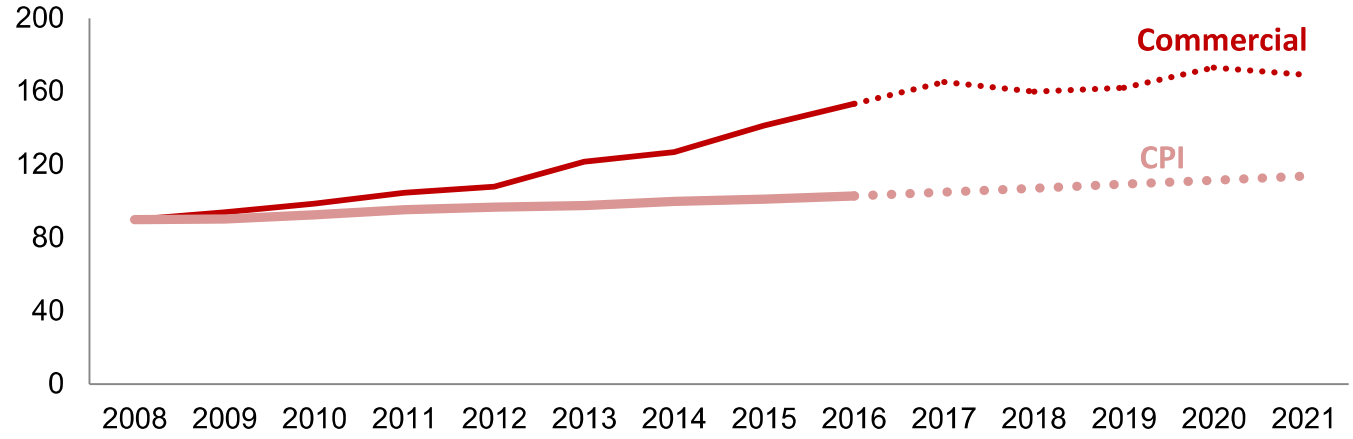
Support for Class B Consumers (cont'd)

- Class B consumers are too large for the Regulated Price Plan (so do not qualify for the 8% rebate for small businesses or Time-Of-Use pricing) and too small to be Class A (so do not qualify for the Industrial Conservation Initiative (ICI) for large consumers).

- Price mitigation initiatives could be provided to Class B to address stakeholders' concerns (e.g., Coalition of Concerned Manufacturers of Ontario, etc).

- The chart below highlights that the cost of electricity for Class B consumers has risen faster than CPI.

Illustrative Electricity Prices
in $/MWh



***Source*:** IESO; OEB; Ministry of Energy

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Lower ICI Threshold Below 1 MW for Energy Intensive Industry

- The Industrial Conservation Initiative's (ICI) eligibility threshold for participation was recently lowered to 1 MW. The lowering of the ICI eligibility threshold provides an opportunity for additional Class B consumers to save on their electricity costs if they choose to opt-in to ICI (i.e., and become new Class A consumers):
  - Beginning in July 2017, new participants will be billed Global Adjustment (GA) on the basis of their contribution to province-wide peak demand.
  - Prior to lowering the ICI eligibility threshold, electricity consumers with peak demand between 3 and 5 MW could only participate in ICI if they belonged to the following sectors: manufacturing, mining, data processing, refrigerated warehousing and greenhouses. **Note:** To achieve the benefits of ICI, participants must reduce their electricity demand during the five system peak hours.

- To enhance the competitiveness of larger Class B consumers whose electricity demand are too low to currently qualify for ICI, the Ministry proposed to:
  1. Expand ICI by extending eligibility to larger Class B consumers with average monthly peak demand over 500 kilowatts; and
  2. Target the expansion to energy intensive industries with the North American Industry Classification System (NAICS) codes 31 - 33 (i.e., Manufacturing).

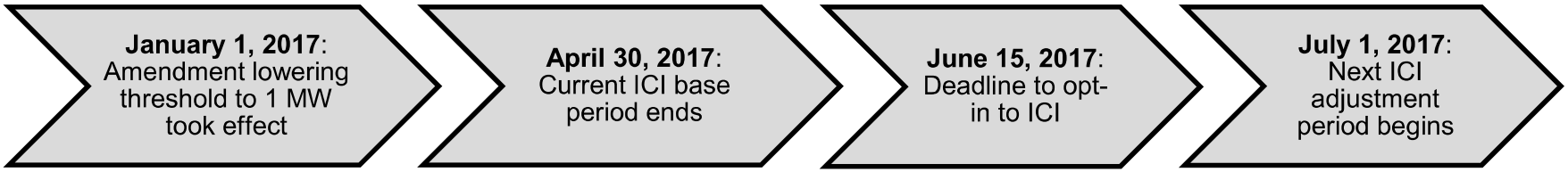
- In addition, the Ministry will assist Class B participation in ICI through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

Lower ICI Threshold Below 1 MW – Considerations

- A targeted lowering of the ICI eligibility threshold from 1 MW to 500 kW provides benefit to larger Class B consumers (i.e., manufacturing) while limiting the cost shift to other electricity consumers.
  - **Note:** A Class B consumer that run only a day shift, resulting in fairly peaky load profiles would need to adjusted its behaviour to maximize the benefits of ICI.

- Preliminary analysis by ENERGY staff show that the estimated impact of a targeted lowering of the ICI eligibility threshold from 1 MW to 500 kW would increase a typical residential bill by up to 0.66% or just over $1/month based on a 2016 bill of about $158.
  - The actual impact would vary depending on uptake and consumer responsiveness.
  - With the recent lowering of the ICI eligibility threshold to 1 MW, there is no information available regarding the actual impact on new participants and the electricity system.

- In order for any changes to ICI eligibility to take effect before the next 12-month billing period beginning July 1, 2017, regulatory amendments would have to be made before the end of April 2017.



Lower ICI Threshold Below 1 MW – Legal Considerations

- The quantum of a regulatory charge may be set at different rates within a regulatory structure where the differential prices are intended to serve other regulatory goals including an intention to modify the behavior of persons within the scheme.

- Expanding access to the Class A pricing regime is intended to serve regulatory goals by encouraging consumers to shift their electricity use away from peak hours, which benefits the electricity system as a whole. While Class B consumers will have to pay more of the GA cost in order to finance the reduction for Class A consumers, this is generally permissible since Class B consumers are not modifying their behaviour and the total amount recovered for the GA does not exceed its cost. CLB has previously advised that the differential pricing structure generally only attracts a **moderately low risk** of being a tax, and this risk level does not change if the option of Class A pricing is extended to a broader class of consumers.

- It is more difficult to justify a differential regulatory charge on the basis of behavioral modification when the lower charge is not available to some participants in the regulatory scheme whose conduct could equally serve the same goals. To the extent that there is not a regulatory rationale for extending the new class A option only to certain sectors, risk increases. The amount of risk in this scenario will vary depending on the quantum of the premium that Class B consumers pay to create the behavior modification incentive for Class A and the degree to which the excluded sectors can credibly claim to be able to achieve the same outcome were they permitted to participate in this aspect of the program.

ELECTRICITY SUPPORT AND CONSERVATION PROGRAMS TO HELP VULNERABLE ELECTRICITY CONSUMERS

Electricity Support and Conservation Programs to Help Vulnerable Electricity Consumers

- To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

- These customers include:
  - **High Delivery Cost Customers:** Some customers in rural areas where the cost to deliver electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
  - **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
  - **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

- To provide targeted assistance to the customers and alleviate electricity cost burden, ENERGY proposes to:

  A. **Enhance Rural or Remote Rate Protection** (RRRP) by funding its costs through the tax base and providing additional support to customers of designated Hydro One rate classes and other high distribution cost Local Distribution Companies (LDCs).

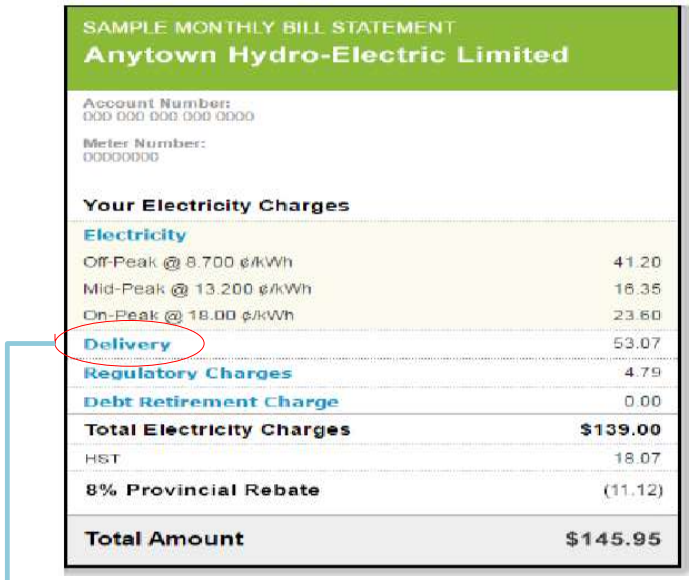
  B. **Enhance Ontario Electricity Support Program** (OESP) by funding its costs through the tax base and increasing eligible benefits by 50%.

  C. **Establish a new Affordability Fund**, providing energy efficiency measures at no or minimal cost to those who are ineligible for low-income conservation programs, have difficulty paying their electricity bills and who cannot make energy efficiency upgrades without financial assistance.

  D. **Implementing On-Reserve First Nations Delivery Credit**, to remove Delivery charges for on-reserve First Nations customers.

A. Delivery and Distribution Charge – Background

- The **Delivery** line on a typical consumer bill is specific to a consumer's Local Distribution Company (LDCs) and accounts for roughly 25-35% of the total bill before taxes.
- Delivery covers the costs of getting electricity from generating stations across the province to homes and businesses and combines three cost components of the electricity sector into one line item charge:
  - **Transmission:** The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable charge that is approved by the OEB.
  - **Distribution:** The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line.
    - This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.
  - **Line Loss:** The costs to recover electricity that is lost as heat when its delivered over a power line. Each LDC is assigned by the OEB a specific line-loss adjustment factor to reflect their loses particular to their assets. This factor is multiplied against the monthly electricity cost to determine the monthly cost.



SAMPLE MONTHLY BILL STATEMENT

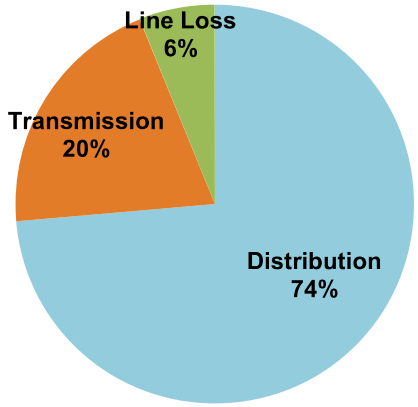
Anytown Hydro-Electric Limited

Account Number:
000 000 000 000 0000

Meter Number:
00000000

Your Electricity Charges	
Electricity	
Off-Peak @ 8.700 ¢/kWh	41.20
Mid-Peak @ 13.200 ¢/kWh	16.35
On-Peak @ 18.00 ¢/kWh	23.60
Delivery	53.07
Regulatory Charges	4.79
Debt Retirement Charge	0.00
Total Electricity Charges	**$139.00**
HST	18.07
8% Provincial Rebate	(11.12)
Total Amount	**$145.95**

Cost breakdown of Delivery Line for an Average Residential Bill*



* Toronto Hydro Bill @ 750kWhs

A. Rural or Remote Rate Protection Program – Background

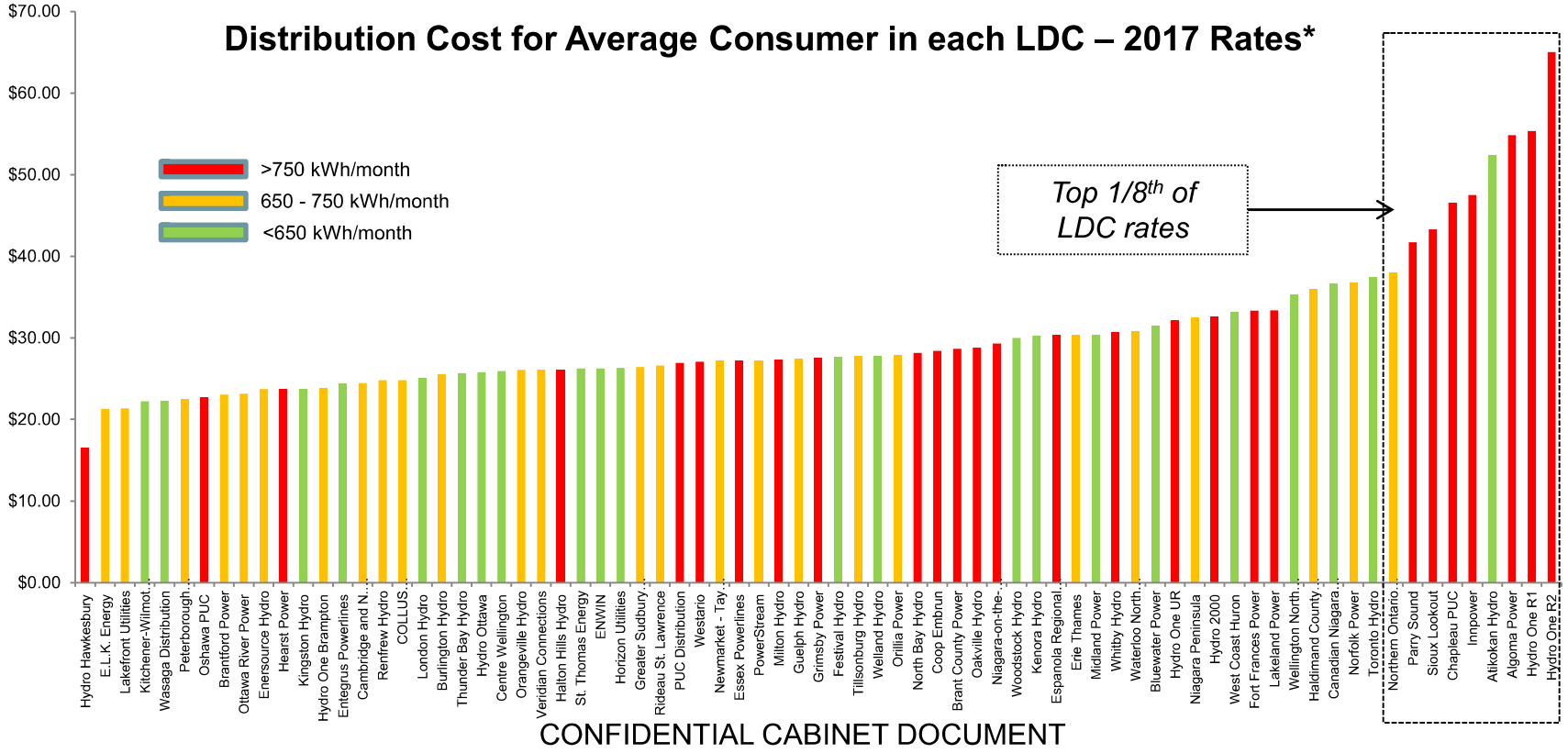
- Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.
  - RRRP is funded by ratepayers in Ontario and funded through the regulatory line of the electricity bill. Currently costs $1.58/month for a 750kWh consumer.
- Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are 335,000 R2 customers across the Province. These customers have some of the highest Delivery costs in the Province.
  - From 2001-2016 the program provided $125.4 million annually to help defray these costs.
  - In the 2016 Speech from the Throne, this funding was expanded by $116.4M to a total of $241.9 million.
  - As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.
- These customers still have high delivery and high distribution costs and are often faced with significantly higher than average bills.
  - The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

A. Enhancing the Rural or Remote Protection Program (RRRP)

- While the RRRP helps mitigate some of the higher distribution costs for Hydro One R2 customers, there is an opportunity to provide further relief to consumers in relatively high-distribution cost outlier LDCs (top ~1/8th of distribution rate classes).
  - If expanded to the top 1/8th of distribution costs, this enhancement would also include Hydro One R1 customers (medium density), as well as LDCs with high distribution costs including: Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma.
- Mitigation could be provided by harmonizing distribution rates for these LDCs at the lowest distribution rate paid by an average consumer in this group.
  - Based on projected 2017 LDC rates, the lowest distribution rate paid by an average consumer in this group would be ~$38/month (with the highest being $65).
  - Is consistent with the OEB's mandated move to fully fixed distribution rates for all LDCs.
  - Roughly 800,000 customers would receive benefits from the current RRRP program and from these additional enhancements.
  - Setting a lowest distribution rate across these LDCs would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.
- Mitigation for all electricity consumers would be provided by moving the existing RRRP program costs and the proposed enhancements from the electricity rate base to the tax-base.

A. Enhancing the Rural or Remote Protection Program (RRRP)

- The table below shows what 2017 distribution costs are projected to be for the average consumer within each LDC across the province, and highlights the highest-cost distribution rates.
- The charts on the following slides show what the benefits would be in each LDC if the fiscal plan was used to support harmonizing distribution costs for customers of the LDCs in the top ~1/8th of rate classes at $38/month.



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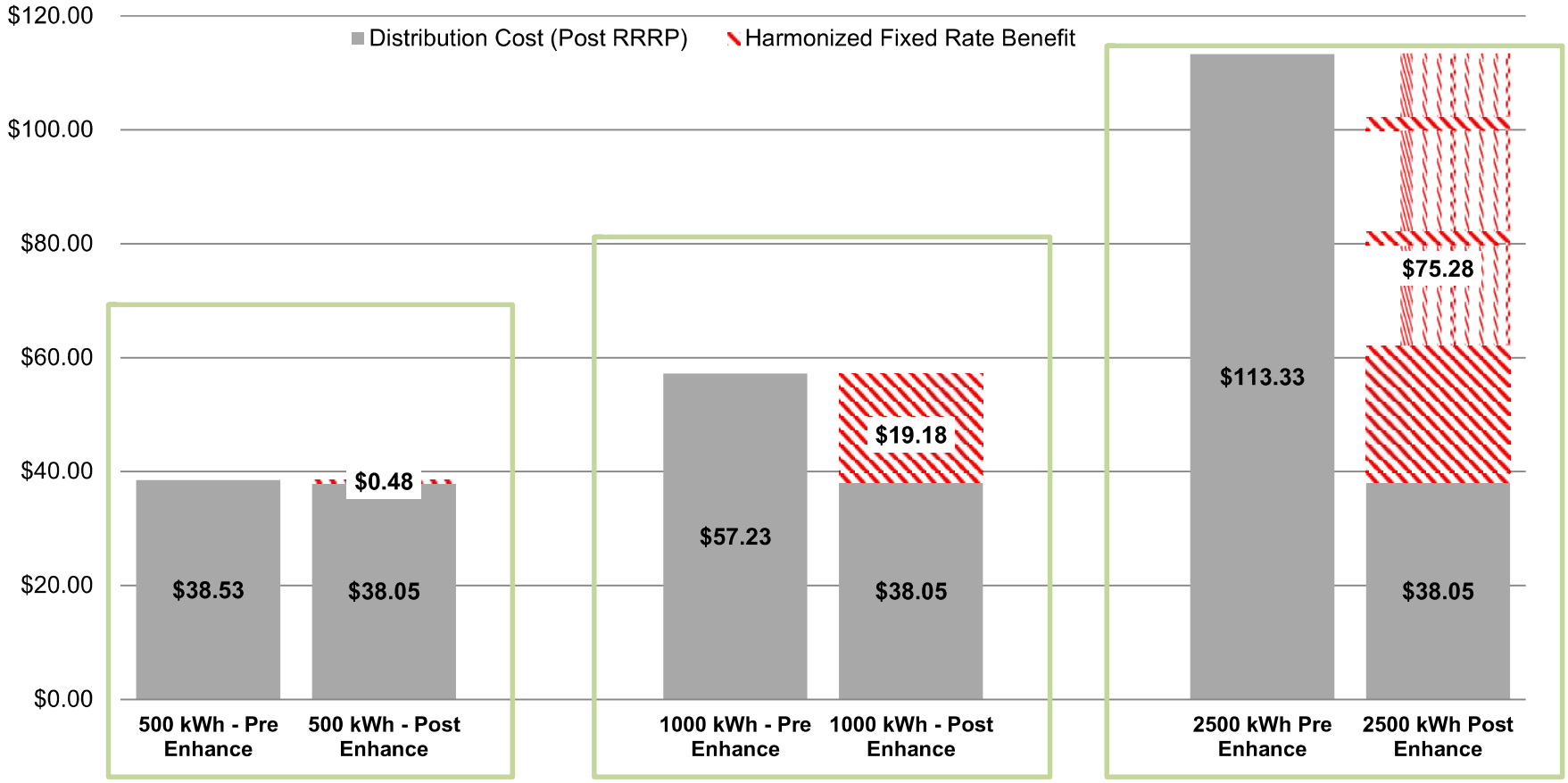
**2017 Approved and Proposed (Decisions Pending – rates are subject to change).*

A. Harmonized Distribution Cost – Ratepayer Impact (Hydro One R2)

- For Hydro One R2 customers, the enhanced benefits below are in addition to the $60.50 they already receive through the existing RRRP.



Note: *Rates are for 2017 (either approved or proposed). Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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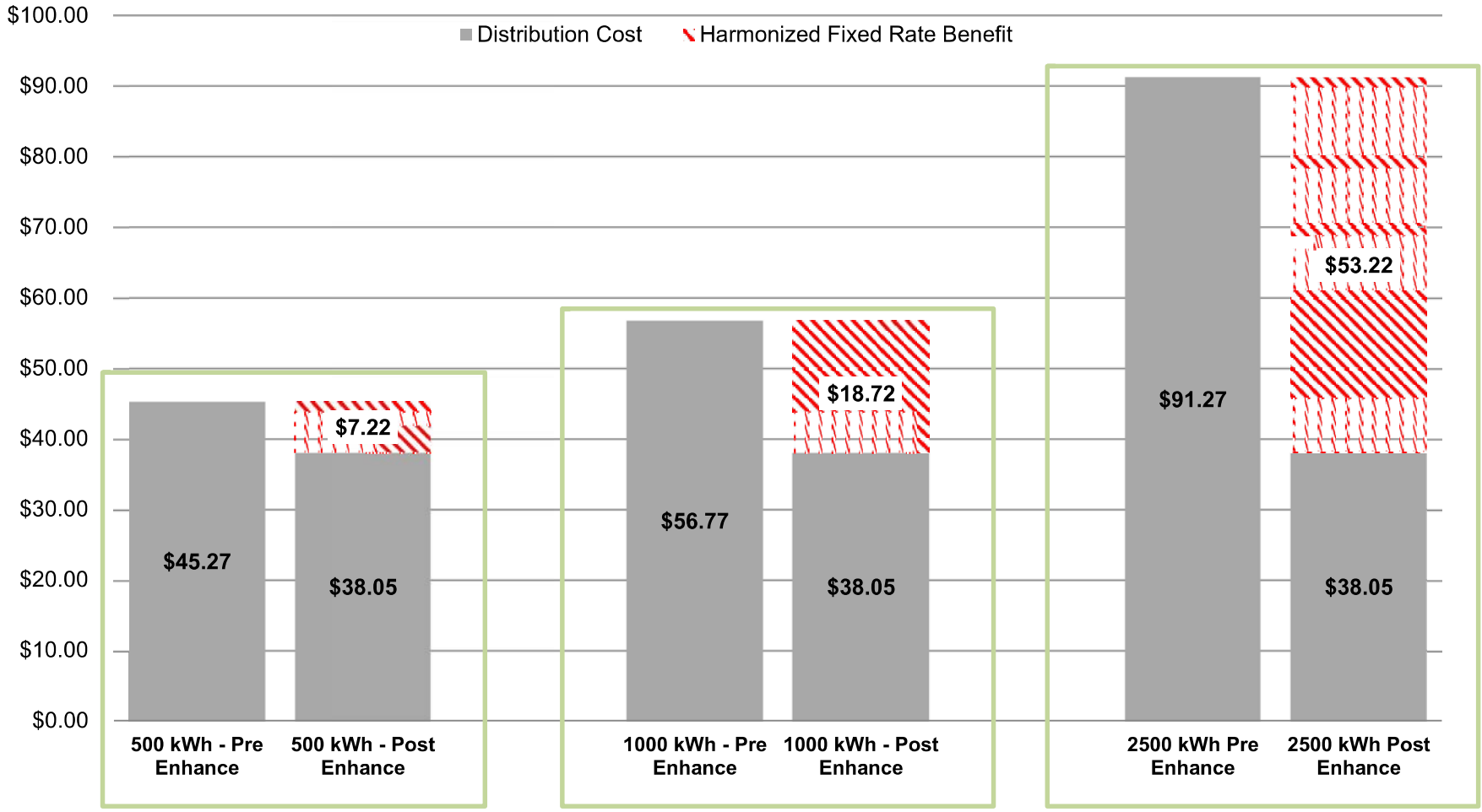
A. Harmonized Distribution Cost – Ratepayer Impact (Hydro One R1)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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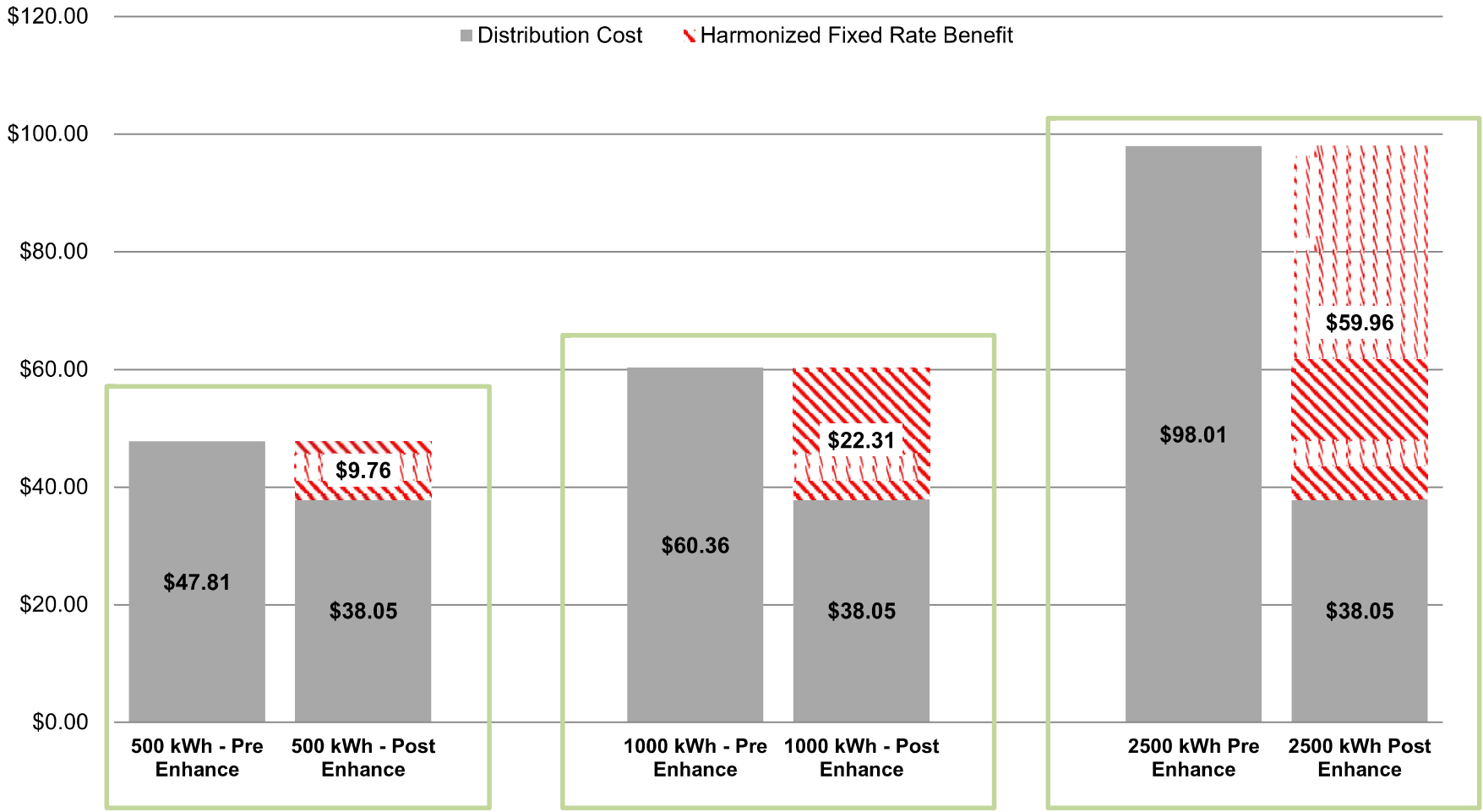
A. Harmonized Distribution Cost – Ratepayer Impact (Algoma Power)



Note: *Rates are for 2017 (either approved or proposed). Algoma Power receives RRRP to support operational costs. Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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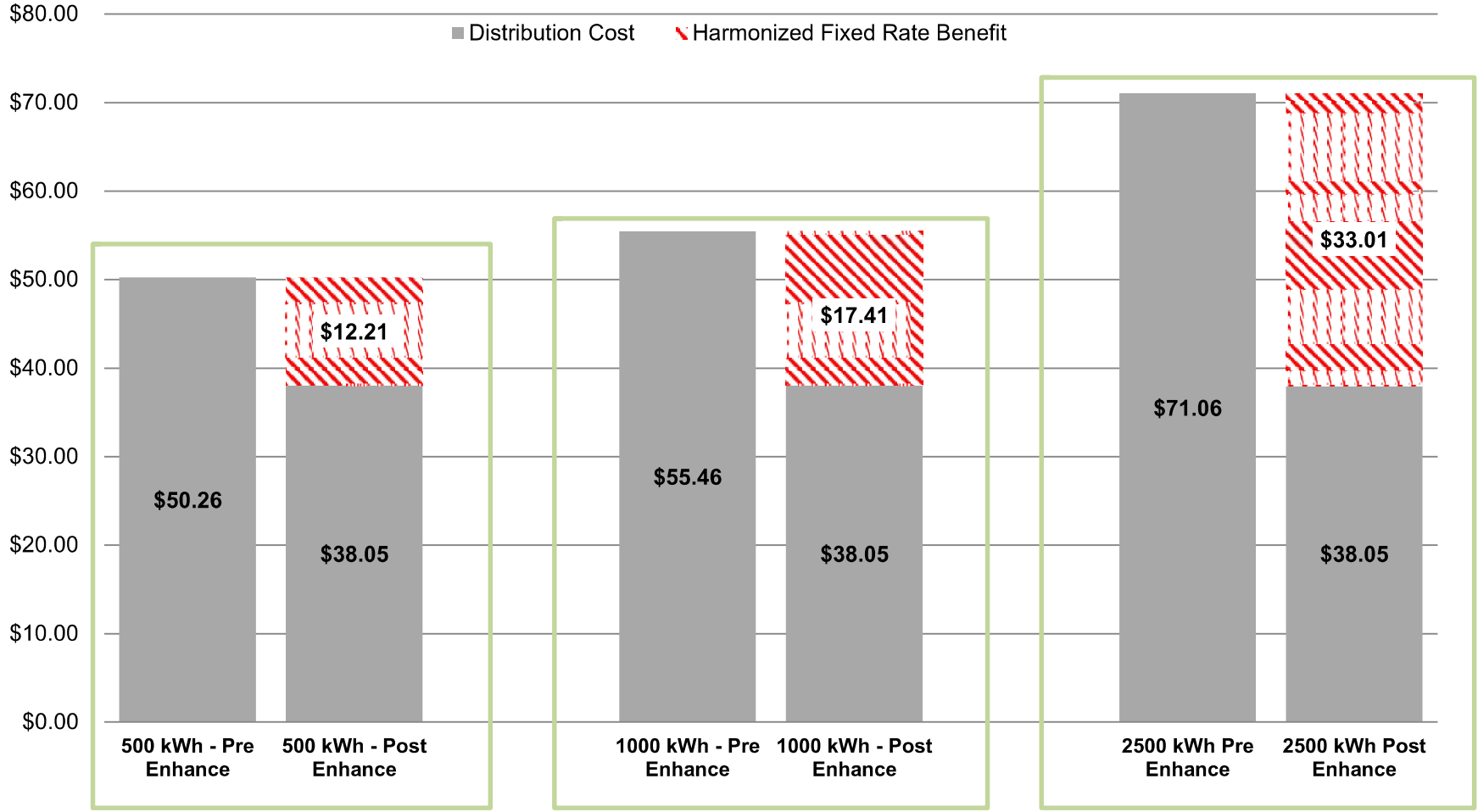
A. Harmonized Distribution Cost – Ratepayer Impact (Atikokan Hydro)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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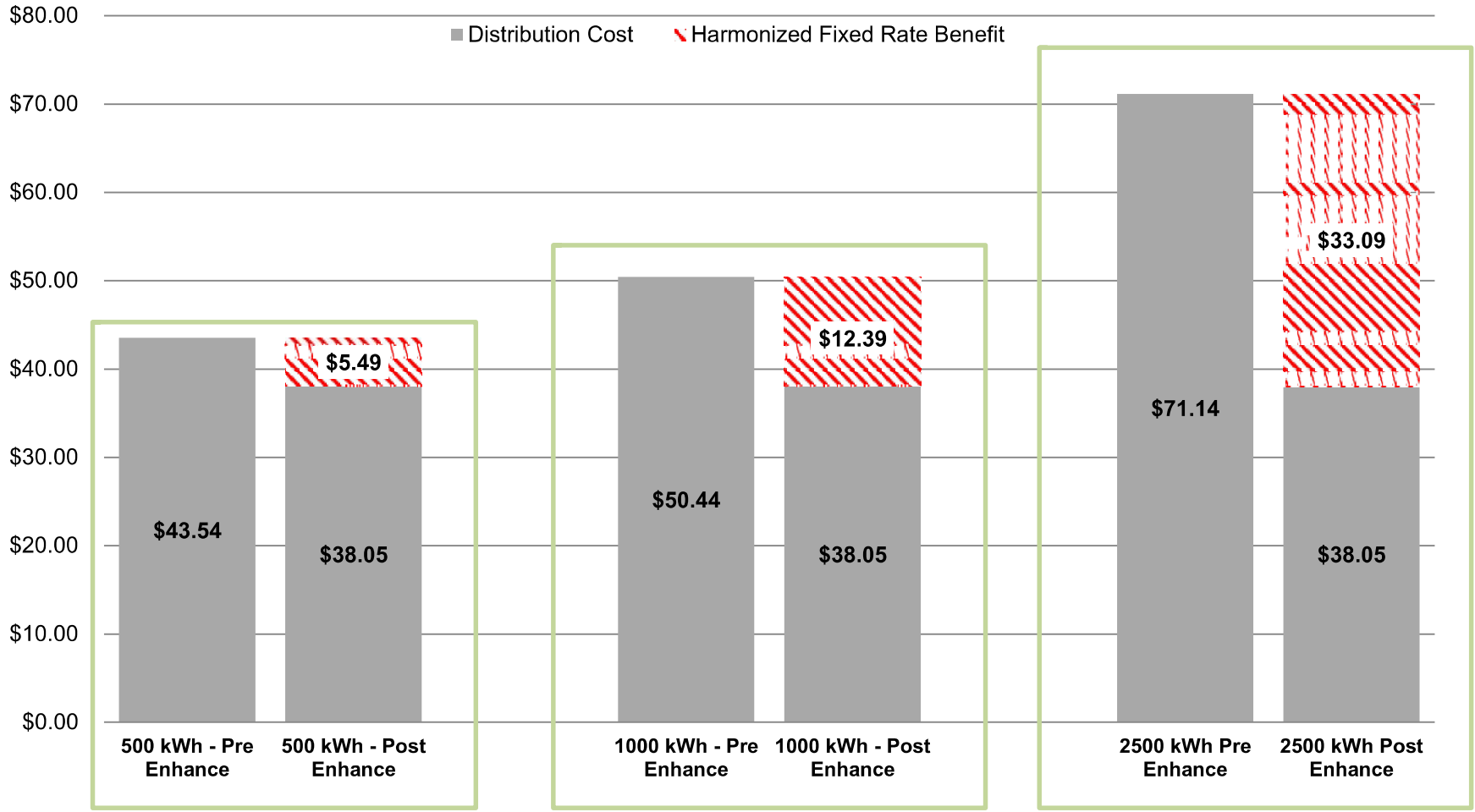
A. Harmonized Distribution Cost – Ratepayer Impact (InnPower)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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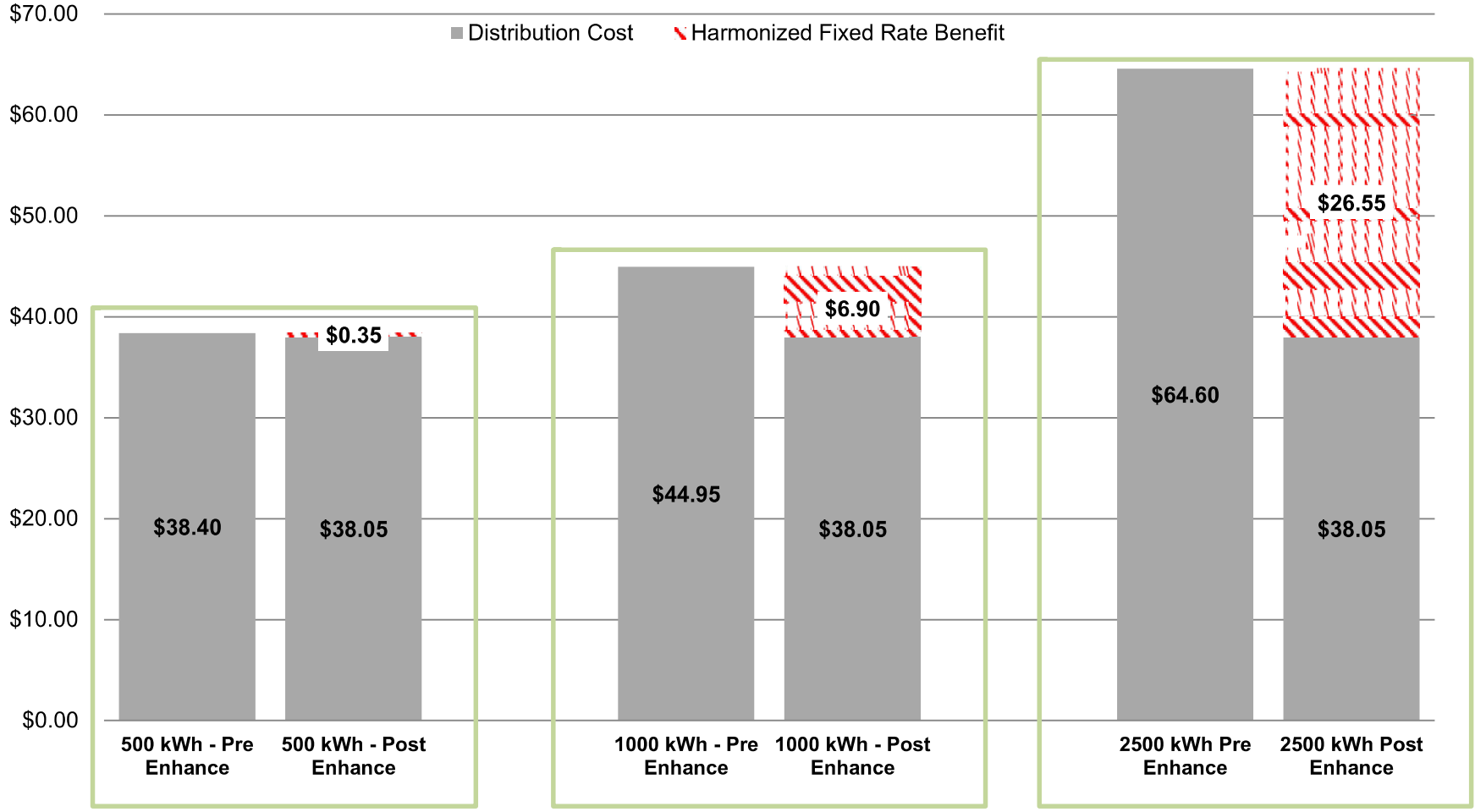
A. Harmonized Distribution Cost – Ratepayer Impact (Chapleau PUC)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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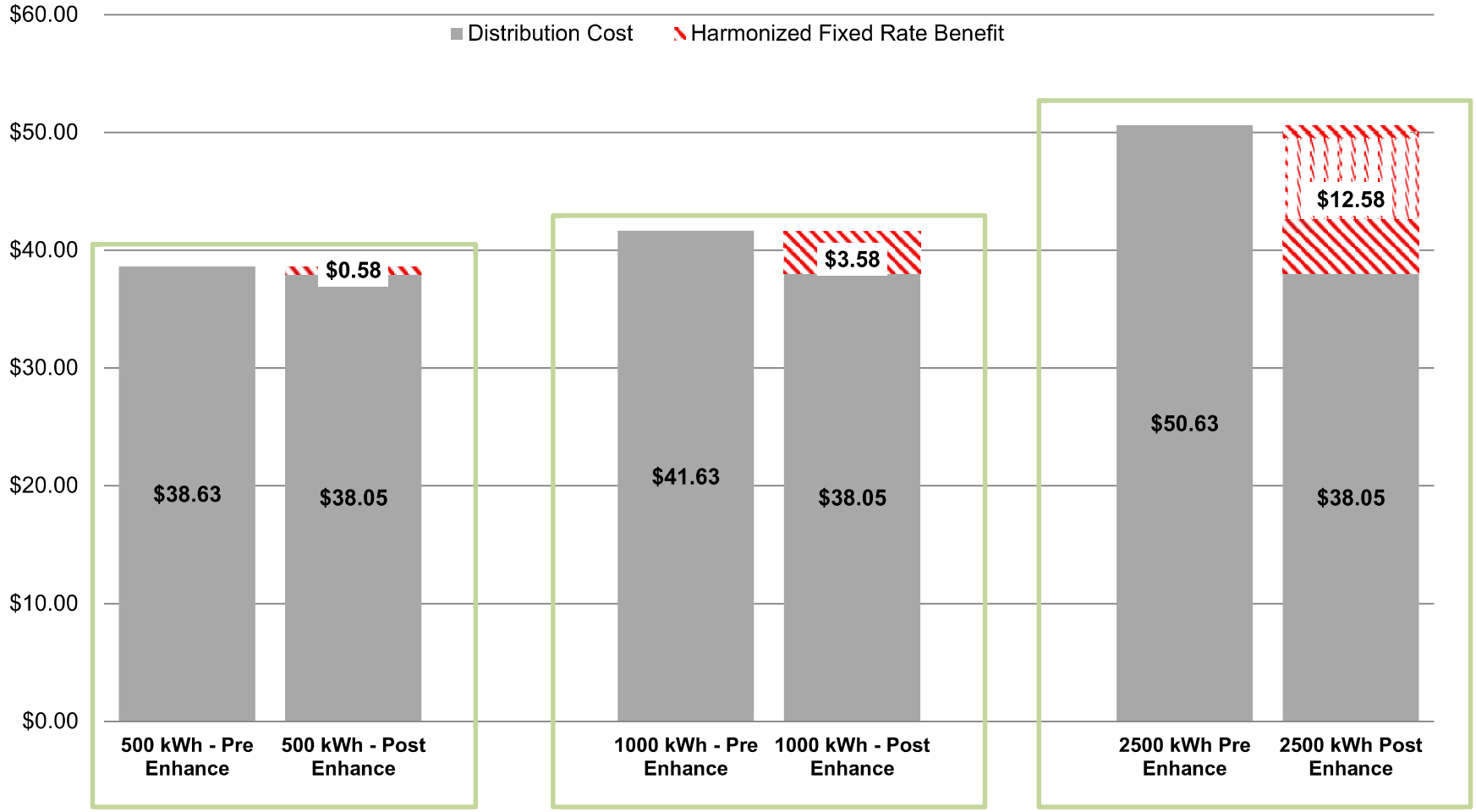
A. Harmonized Distribution Cost – Ratepayer Impact (Sioux Lookout Hydro)



Note: *Rates are for 2017 (either approved or proposed) Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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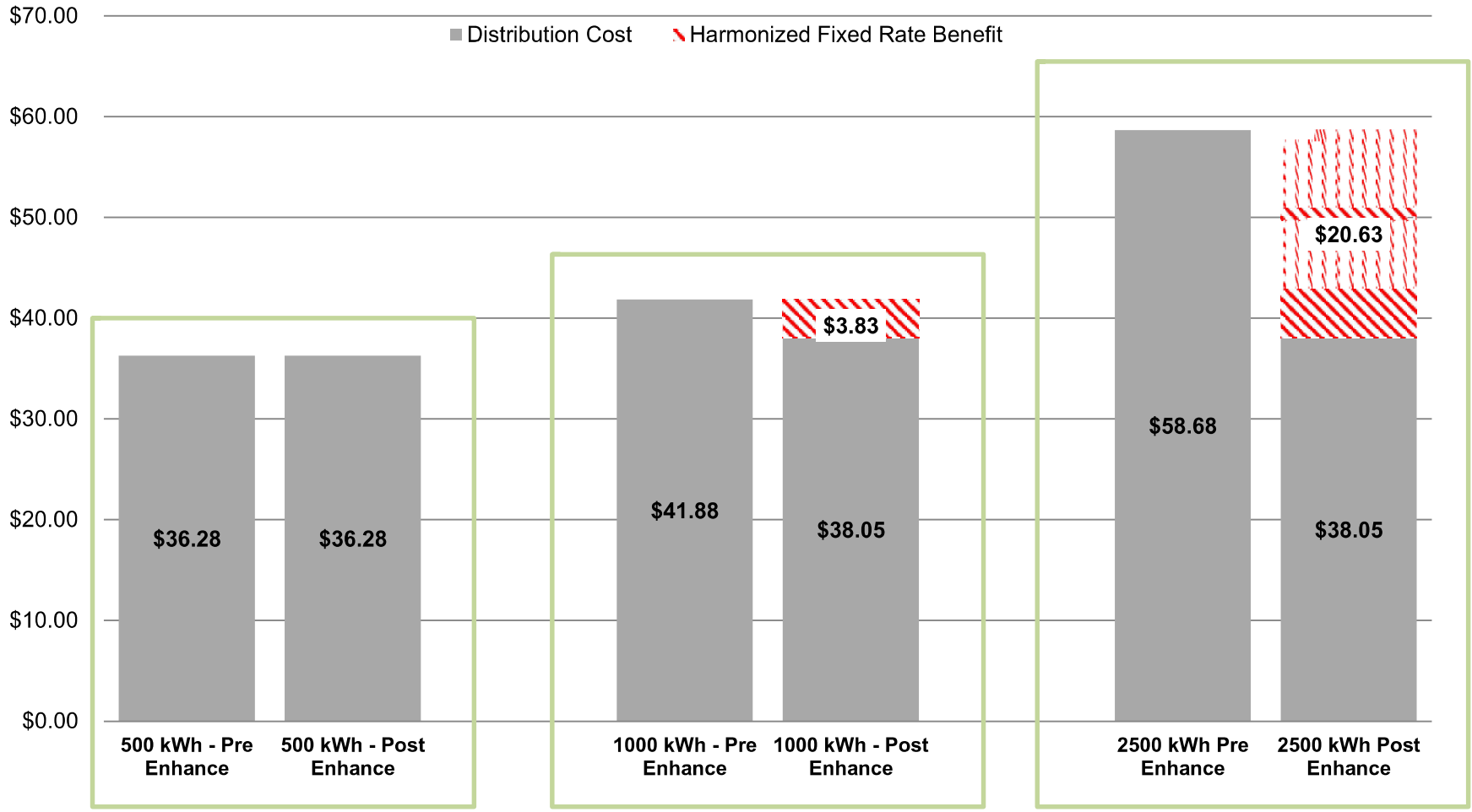
A. Harmonized Distribution Cost – Ratepayer Impact (Lakeland Power – Parry Sound)



Note: *Rates are for 2017 (either approved or proposed). Rates are for the Parry Sound territory within Lakeland Power. Other Lakeland Power customers (Huntsville area) not impacted. Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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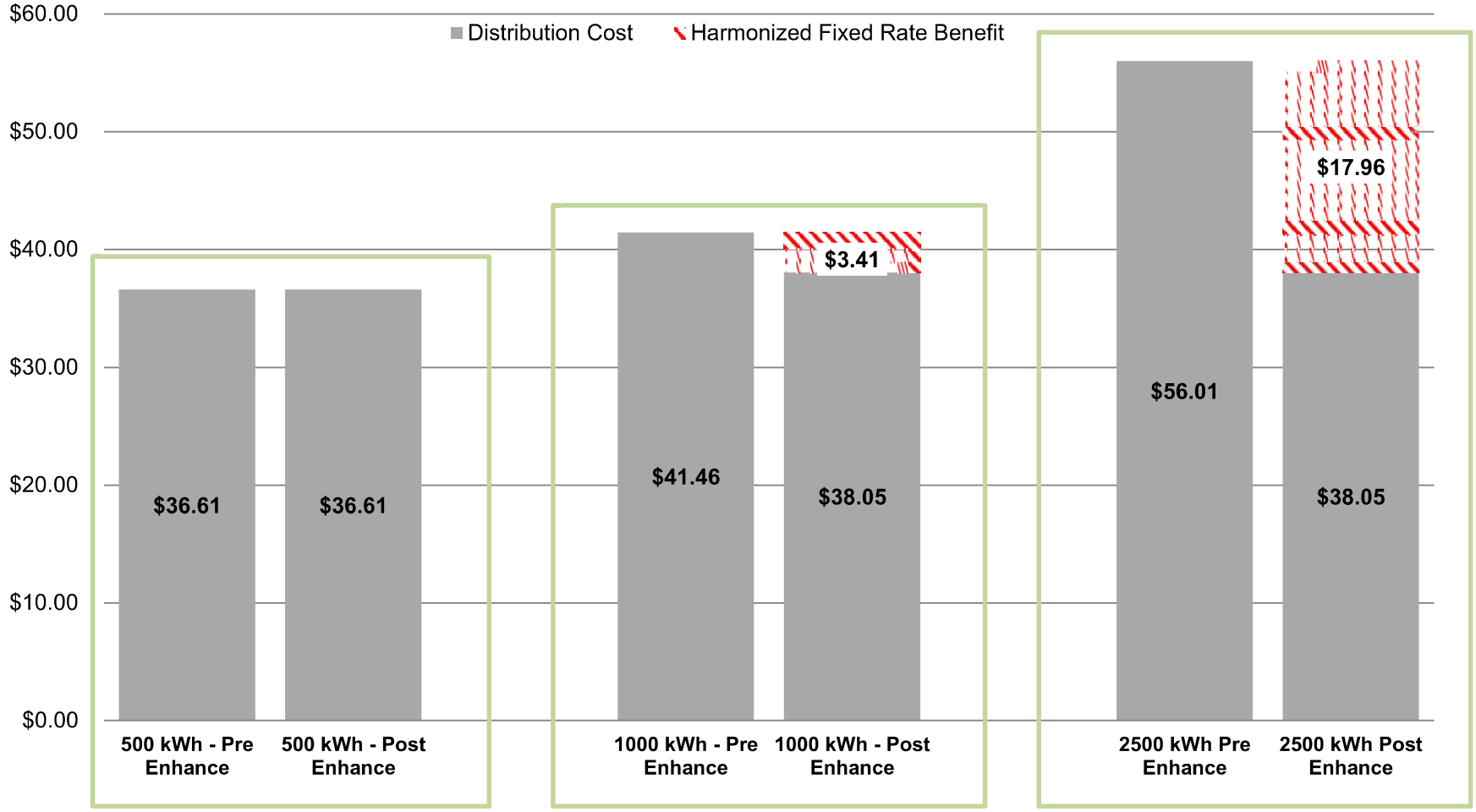
A. Harmonized Distribution Cost – Ratepayer Impact (Northern Ontario Wires Inc.)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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A. RRRP Enhancement – Considerations

Implementation

- The Ministry will need to ensure that only the high distribution cost LDCs are captured within the program framework
  - LDCs may need to be named explicitly in the legislation/regulation
  - A mechanism would also need to be created to ensure the level of benefit changes year to year
- LDCs will need to change their billing and customer information systems. OEB estimates that the implementation would take at least 6 months or more, following finalized regulations
- New legislation would be required to establish this program.
- Providing a tax-based subsidy outside of exiting rate setting mechanism reduces incentives for customers and distributors to engage on operating costs and capital planning.
- A mechanism will need to be created to ensure that LDCs/OEB/IESO/Province are aligned in the year-to-year forecasting and costing of the RRRP program and the enhancements.

A. RRRP Enhancement – Considerations (cont'd)

Fiscal

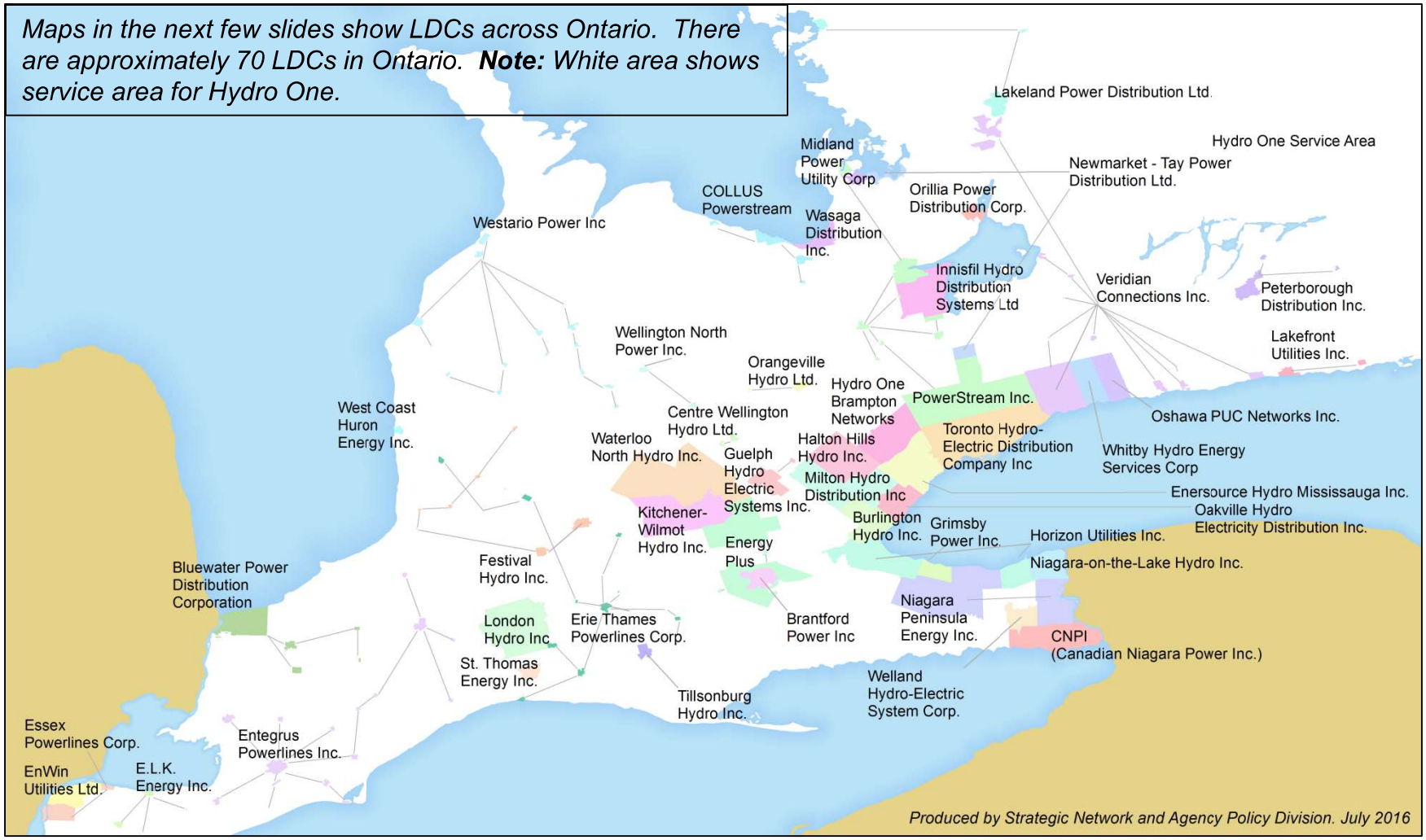
- As distribution costs vary year to year, forecasting fiscal impacts are challenging:
  - Hydro One is expected to submit its cost of service application for 2018 and beyond (3-5 years) in spring 2017. The rate increases requested in this application could potentially increase the proposed fixed rate which could have a significant impact on fiscal requirements and ratepayer impacts.
  - The other high distribution cost LDCs generally have lower distribution cost increases, however, it is difficult to forecast fiscally the impact of the program until LDCs submit their cost of service applications to the Ontario Energy Board (OEB).

Fiscal Impact ($M)	16-17	17-18	18-19	19-20	20-21
Legacy RRRP to Hydro One R2 Customers	-	126	130	133	136
2016 Speech from the Throne Enhancements to R2 Customers	-	117	120	123	127
Proposed Enhancements to Hydro One and Identified LDCs	-	216	222	228	234
TOTAL	-	**459**	**472**	**484**	**497**

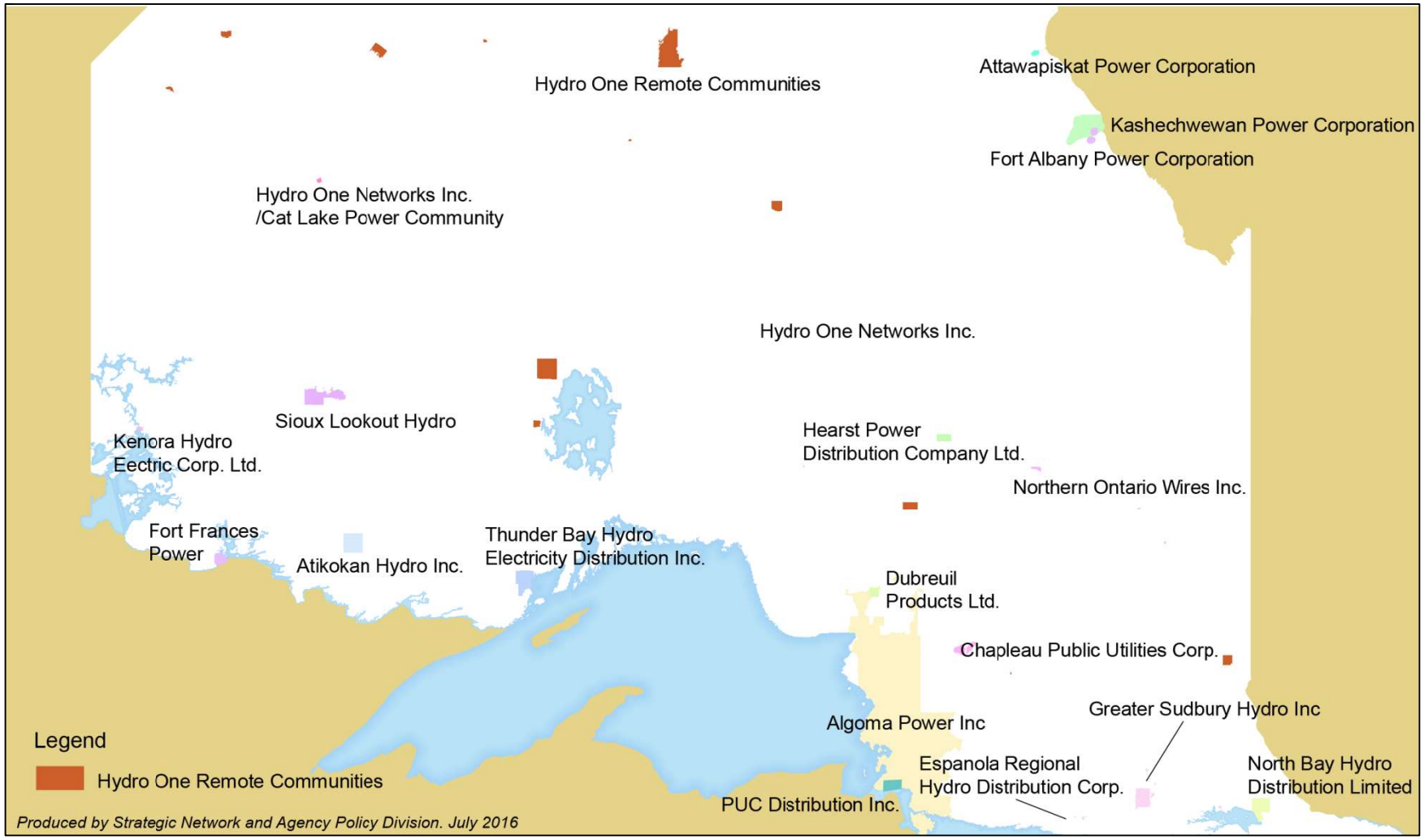
Note: Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate-base.

A. RRRP Enhancement – LDC Service Territory (Southwestern Ontario)

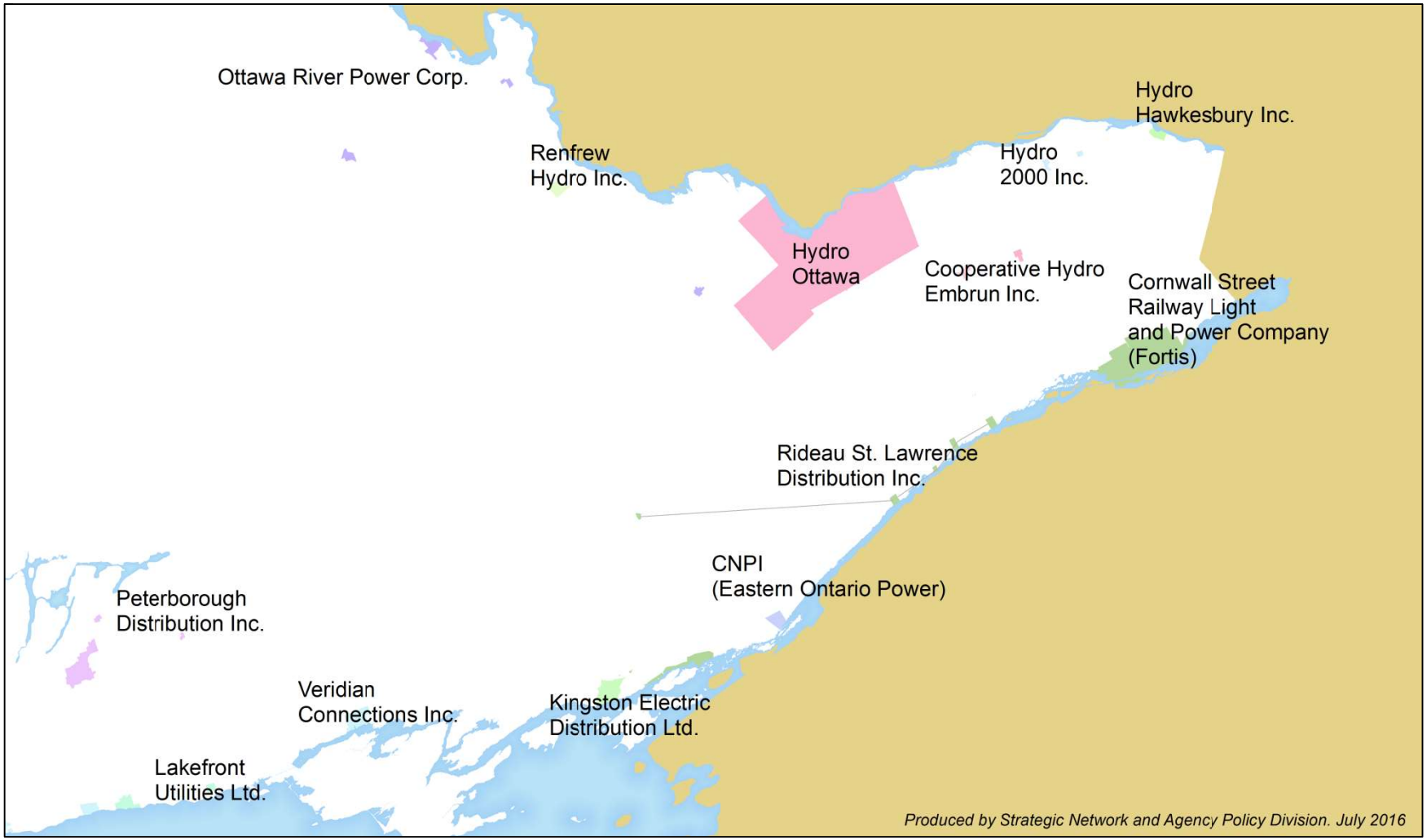
Maps in the next few slides show LDCs across Ontario. There are approximately 70 LDCs in Ontario. ***Note:*** *White area shows service area for Hydro One.*



A. RRRP Enhancement – LDC Service Territory (Northern Ontario)



A. RRRP Enhancement – LDC Service Territory (Eastern Ontario)



B. Ontario Electricity Support Program (OESP)

- The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by a rebate directly on bills. The OESP is currently funded by the rate base.
- OESP credits vary by income level and family size, and there are two credit scales that include:
  - The basic program credit ranges from $30/month to $50/month.
  - An enhanced credit that ranges from $45/month to $75/month for consumers that are either Indigenous, use electric heat or have certain medical devices.
- The OESP launched on January 1, 2016, and in just over a year:
  - Almost 180,000 have been enrolled in the program representing 30% of the total targeted low-income population and some 278,000 applications have been received.
  - Almost $50 million in credits have been provided to vulnerable consumers.
  - Some 172 intake agencies have been mobilized to assist low income consumers to apply for the OESP.
- To drive this uptake, the OEB has engaged in extensive outreach, including advertising in multiple languages, and continuing to work with partner agencies to develop a model for “application clinics” across the province to increase program awareness and uptake across the province.

B. Ontario Electricity Support Program (OESP) (cont'd)

- There are a numbers of ways that the OESP program can be enhanced:
  - Streamline the OESP process to drive participation toward 100%:
    - ENERGY and the Ministry of Community and Social Services (MCSS) have been working on automatic OESP qualification for Ontario Works (OW) and Ontario's Disability Support Program (ODSP) recipients who pay electricity bills.
      - MCSS estimates some 110,000 OW and ODSP recipients pay electricity bills;
      - This process could follow the "deemed eligibility" model used for the Healthy Smiles program. Using an existing model should simplify the implementation process.
      - The qualification process may have to be done manually at first, with a more automated IT solution in the longer-term.
    - Working with the CRA to make the application process easier / quicker to get through by finding an alternative to the requirement to mail-in signed consent forms;
    - Putting in place a more aggressive communications strategy and application intake clinics across the Province to increase awareness of/enrollment in the OESP.
  - Increasing the existing OESP credit scales by an additional 50%; and
  - Expanding the categories of OESP credits.

- It is also recommended that the OESP be supported from the tax-base as part of the rate mitigation package.

B. Ontario Electricity Support Program (OESP) (cont'd)

- The tables below outline the existing OESP credit scales and how the scales would be enhanced if increased by 50% and credits are extended to additional groups (represented in the circled boxes):

Existing OESP Credit Scales

Sliding Scale #1		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$30	$30	$34	$38	$42	$50	$50
	$28,001 - $39,000			$30	$34	$38	$42	$50
	$39,001 - $48,000					$30	$34	$38
	$48,001 - $52,000							$30

Sliding Scale #2		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$45	$45	$50	$55	$60	$75	$75
	$28,001 - $39,000			$45	$50	$55	$60	$75
	$39,001 - $48,000					$45	$50	$55
	$48,001 - $52,000							$45

Proposed +50% OESP Credit Increase*

Sliding Scale #1		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$45	$45	$51	$57	$63	$75	$75
	$28,001 - $39,000		$40	$45	$51	$57	$63	$75
	$39,001 - $48,000			$35	$40	$45	$51	$57
	$48,001 - $52,000					$35	$40	$45

Sliding Scale #2		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$68	$68	$75	$83	$90	$113	$113
	$28,001 - $39,000		$60	$68	$75	$83	$90	$113
	$39,001 - $48,000			$52	$60	$68	$75	$83
	$48,001 - $52,000					$52	$60	$68

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***Note:** The proposed higher scale, including the amounts in circles are proposed and will be refined in consultation with the OEB.

B. Ontario Electricity Support Program (OESP) – Considerations

Fiscal Impact

- Changes to legislation / regulation may be required to establish and define the parameters for OESP to receive funding from the tax-base. The scope of changes would depend on the implementation / delivery mechanisms.
- The OESP regulation will likely require changes to enable OW and ODSP recipients to be "deemed eligible" for the OESP.
- Financial flow-through mechanisms would need to be considered in consultation with IESO and LDCs. Likely to be modeled after processes used for the Ontario Rebate for Electricity Consumers (OREC).
- The OEB has been collecting program funding in excess of program costs and has accrued a positive balance. This balance must be addressed when moving to the tax base.
- If OESP amounts are increased, it will need to be confirmed that the credit is not treated as taxable income. This was addressed in the current iteration of the OESP.
- Adding additional categories to the OESP matrix will take time to implement as it will require changes to the central system as well as LDCs' billing systems. As well, the matrix will no longer follow the Low Income Measure (LIM), which could put additional pressure on the OESP and other provincial programs.

Fiscal Impact ($M)	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
Existing OESP credits	–	118	159	193	222
Incremental Enhance OESP credits by +50%	–	59	80	97	111
Incremental additional OESP categories	–	8	22	35	42
Total	–	**186**	**261**	**325**	**375**

C. Establishing a New Affordability Fund

- For eligible low-income customers, the Home Assistance Program (HAP), delivered by LDCs under the Conservation First Framework, provides efficiency upgrades and education, at no cost, to help improve the energy efficiency and comfort of their homes and help customers manage their electricity bills.

- HAP does not address the needs of those customers that do not qualify as “low-income” but could benefit from conservation programs.
  - At the end of 2015, there were over 560,000* residential electricity accounts in arrears; of these about 19,900** (~3.6%) accounts were eligible to participate in low-income conservation and support programs.
  - According to the Ontario Energy Board (OEB), in 2015 about 60,000 customers had their electricity service disconnected.

Proposal: Establish Affordability Fund to Provide Existing Low-Income Conservation Program to Other Electricity Customers

- The Ministry proposes establishing an Affordability Fund which would be available to LDCs to provide similar energy efficiency measures as provided under HAP to targeted customers.

* **Note:** Unverified numbers reported by LDCs to the OEB
** **Note:** Low-income customers identified through participation in LEAP

Ontario

C. Establishing a New Affordability Fund (cont'd)

Fund Details:

- An Affordability Fund would be accessible to LDCs only, and would target those customers who cannot qualify for low-income conservation programs and are in need, such as those who are facing disconnection.
  - By providing support for energy efficiency improvements, the Fund could help these customers reduce their future bills and avoid future disconnections.
  - The Fund would provide LDCs with an additional tool to provide assistance to their customers.

Eligibility Criteria/Fund Principles:

- Determination of eligibility could involve a number of factors and metrics:
  - Do not meet the definition of "low-income";
  - May have triggered action by an LDC collection department (e.g., are in arrears, have been placed on one or more payment plans, are due to be disconnected, etc.);
  - Priority could be given to eligible customers in electrically-heated homes, or other unique circumstances; and
  - Require financial assistance to pay for energy efficiency measures.

C. Establishing a New Affordability Fund (cont'd)

Implementation

- ENERGY is currently in discussions with several large LDCs to determine the principles of the Fund and is working with Hydro One to set up an independent Trust to serve as the Fund Administrator.
  - The Fund Administrator would manage the flow of funds to LDCs based on principles set by the province, and be responsible for establishing processes, administration, and criteria for funding applications, thereby ensuring the program is managed on a consistent basis across the province.
  - LDCs would apply for funding to the Fund administrator, to offer energy efficiency measures to those customers in their service territories that meet the targeted eligibility criteria.
  - LDCs have over 10 years of experience in delivering conservation programs, including experience specific to contracting for programs that target low-income customers.
  - LDCs are best positioned to identify and target their customers who are most in need.

- Given the scope of the Fund, an LDC would need a firm financial commitment up front before implementation. LDCs rely on rate-payer funding for most of their activities. The Affordability Fund would be a unique venture from an LDC perspective given that it is tax funded.

C. Establishing a New Affordability Fund (cont'd)

<u>Implementation</u> (cont'd)

- Recipients could receive measures ranging from an average of $3,000 to $5,000 per customer, at no or minimal cost. For example, measures available in the Home Assistance Program include:
  - Energy-saving light bulbs (LEDs); power bars; energy efficient window ACs, refrigerators, freezers, dehumidifiers; low-flow showerheads, hot water blankets, pipe wrap and faucet aerators (in homes with electric water heating); and
  - Programmable thermostats, weather stripping, insulation (in homes with electric heating).

- Cold climate air source heat pumps would also be an eligible measure under the Affordability Fund. Heat pumps range in cost from $7,000 to $13,000.

- As an illustration, with $200 million, the estimated reach of the fund could be 15,000 to 65,000 households, depending on measures and uptake.

C. Establishing a New Affordability Fund – Considerations

Considerations

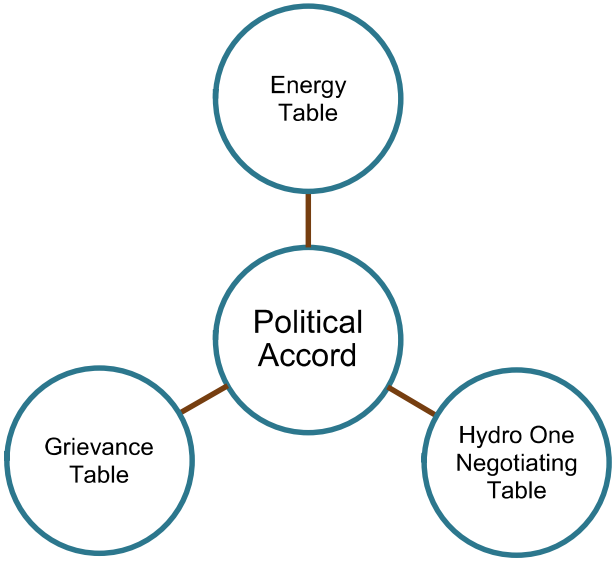
- The Affordability Fund addresses a real need.
  - LDCs have expressed the need for an additional tool to provide assistance to their customers.
- Determining allocation of funds to LDCs:
  - Some LDCs may have a disproportionate number of customers in need of assistance; and
  - ENERGY is proposing to seek input from the OEB, LDCs and potentially low income organizations to help develop funding allocation and eligibility principles for the Trust.
- While eligibility principles will be established, LDCs will need a degree of flexibility to target customers:
  - Not all customers who are in need will actively seek help;
  - Some customers in arrears may be "gaming the system" and not truly in need; and
  - LDCs recommend targeted outreach as opposed to broad marketing; a high volume of applications would limit the ability to deliver assistance to customers who need it most.

Fiscal Impact

- The Affordability Fund would represent a fiscal impact of $200 million in fiscal year (FY) 2016/17.
- To allow for funds to flow in FY 2016/17, ENERGY would sign a Transfer Payment Agreement (TPA) with Hydro One and transfer money before end of fiscal year to ensure Hydro One can establish the Trust and the Trust can begin operation as the Fund Administrator.
- There is a fiscal risk if monies used for the Fund do not flow before FY year-end 2016/17 and for monies that are sitting in Hydro One at year-end (because of consolidation with province), and a corresponding fiscal pressure in the following years when the funds are flowed from Hydro One (H1) to ratepayers.

D. Implementing On-Reserve First Nations Delivery Credit

- ENERGY has a number of Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.
- The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).
- The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.



- On June 27, 2016, following discussions on Hydro One shares and rates at COO's All Chiefs Conference, the Minister of Energy issued a letter directing the OEB to prepare a report providing "*advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers*".
  - OEB engaged with First Nations, including remote communities, the distributors serving them, and consumer groups such as the Low Income Energy Network. It also established an Advisory Committee with the Chiefs of Ontario's Grievance Committee.
- The Ontario Energy Board (OEB) has worked with COO to engage with First Nations to develop options for a First Nations electricity rate. The OEB provided a report to the Minister on December 29, 2016.

D. Implementing On-Reserve First Nations Delivery Credit (cont'd)

- On-reserve First Nations customers face unique challenges that impact electricity affordability, such as the poor quality of the housing stock on-reserve. These challenges result in significantly higher electricity consumption levels and costs.
- First Nations living on reserve are particularly vulnerable low-income consumers: the average income is considerably lower compared to First Nations living off reserve and compared to non-Indigenous populations:
  - Average income of First Nations on reserve in Ontario: $21,100;
  - Average income of First Nations off reserve in Ontario: $31,527;
  - Average income of Non-Indigenous people in Ontario: $42,506; and
  - Median incomes on smaller reserves can fall below $10,000 (e.g., Cat Lake FN).
- Employment rates also differ between on-reserve First Nations, off-reserve First Nations and Non-Indigenous individuals, as well as other indices of social vulnerability:
  - 54% of Indigenous people over 15 years old and living on-reserve in Ontario are unemployed or not in the labour force;
  - The on-reserve unemployment rate is 18.3% compared to 6.4% in Ontario generally; and
  - 67% of families residing on-reserve are single parent families, compared to the Canadian equivalent of 19%.
- First Nations are seeking redress for historic grievances related to lands affected by energy developments, such as transmission or distribution infrastructure built on reserve lands and traditional territories where, in some cases, they may not have been appropriately consulted.
- Further, in some circumstances, linear infrastructure corridors cut First Nation reserves in half, significantly disturbing the use and management of an already small land base; the First Nation communities disturbed by energy infrastructure report having experienced long wait times (e.g., 20 years) for their communities to get connected and receive the benefits of the energy derived from the local infrastructure.

D. Implementing On-Reserve First Nations Delivery Credit (cont'd)

- The OEB report to the Minister of Energy on a First Nation on-reserve rate recommended:
  - Eliminate the delivery charge for all on-reserve First Nations residential customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate;
    - The OEB estimates this would provide residential customers an average monthly benefit of $85 at a total annual cost of $13 to $20 million.
  - Automatically qualify on-reserve First Nations residential customers (~21,500 customers);
  - Enable greater information sharing between distributors and band councils to identify all on-reserve First Nations customers; and
  - Continue to provide assistance through OESP and LEAP to eligible on-reserve First Nations customers.
- The OEB suggested the program should be funded from the tax base as it is targeted to a particular segment of the provincial population, or, if rate based, to use a province-wide charge.
- ENERGY recommends moving forward with the implementation of the OEB's recommendations as part of the wider electricity rate relief package and as the Hydro One share agreement with COO continues to be implemented.

Distributor	Number of On-Reserve Residential Customers
Algoma Power Inc.	473
Attawapiskat Power Corporation	336
Bluewater Power Distribution Corporation	237
Cat Lake Power Utility Ltd.	80
Cornwall Electric Distribution	514
Hydro One Networks Inc.	16,679
Hydro One Remote Communities Inc.	2,579
PUC Distribution Inc. (Sault Ste. Marie)	264
Thunder Bay Hydro Electricity Distribution	332
Total Number of Customers	**21,494**

Source: OEB Report to Minister: Options for an Appropriate Rate Assistance Program for On-Reserve First Nations Electricity Consumers (Page 5).

D. Implementing On-Reserve First Nations Delivery Credit – Considerations

- Legislative and regulatory will be required to implement this program.
- The OEB will need to work with the LDCs to identify on-reserve consumers to administer the delivery rebate.
- Development of a communications plan containing the following elements:
  - Public release of the OEB report;
  - Commitment to working with LDCs on implementation details; and
  - Advanced notice to the OEB and COO regarding the ministry's decision to move forward on the OEB's recommendation and indicate a willingness to work collaboratively with COO on ways in improve community-LDC communication to ease implementation.
- The rebate will appear on customer's electricity bills, either as a specific line item or a communicated call-out.
- Recipients would continue to be eligible for programs such as the Ontario Electricity Support Program (OESP) and the Low-Income Electricity Assistance Program (LEAP).
- There is a risk that either non-status Indigenous communities without reserves or Métis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. A genuinely ameliorative program that targets some people but excludes others is shielded from a s. 15 challenge if it serves or advances the ameliorative goal. The proposal has an ameliorative purpose as it targets First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities, that affect electricity affordability.

Fiscal Impact ($M)	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
On-Reserve First Nation Delivery Credit	-	20	20	20	20

Fiscal Roll-Up

Fiscal Impact ($M)	16-17	17-18	18-19	19-20	20-21
RRRP Enhancements*	-	459	472	484	497
Ontario Electricity Support Program, including the 50% Enhancement & New Matrix Categories	-	186	261	325	375
On-Reserve First Nation Delivery Credit	-	20	20	20	20
Affordability Fund**	200	-	-	-	-
Total	200	665	753	829	892

***Note:** Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate-base.
****Note:** Funding for the Affordability Fund is one-time in 2016/17.

BENDING THE FUTURE COST CURVE OF ELECTRICITY

Existing Rate Mitigation Actions To Bend The Cost Curve

- Since 2013, the government has taken a number of actions to reduce electricity ratepayer costs, including:
  - Renegotiating the Green Energy Investment Agreement to reduce contract costs by $3.7 billion.
  - Reducing Feed-In Tariff (FIT) prices saving ratepayers at least $1.9 billion.
  - Introducing a competitive Large Renewable Procurement (LRP) process to drive down costs approximately $1.5 billion lower than the 2013 LTEP forecast.
  - Deferring the construction of two new nuclear reactors at Darlington, avoiding an estimated $15 billion in new construction costs.
  - Maximizing the value of our existing nuclear fleet by starting Bruce refurbishments in 2020 instead of 2016, thus helping to achieve $1.7 billion in savings and by continuing to operate Pickering up to 2024, pending regulatory approvals, which could save ratepayers about $600 million.
  - Suspending the second round of the LRP process and the Energy-from-Waste Standard Offer Program, which is expected to save up to $3.8 billion in costs.
  - Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – up to [$xx] cost savings.

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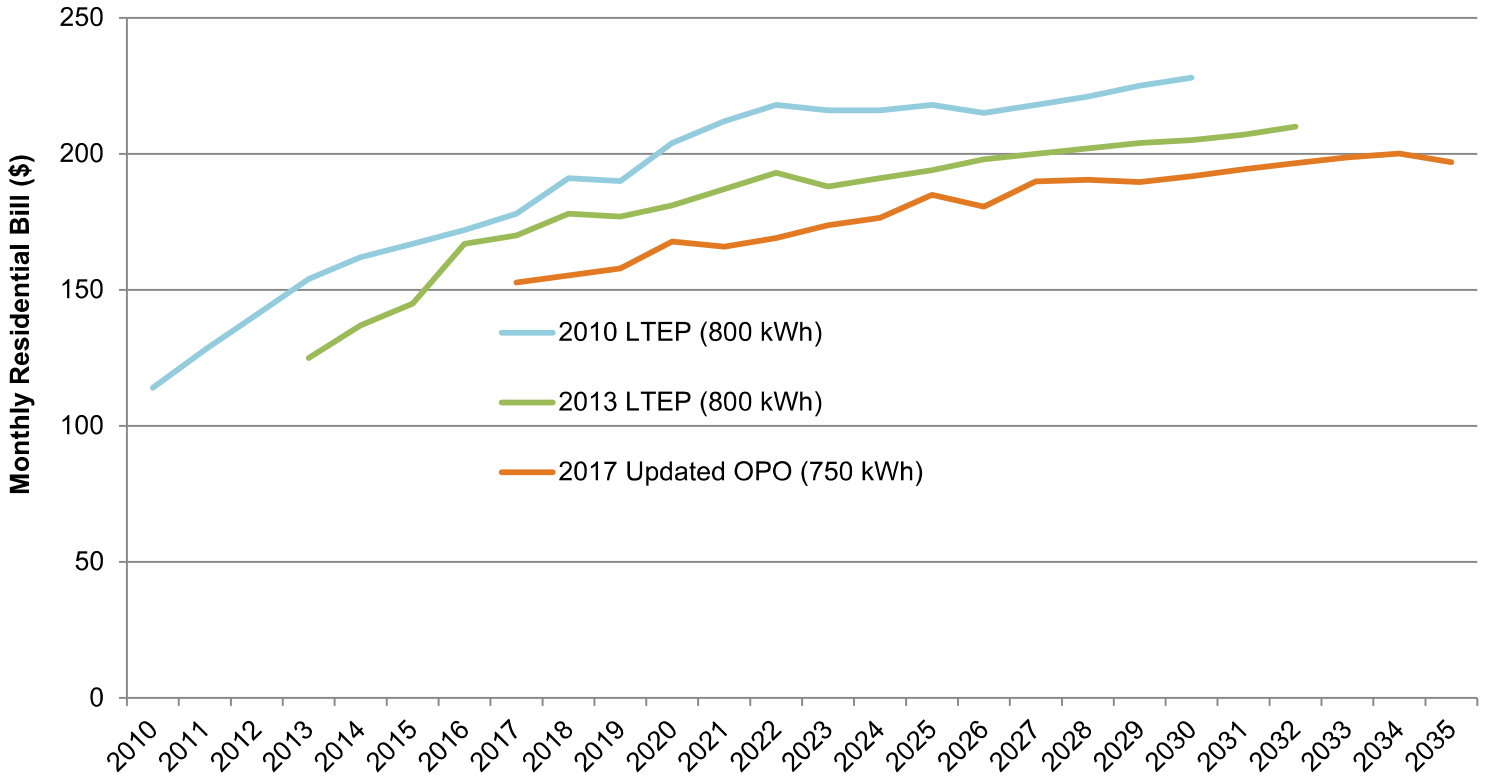
Existing Rate Mitigation Actions To Bend The Cost Curve (cont'd)

- The chart below shows how electricity rate forecasts have trended down over time.



Sources: *2010 LTEP (800 kWh/month); 2013 LTEP (800 kWh/month); Revised Ontario Planning Outlook (750 kWh/month as of February 2017) which includes: ICI expansion, RRRP update, 8% rebate, HQ agreement, suspension of LRP II and EFWSOP.*

A. OEB – LDC Efficiencies and Rates

Leveraging the OEB

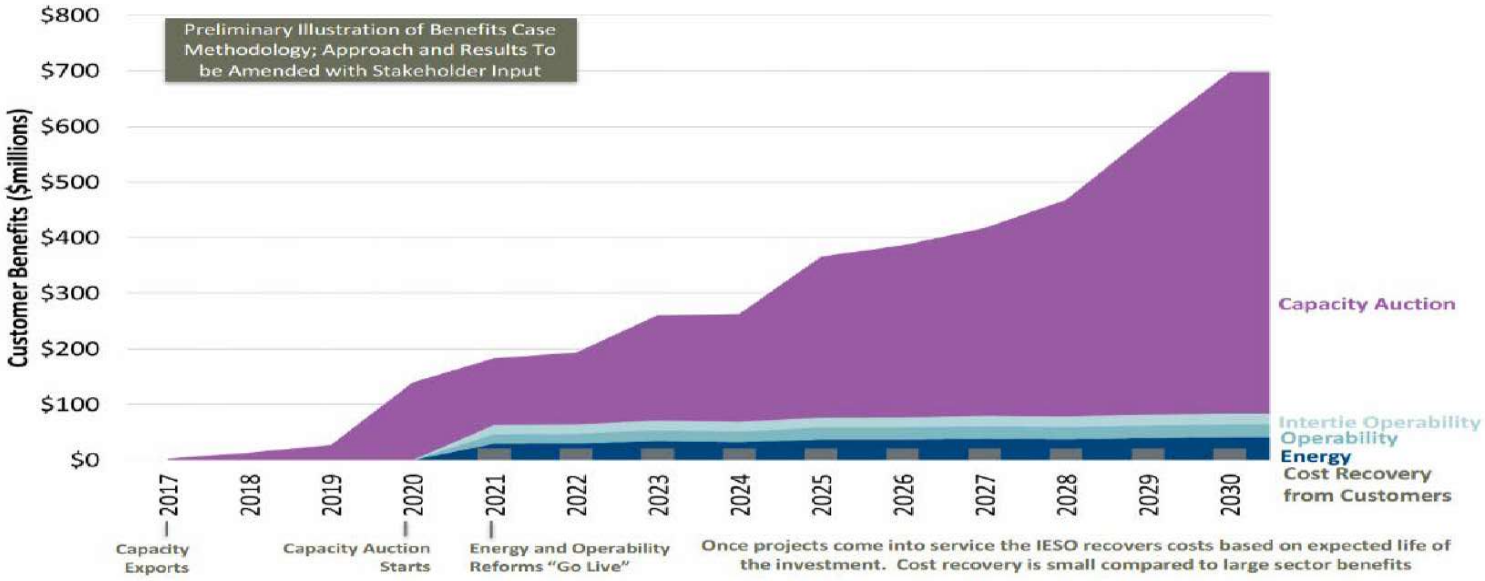
- The Ontario Energy Board (OEB) has a mandate to regulate the electricity distribution sector in the public interest, ensuring the financial viability of the sector while promoting reliable service to customers at just and reasonable rates.
- The OEB, through the Renewed Regulatory Framework for Energy (RRFE), has since 2012 attempted to move the distribution sector towards a performance/outcomes-based regulatory framework.
  - While new reporting requirements such as the LDC performance scorecard are positive developments, RRFE does not tie these system performance expectations to LDC financial performance.
- Encouraging shared partnerships on services between utilities will help reduce costs in the back end and encourage further innovation for small to medium sized utilities.
- In 2012, the government asked the Ontario Distribution Sector Review Panel to make recommendations about how the distribution sector could become more efficient. The Panel concluded that a $1.2 billion net present value in savings could be achieved by consolidating LDCs into 8-12 regional entities.

Opportunities

- ENERGY could help promote and accelerate these efforts by asking the OEB to look at opportunities to further drive LDC efficiencies and productivity. This may indirectly incent LDC consolidation.
- In parallel, the OEB could be instructed to review business cases behind its own regulatory requirements to reduce “red tape” and eliminate costs that LDCs indicate are creating pressures on operating expenses.
- This could be done through the Minister's letter, the LTEP Implementation Directive, s. 35 of the *Ontario Energy Board Act, 1998*, and/or the 2017 Mandate Letter and other agency business planning processes.

B. IESO – Market Renewal

- Continue to move forward with Independent Electricity System Operator's (IESO) Market Renewal initiatives:
  - Moving to "technology-agnostic" procurements will provide new opportunities for innovation and modernization and ensure ratepayers receive the best prices possible.
  - Market Renewal encompasses projects such as a single-schedule system (from the current two-schedule system), more frequent intertie scheduling to better align with other jurisdictions and a day-ahead market. There will be up front capital costs to enable the initiative. IESO is currently assessing these costs.
- Changes related to IESO's Market Renewal initiatives, reflected in HOEP and uplifts, are estimated to save up to $300 million per year, starting in 2021, leading to a reduction of:
  - About $1/month or less than 1% at current retail prices for a typical residential bill; and
  - About $1.30/MWh at current all-in prices for industrial and SME electricity consumers.



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SUPPORT FOR TENANTS

Support for Tenants – Context

- The government is considering measures to provide relief from high electricity prices, and is interested in ensuring that tenants also receive electricity cost reductions and/or relief.

- Currently, tenants generally either pay for their own electricity use through suite meters (i.e., sub-meters or direct arrangements with hydro providers) or pay for electricity indirectly as a service included in their rent:
  - Tenants who pay for their own electricity will receive electricity costs savings directly through their bills; and
  - Low-income tenants who pay own electricity bills can access energy support programs such as the Ontario Electricity Support Program administered by the Ontario Energy Board (OEB).

- Any potential initiatives could focus on the following options:

For tenants who pay own electricity bills

1. Expand OESP to increase relief or raise income thresholds.

For tenants whose electricity is included in rent

2. Require that landlords pass savings on to tenants (could be addressed by MHO through RTA amendments).
   - Options could include requiring landlords to automatically reduce rents, or allow tenants to apply the Landlord and Tenant Board for relief.
3. Provide energy rebates directly to tenants whose rent includes electricity.

Support for Tenants – Potential RTA Hydro Relief Measures / Considerations

- RTA amendments with respect to tenant relief, remedies, and enforcement would be complex, and unable to provide immediate, direct and transparent cost remedies to tenants:
  - Impact of hydro relief measures and electricity cost savings for landlords may vary depending on size of rental building and location (urban/rural):
    - One size fits all approaches would not match actual landlord savings to direct tenant relief; and
    - More targeted approaches would add extreme complexity, leading to greater confusion for landlords and tenants, and difficulty administering enforcement.
  - Passing on actual savings could likely only be done after landlords have experienced decreased costs for a period of time (i.e. one year).
  - Difficulty in informing landlords of their responsibilities and enforcing reductions; would likely have significant resource implications for the Landlord & Tenant Board/Ministry of Attorney General.
  - Difficult for tenants to understand, with the most vulnerable tenants potentially less able to pursue remedies through the LTB.
- The kinds of potential RTA remedies would depend on various specifics regarding the way in which relief was being provided to landlords including whether:
  - The actual electricity cost savings for landlords are transparent to facilitate easy calculation of rent reductions or relief;
  - Hydro relief measures are permanent or temporary; and
  - All relief should be passed on to tenants, or just a portion of the relief (e.g., global adjustment fund, 8% rebate, any other relief).

Support for Tenants – Potential RTA Hydro Relief Measures / Other Considerations (cont'd)

- As part of Climate Change Action Plan, MHO has been directed to mitigate the impact of carbon costs on tenants, and is proposing to prevent landlords from charging above-guideline rent increases for extraordinary utility costs increases.
  - May seem unfair that landlords are required to reduce rents or provide relief when utility costs decrease but cannot increase rents when utility costs increase.
- Relief would be limited to certain segments of tenant population:
  - Post-1991 buildings are exempt from the Rent Increase Guideline and landlords could negate any savings to tenants in these buildings through a higher subsequent rent increase.
    - Over 19% of tenant households are estimated to live in post-1991 private rental units including individually rented condos; a high proportion may already pay for electricity separately.
  - Relief may not be required for social housing tenants:
    - Most social housing tenants (80%) pay as per utility scales, which covers electricity usage other than electric heat; and
    - Utility scales were last updated in 2000 and are reflective electricity prices at that time.
- MHO, working with ENERGY and MAG will report back in Spring 2017 with options for electricity rate mitigation for tenants.

Legislative Authority – Considerations

GA Smoothing

- **Amendments to *Electricity Act, 1998* (EA) and *Ontario Energy Board Act, 1998* (OEBA)**
  - The OPG Trust will require authority to recover principle, interest and administrative costs through GA from customers.
  - Legislation would authorize IESO to collect amounts on behalf of the OPG's SPV/Trust and settle accounts with the OPG Trust as a service provider. Regulatory amendments to GA Regulations would require IESO to:
    - Separately settle and track amounts received from the SPV/Trust to lower GA (including maintaining variance accounts).
    - Separately settle and track amounts paid back to the SPV/Trust (including maintaining variance accounts).
    - Distributors would continue to collect from consumers and settle with IESO. Generators would continue to be paid by IESO.
  - OEBA-related amendments would allow for OEB oversight. Light touch would focus on the borrowing entity's recovery of administrative costs and its calculation of amounts owing in a period. Heavy touch would give OEB the discretion to determine repayment over time.
  - The certainty of the legislative mechanism to recover the debt and interest, and the extent of discretion of the OEB to alter either amount over time, will have impacts on the availability and cost of capital.
  - Further legal analysis is required as the GA option is developed.

Class B

- **Targeted Lowering ICI Threshold Below 1 MW (to 500kW):** Regulatory amendments (O.Reg. 429/04) will be required to address program details.

Legislative Authority – Considerations (cont'd)

Electricity Support Programs

- **RRRP, OESP and First Nations Rate:** Moving costs to the tax base and creating a First Nations rate will require amendments to OEBA. Regulatory amendments (442/01, 314/15, 275/04) will be required to address program details.

- **Affordability Fund:** In order to implement new affordability fund the Province would need to enter into Transfer Payment Agreements with qualified third parties to administer the fund.

Bending the Future Cost Curve of Electricity

- No specific legislative or regulatory amendments identified. IESO may need to amend market rules. Agency MOUs/MOAs may require amendment.

Communication Plan

Objective:

- Demonstrate Ontario's commitment to lower electricity costs for ratepayers through new rate relief initiatives.

Strategic Approach

- High-profile Premier's announcement and Technical Briefing
- News release, backgrounders, QA's are being prepared.
- A multimedia marketing and advertising campaign is being prepared on the topic of rate mitigation for electricity consumers.

APPENDIX: SEE MINISTRY OF ENERGY'S ELECTRICITY PRICE MITIGATION – APPENDIX

Q&A Response

Q. What is the revised cost forecast for the 8% rebate as result of the measures announced in Ontario's Fair Hydro Plan?

Key measures announced in Ontario's Fair Hydro Plan (OFHP) are expected to reduce the cost of the 8% rebate for the Province. The cost to the Province is expected to decrease as the total cost of electricity paid by eligible customers, upon which the rebate is based, will be reduced.

ENERGY has updated the cost forecast for the 8% rebate based upon the following:

- Independent Electricity System Operator updated its Ontario Planning Outlook (OPO) with respect to a typical bill for a residential consumer as outlined in the March 1, 2017 Cabinet Submission. This revised OPO price outlook is inclusive of all the recently announced measures including cancellation of LRP II and EFW and expansion of ICI.

- ENERGY's estimates of the reduction to a typical bill for a residential consumer as a result of the Global Adjustment (GA) refinancing and funding electricity support programs through provincial revenues as announced in the OFHP.

- ENERGY's estimates of the reduction in costs for consumers that benefit from electricity support programs as announced in the OFHP (i.e., expanded Rural or Remote Rate Protection, enhanced Ontario Electricity Support Program and the First Nations Delivery Rebate). For Fiscal Year 2017-2018 this includes a 50% adjustment to the cost given that implementation of the expanded programs is expected to be deferred to September 2017.

	2017-2018	**2018-2019**	**2019-2020**	**2020-2021**
ENERGY Estimate **(August 26, 2016)** ($ million)	1,006	1,004	944	n/a
ENERGY's Revised Cost Estimate **(September 8, 2016)** ($ million)	1,119	1,086	1,171	n/a
ENERGY Revised Estimate **(March 15, 2017)** ($ million)	939	882	882	895
Change: **March 15, 2017** vs **August 26, 2016**	-7%	-12%	-7%	n/a
Change: **March 15, 2017** vs **September 8, 2016**	-16%	-19%	-25%	n/a

NOTE: The above estimates are subject to variances as result of uncertainties in demand, natural gas prices and other factors. These uncertainties also impact the variance account for the Regulated Price Plan (RPP).

Estimate Assumptions:

	2017	2018	2019	2020
Annual Average Electricity Price, Pre-tax, after Mitigation Programs ($ per month)	127*	120	122	125

***Note:** Value adjusted from $117 to account for deferral of implementation to May 2017 (GA refinancing) and July 2017 (tax-basing electricity support programs).
Source: OPO February 2017 and ENERGY estimates / Cabinet Submission March 1, 2017

	2017-2018	2018-2019	2019-2020	2020-2021
Cost of Expanded Electricity Support Programs in OFHP** ($m)	499***	753	829	892
RRRP	344			
OESP	140			
ONFNDC	15			

****Note:** Includes the Rural and Remote Rate Protection (RRRP), Ontario Electricity Support Program (OESP) and On-Reserve First Nations Delivery Credit (ORFNDC)
***__Note__: Value adjusted from $665 million to account for deferral of implementation to July 2017.
Source: ENERGY estimates / Cabinet Submission March 1, 2017

	Base year
Total volume eligible for rebate (TWh)	71
Residential sector total eligible for rebate (TWh)	42
Portion of residential sector on retail contract (%)	10
Retail Premium: Residential ($/kWh)	0.03
Multi-unit sector total eligible for rebate (TWh)	7
Portion of multi-unit sector on retail contract (%)	10
Retail Premium: multi-unit ($/kWh)	0.02
Commercial sector total eligible for rebate (TWh)	20
Portion of commercial sector on retail contract (%)	26
Retail Premium: Commercial ($/kWh)	0.02
Agricultural sector total eligible for rebate (TWh)	1.9
Residential demand growth (2016-2023)	-0.6%
Commercial demand growth (2016-2023)	0.3%

Source: OCEB database, 2016 OPO and ENERGY analysis

From:	Bruno Amara
To:	John Kim
Subject:	FW: OFHP Placemat/definitions
Date:	Wednesday, May 03, 2017 9:58:41 AM
Attachments:	2017-03-01 - Cabinet Submission - Electricity Price Mitigation.pdf QA - Revised Rebate Cost Post FHP - to DMO_ESPD ADM Approved_ESP_v0.2 - ....docx

Hi John

I think original email are the slides that I commented on this a.m. and sent to you. It was all pretty minor stuff so not suggesting to send on, but just reminding in case you were feeling compelled to provide some feedback. I dont have any comments on the QA attachment.

From: Ronald Kwan
Sent: Wednesday, May 03, 2017 9:48 AM
To: John Kim <John.Kim@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: FW: OFHP Placemat/definitions

Hi,

FYI.

Further comments to Scott?

Ron

From: Ronald Kwan
Sent: May-03-17 02:38
To: Scott Nelms (ENERGY) <Scott.Nelms@ontario.ca>; Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Subject: RE: OFHP Placemat/definitions

Hi Scott,

On the numbers for the second slide, they do not appear to reflect the numbers from the March 1, 2017, Energy CabSub in each year (see attached). Also, the 17-18 numbers in the fiscal plan were adjusted to reflect ¾ of a year, per a July 1, 2017 implementation date (see attached Q&A file). With regard to the latter file, it might be useful to add to the second slide the revised OREC estimated cost numbers too.

On slide 1, I'd suggest separating out the Province and OFA bubble, to show the credit facility and

equity injection separately.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-02-17 8:01 PM
To: Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Subject: OFHP Placemat/definitions

Hi Nancy, Ron, Gadi,

Attached is an early cut at products we thought may be helpful as guides for the Fair Hydro plan. We have developed a two page overview placemat that follows Brandon's format. We also have a 1-pager with definitions that help to decode language in the OFHP legislation.

These products still require some refinement particularly on next steps for the tax based social programs (2nd slide). I need to check back with Energy to get some dates and to ensure what we have is correct. Ron, it would also be very helpful if your group could take a look at the numbers to ensure they align with the Budget forecasts. If anyone has additional key issues they would suggest flagging, please let us know and I we will drop them in. Also happy to take suggestions on format as we crashed this together fairly quickly (note that some of the numbers show up small on the screen, but hopefully look better on 11x17 sheets). We will treat this as an iterative product over the next few days / week.

While not perfect, I realize fiscal prep and MMP meetings are occurring tomorrow. I wanted to get this into the system in case it is helpful to have a reasonably accurate summary of a very complex initiative.

Thanks,
Scott

Ontario

Electricity Price Mitigation

Ministry of Energy

March 1, 2017

Minister

Deputy Minister

Context

- Electricity costs are increasing as the necessary investments are made to decarbonize and modernize the province's electricity infrastructure (i.e., $35 billion+ investment in cleaner generation and $15.5 billion investment in transmission and local distribution systems).

- Ontario has taken a number of actions to lower electricity costs for all consumers by:
  - Deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement (LRP)).
  - Increasing cost effectiveness and improving efficiency by adopting new electricity market approaches (e.g., no new NUG contracting and demand response).

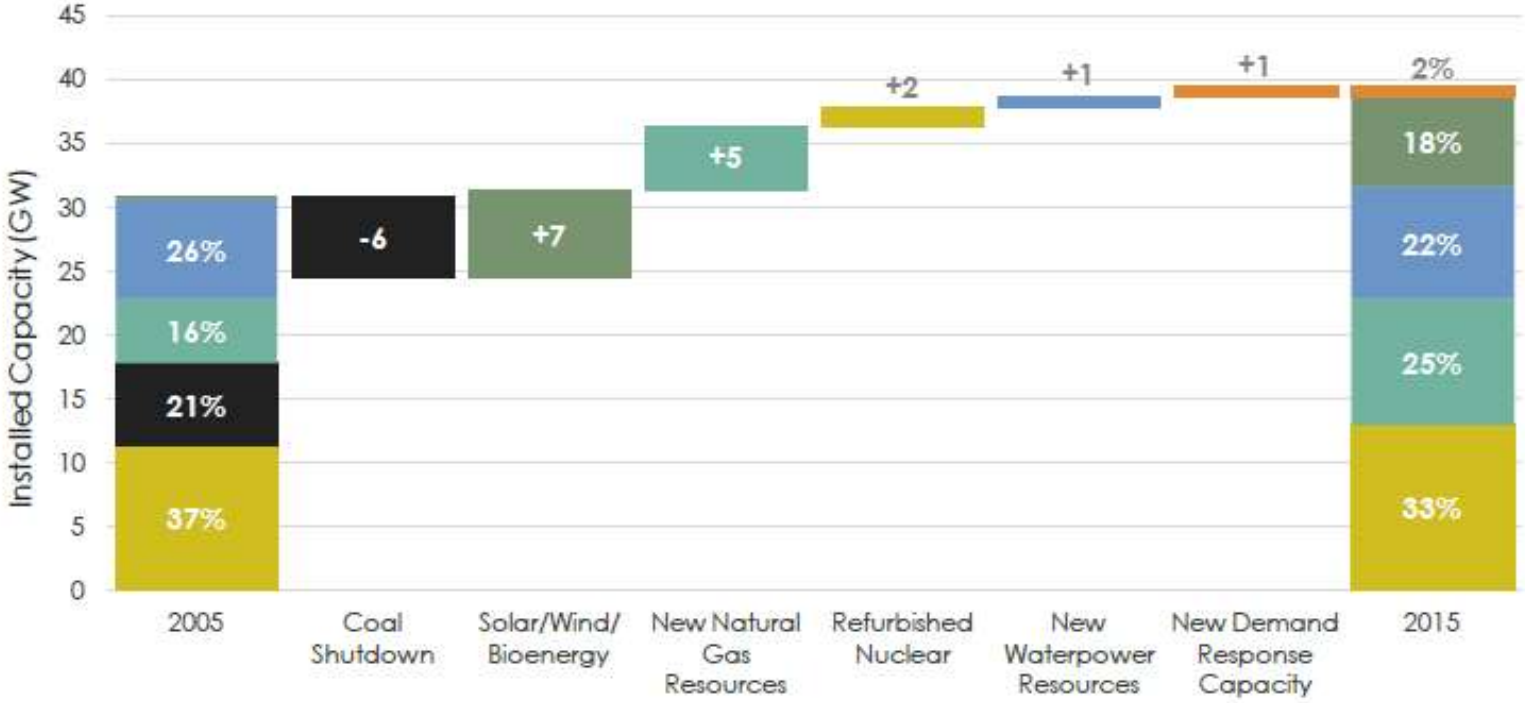
- On November 28, 2016, the Minister of Energy announced the need for changes in how electricity resources are procured, the need for wholesale market renewal and greater electricity consumer choice.

- The Ministry of Energy is currently updating its Long-Term Energy Plan (LTEP), which provides an opportunity to consider a range of policy changes to how the Ontario energy sector operates.

- On a number of occasions the Premier has indicated publicly that further relief on electricity prices will be provided to consumers in the near term.

Context – Infrastructure Investments

- In the eleven year period between 2005 and 2015, government added new electrical capacity to Ontario's grid to restore reliability, replace coal and meet environmental objectives.



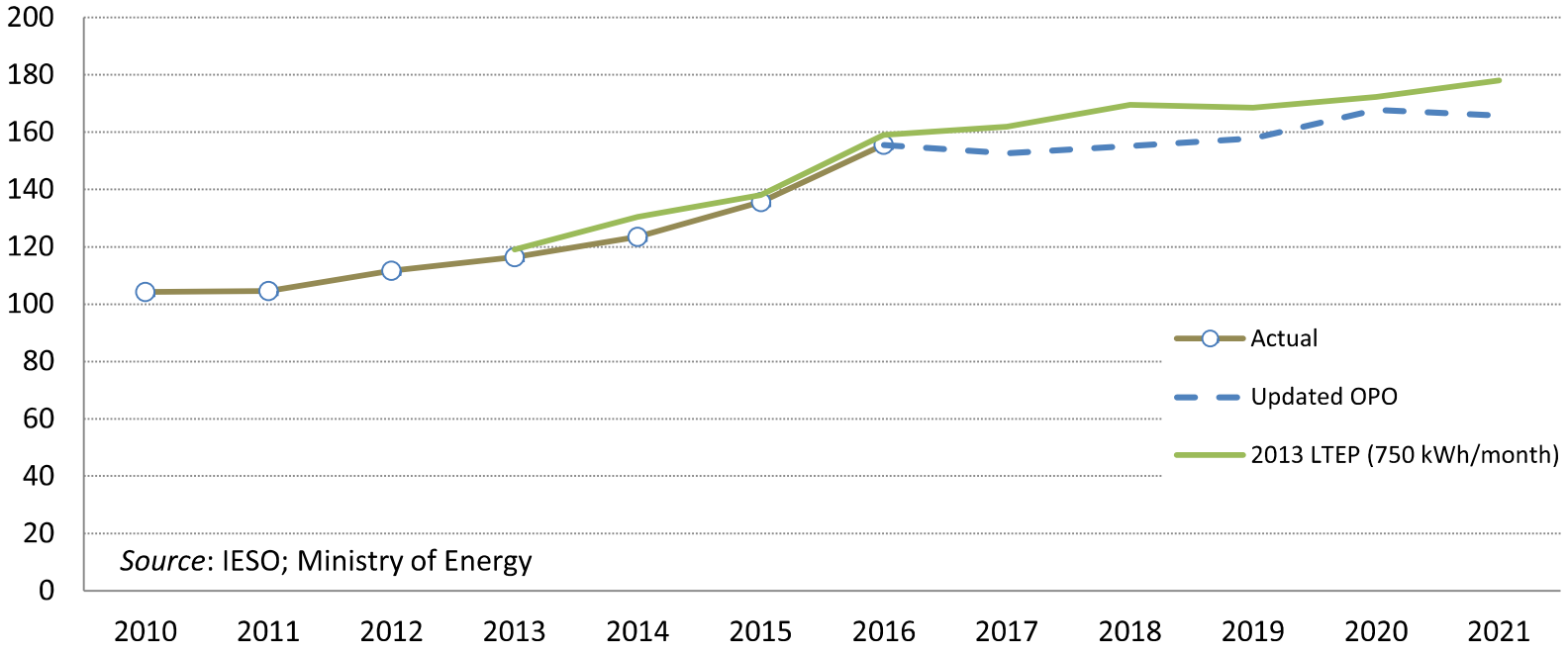
Source: IESO Ontario Planning Outlook

Context – Electricity Prices

- Electricity price increases have generally outpaced inflation. There have been several government policies that have impacted electricity prices over the past several years, including: HST, the Industrial Conservation Initiative, the Ontario Clean Energy Benefit (OCEB) and the Debt Retirement Charge (DRC).

Illustrative Typical Residential Electricity Bills

Historical and Forecast in $/month



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Context – Recent and Existing Government Funded Electricity Cost Mitigations

($Millions)	14-15	15-16	16-17[1]	17-18[1]	18-19[1]	19-20[1]	20-21[1]	Who Benefits
Ontario Clean Energy Benefit (OCEB) [2]	1,078	860	***OCEB ended on December 31, 2015***					• Residential customers, farms, small business (i.e., 10% off, on up to 3,000 kWh/month)
Ontario Rebate for Electricity Consumers (OREC or 8% rebate)*	-	-	300	1,100	1,200	1,200	1,200	• Residential customers, farms, small business (i.e., amount equal to the 8% Provincial portion of HST)
Ending Debt Retirement Charge (DRC) for Residential[3]	-	85	330	330	--	--	--	• Residential customers (i.e., saves about $70 per year for a typical residential consumer)
Northern Ontario Energy Credit (NOEC) [4]	24	26	25	25	25	25	25	• For eligible northern Ontario residents (i.e., for 2017, single people can receive up to $148,and families up to $227, depending on adjusted family income)
Ontario Energy and Property Tax Credit (OEPTC) (Energy component only)[4]	429	444	450	460	470	481	481	• For eligible low-to moderate-income individuals and families, & qualifying seniors (i.e., for 2017, up to $227, depending on adjusted family income)
Northern Industrial Electricity Rate Program (NIERP)	108	120	120	120	120	120	120	• Qualifying northern Ontario large industrial electricity consumers (i.e., rebate of 2cents/kilowatt-hour)
TOTAL	**1,639**	**1,535**	**1,225**	**2,035**	**1,815**	**1,826**	**1,826**	

Notes:

1. 2016-17 to 2020-21 based on forecasted numbers
2. OCEB ended December 31, 2015
3. 2015-16 estimated for 3 months of reduced DRC revenue. Estimated impact up to March 31, 2018.
4. Part of the Ontario Trillium Benefit. While related to energy generally, key policy driver for OEPTC when introduced in 2010 was electricity, as prices were forecast to rise, while fossil fuel prices, particularly natural gas, were low and falling.

* Sourced from Energy PRRT submission

Source: Ministry of Finance

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Context – Recent Actions Taken To Mitigate Electricity Rates

- Following the 2016 Throne Speech, the several actions were announced to further reduce electricity costs.

1. As of January 1, 2017, Ontario is rebating an amount equal to the provincial portion of the HST to reduce eligible residential, small business and farm electricity bills by 8%.

2. Expanded support available to eligible rural ratepayers by updating Rural or Remote Rate Protection (RRRP) with additional relief, decreasing total electricity bills by an average of $45 each month when combined with the 8% rebate.

3. Expanding the Industrial Conservation Initiative (ICI) – up to one-third savings for participants.

4. Suspending the LRP II and the Energy from Waste Standard Offer Program (EFWSOP) – up to $3.8 billion in cost savings.

5. Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – an average annual savings of $15 million.

Ontario

Rate Mitigation Proposal

- The following approaches are proposed:

1) Smoothing the global adjustment (GA) to provide significant and immediate rate relief through cost deferral of the GA:
   - Smoothing Mechanism (i.e., 25% reduction); and
   - Implementation Model.

2) Enhancing competitiveness for Class B electricity consumers (i.e. manufacturing) by lowering the eligibility threshold for Industrial Conservation Initiative (ICI).

3) Helping vulnerable electricity consumers by enhancing electricity support and conservation programs and shifting cost onto the tax-base:
   - Rural or Remote Electricity Rate Protection (RRRP) Enhancement (Delivery Charge Relief);
   - Ontario Electricity Support Program (OESP) Expansion;
   - New Affordability Fund; and
   - On-Reserve First Nations Delivery Credit.

4) Ongoing activities to bend the future cost curve of electricity:
   - Ontario Energy Board (OEB) – Identify opportunities for future LDC efficiencies and rates;
   - Independent Electricity System Operator (IESO) – Modernize Ontario's electricity market through electricity Market Renewal initiatives.

GLOBAL ADJUSTMENT (GA) SMOOTHING

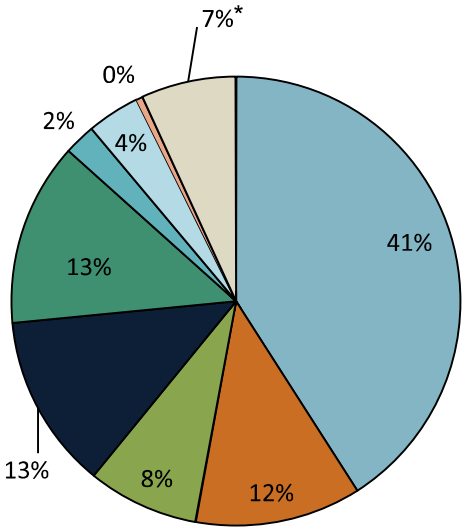
Overview – GA Smoothing

- The Global Adjustment (GA) has risen over the past decade as the province's electricity system has decarbonized.
  - The vast majority of GA costs now stem from greenhouse gas (GHG) emissions-free renewable and nuclear generation facilities, as well as natural gas plants that were constructed to restore system reliability and replace coal-fired capacity.
  - Generators in Ontario received contracted or regulated rates, which are typically designed to recover capital, financing, and fixed operations costs. The GA recovers these fixed costs of running the province's generation fleet, as well as the cost of conservation programs.
- The majority of the province's electricity generators are under 20-year contracts and account for less than half of the GA. Some of these generators will continue to provide value to the electricity system beyond their contract lives (i.e., beyond 20-years).
  - There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.
  - GA Smoothing would spread these costs over a longer period and provide immediate ratepayer relief (i.e., similar to re-financing a mortgage). By recognizing that generation assets are expected to continue to provide residual benefit to future ratepayers, beyond the term of current contracts, future ratepayers are expected to be able to utilize these assets and reduce the need to finance the development of new generation assets.
- The GA Smoothing option under consideration is illustrative and show potential rate mitigation measures to meet a targeted 25% reduction from the projected residential bill in 2017.
  - These residential impacts are based on a forecast for a household connected to Toronto Hydro that consumes 750 kWh per month.
  - Actual ratepayer savings would vary due to differences in consumption patterns.
  - Targeted to Regulated Price Plan (RPP) -eligible;
  - Rate increases would be capped at Consumer Price Index (CPI) for the first four years. Subsequent years would be set above CPI in order to ensure that bill increases due to repayments are capped at around 10% of the total bill.

GA Smoothing – Cost Breakout

- The Global Adjustment (GA) accounts for the fixed costs, including capital costs, of running Ontario's generation fleet, as well as the cost of conservation programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
  - Generators in Ontario received contracted or regulated rates, which are typically designed to recover capital, financing and fixed operations costs. Most generators are on 20-year contracts with the exception of hydroelectric and nuclear plants. They operate on longer contracts (or are regulated on a cost-of-service basis by the OEB) in recognition of the much longer operating lives of these facilities.
- Chart below shows the breakout of the GA by generator and program types. In 2016, the GA costs were $12.3 billion. These costs will evolve over time as 2,181 MW of previously contracted generation comes online in the coming years.

2016 GA Cost: $12.3 billion



	GA ($M)
Nuclear	5,053
Hydro	1,473
Natural Gas	985
Wind	1,552
Solar	1,630
Biomass, Landfill and Byproduct	278
Conservation	467
IEI Program	60
OEFC*	842

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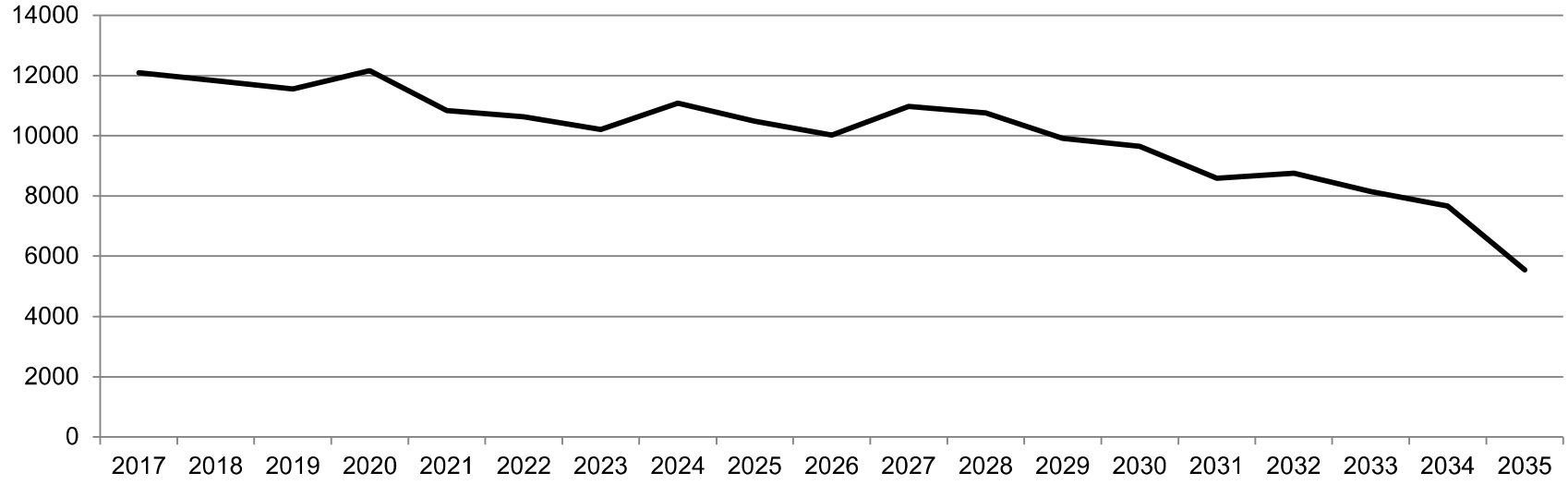
***Note:** OEFC indicates the cost of generator contracts managed by the OEFC which include contracts for natural gas, hydro and biomass generators**.**
**** Note:** Conservation measures, not quantified here, serve to reduce Ontario energy demand. Actual electricity generation would be larger than 155 TWh in the absence of conservation programs.

GA Smoothing – Global Adjustment Forecast

- The amount of Global Adjustment (GA) is forecast to decrease through the forecast period. Several factors contribute to the decline of GA, including:
  - Expiry of electricity generation contracts;
  - Cost of existing contracts reduced due to Inflation; and
  - Higher wholesale electricity prices due to higher natural gas/carbon prices, higher demand and reduced nuclear generating capacity.

Forecast Global Adjustment Cost (nominal $ million)



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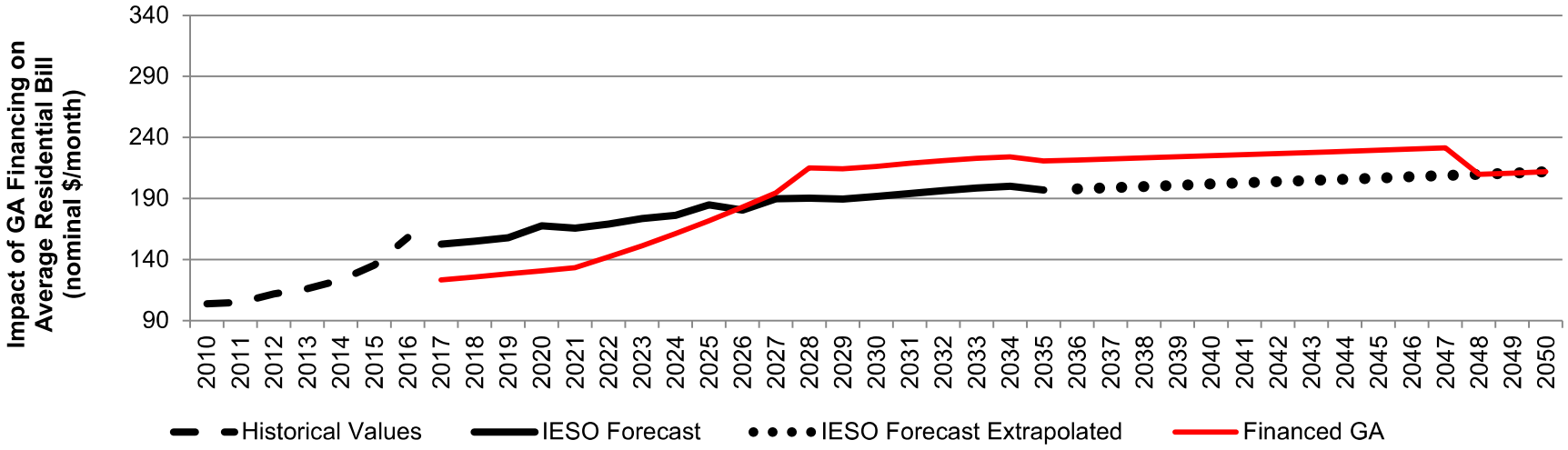
GA Smoothing – Expected Life of Electricity Generating Assets

- Gas, wind and solar generators are typically contracted for a 20-year period (e.g., with the Ontario Electricity System Operator (IESO), etc).
  - Nuclear and hydroelectric generators are contracted for a much longer period or regulated by the Ontario Energy Board (OEB) on a cost-of-service basis.
- While it is likely that gas, wind and solar generators will be able to operate beyond their current contracts, IESO advises that generators will need to decide what level of capital investment is appropriate for ongoing operations (i.e., by replacing and/or refurbishing major facility components).
  - In IESO's 2016 Ontario Planning Outlook (OPO), it was assumed that the service lives of generators could be extended beyond their contract term based on additional investments and ongoing costs. **Note:** This was not an assessment of the cost/benefits or a prediction of what the generators would actually do at the end of their contracts.
- The table below outlines IESO's current estimates for service lives of gas, wind and solar facilities. The ongoing service lives of these facilities depend on: initial facility design & build, operating activities (e.g., hours of operation, etc.) and level of facility maintenance (i.e., ongoing component repair and replacement).

Technology	Contract Life (yrs)	Expected Life (yrs)	Expected Cost Post-Contract Life
Gas	20	Up to 30	Life varies with initial design, how it is operated and maintained.
Wind	20	Up to 30	Older technologies may deteriorate faster. Elements such as foundations and electrical integration can last longer.
Solar	20	Up to 30	Performance deteriorates to about 80% by end of contract. Some facilities built in the initial contract periods may deteriorate more; however, technology is improving rapidly. Components need to replaced 5 to 30 years depending on design.

Source: IESO consultant reports (2014 and 2015)

A. GA Smoothing for RPP-Eligible Only (Borrow $2.5 billion in 2017, Residential Bills Lowered 25%, Lower Total Debt)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly residential bill w GA financing impact and tax *($/month)*	104	105	112	116	124	136	158	123	126	128	131	133	142	151	161	172	183	195	215	214	216	219	221	223	224	221	222	222	223	224	225	226	227	228	229	230	230	231	210
Year-over-year change in bill *(%)*	-	1.0	6.7	3.9	6.1	9.8	16.7	-22.1	2.0	2.0	2.0	2.0	6.5	6.5	6.5	6.5	6.5	6.5	10.5	-0.4	0.9	1.2	1.0	0.8	0.6	-1.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-9.3
Impact of GA financing pre-tax *($/month)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-26.1	-26.1	-26.2	-32.8	-28.7	-23.9	-19.9	-13.5	-11.8	2.0	4.2	21.8	21.8	21.7	21.7	21.5	21.4	21.3	21.0	20.9	20.8	20.7	20.6	20.5	20.4	20.4	20.3	20.2	20.1	20.0	19.9	0.0
Total Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	5.1	7.9	11.4	14.6	17.8	20.8	23.2	25.6	26.7	27.7	26.8	26.0	25.1	24.1	23.1	22.0	20.9	19.7	18.5	17.2	15.9	14.4	12.9	11.3	9.7	7.9	6.1	4.2	2.1	0.0	0.0
Total Change in Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.6	2.8	3.5	3.2	3.2	2.9	2.4	2.4	1.1	0.9	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

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A. GA Smoothing for RPP-Eligible Only – Residential Bills Lowered 25% (with Tax-base Funded 8% Rebate and Social Programs, 2% increase)

- Total bill below is based on a revised IESO forecast. See footnotes for more information.

Residential (750 kWh/month)	Actual 2016	2017	2018	2019	2020	2021
Total Bill (includes HST)	**158**	**164**	**167**	**170**	**181**	**178**
Total Bill (excludes HST)	140	145	148	150	160	158
Impact of GA Financing		-26	-26	-26	-32	-28
Impact of Tax-Basing Social Programs		-2	-2	-2	-3	-3
Subtotal		117	120	122	125	127
8% rebate		-9	-10	-10	-10	-10
HST		15	16	16	16	17
Revised Bill (includes HST)	**158**	**123**	**126**	**128**	**131**	**133**
Year-over-Year Change		-22%	2%	2%	2%	2%
Change from Forecast		**-25%**	**-25%**	**-25%**	**-28%**	**-25%**

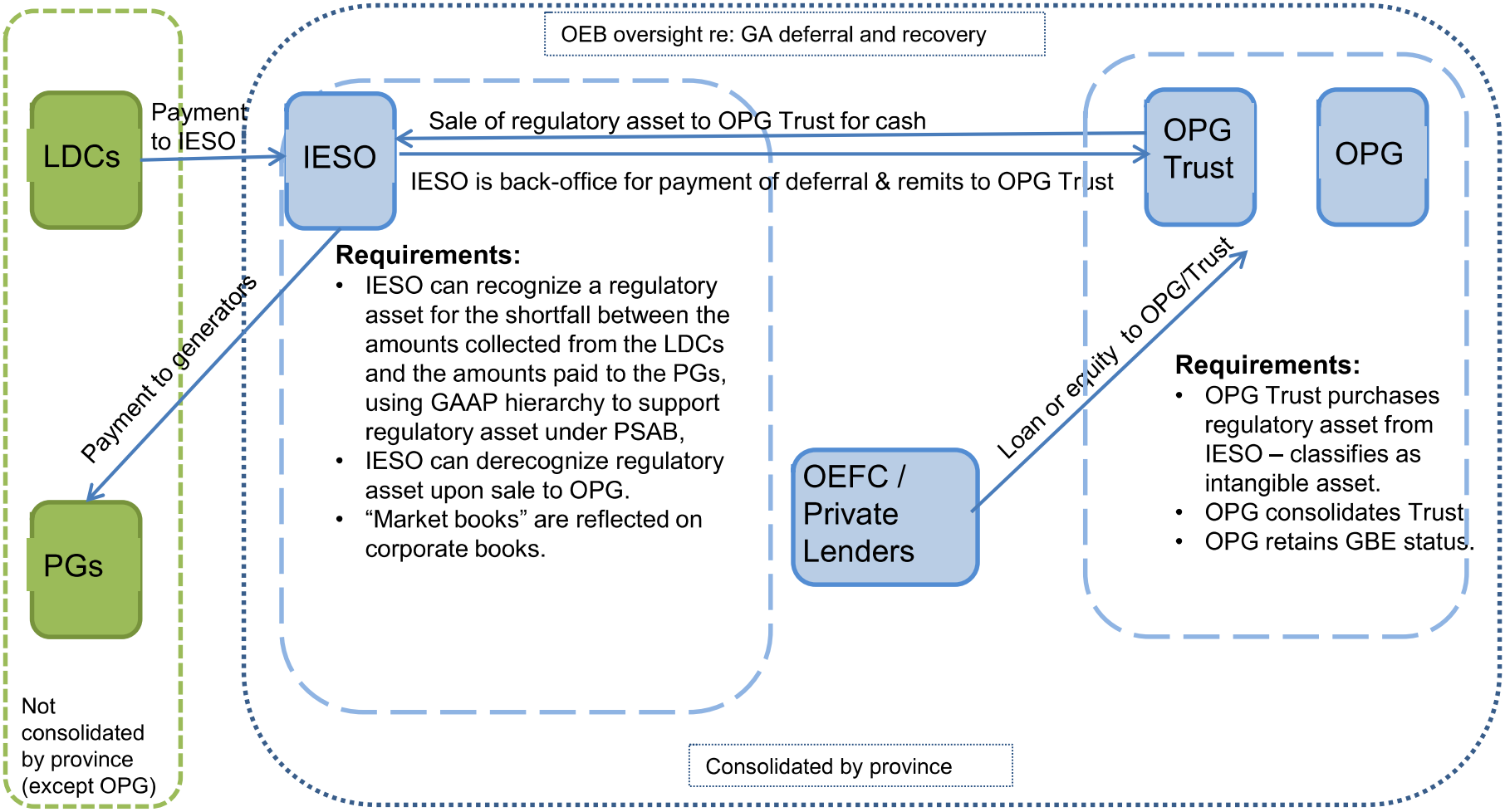
Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	**160**	**165**	**160**	**162**	**173**	**169**
Class B Revised Total (excludes HST)	**160**	**162**	**157**	**159**	**170**	**166**
Year-over-Year Change		1%	-3%	1%	7%	-2%
Change from Forecast		-2%	-2%	-2%	-2%	-2%

Large Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class A Total (excludes HST)	**90**	**91**	**93**	**88**	**95**	**96**
Class A Revised Total (excludes HST)	**90**	**88**	**90**	**84**	**92**	**93**
Year-over-Year Change		-2%	2%	-6%	9%	1%
Change from Forecast		-4%	-4%	-4%	-4%	-4%

Notes: Based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing.

B. GA Smoothing – Potential Structure

- The following diagram provides an overview of a potential GA smoothing structure, as well as interactions between sector entities and elements required to meet accounting objectives.



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Note: Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

B. GA Smoothing – Accounting Considerations

- OPCD advises that analysis is not complete; several requirements (below) are high risk re: satisfactory resolution.
- Complexity of the structure and length of deferral/recovery increase risk and decrease transparency
- If all requirements can be met, an accounting analysis is expected to support: (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit, but depending on funding to OPG/Trust from Province, an increase in interest on debt and an increase in income from OPG will result.
- IESO requirements – IESO Finance, KPMG (Energy advisor and IESO auditor), OPCD and EY (OPCD advisor) are evaluating accounting risks:
  - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB
  - IESO can derecognize regulatory asset upon sale to OPG; and
  - "Market books" are reflected on corporate books.
- OPG requirements – OPG Finance, EY (OPG auditor), PwC (OPG Advisor), and OPCD are evaluating accounting risks:
  - OPG Trust purchases regulatory asset from IESO – classifies as intangible asset;
  - OPG consolidates Trust; and
  - OPG retains GBE status.
- No discussion with OAG; in previous Annual Reports, the OAG has raised concerns about the appropriateness of recognizing rate regulated assets and liabilities.

B. GA Smoothing – IESO Considerations

- The Electricity Act enables the Independent Electricity System Operator (IESO) to recover from ratepayers the amounts paid to generators, distributors or other contracted entities.
- The accounting advice received by IESO is that reflecting market balances and regulated assets is a more appropriate presentation for its financial statements going forward.
- IESO is characterized as an "Other Government Organization" (OGO) and consolidated on a line-by-line basis into the Provincial books.

Issue	Response
1. Can IESO adopt regulatory accounting?	• Public sector accounting does not address regulated assets. • Guidance can be drawn from other accounting bodies. • US Federal Accounting Standards Advisory Board (FASB), US Governmental Accounting Standards Board (GASB) and International Accounting Standards Board (IASB) do provide guidance. • FASB accounting standard 980 and IASB have specific references that support the adoption of regulatory accounting. **Conclusion:** There is a hierarchy of accounting principles that support this approach.

B. GA Smoothing – IESO Considerations

Issue	Response
2. Can IESO recognize the GA deferral as a regulatory variance account?	Criteria for recognition are: • Rates are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers. • Rates are designed to recover the specific costs of regulated business-type activities. • In view of demand, it is reasonable to assume that rates will be set to recover the regulated business-type and can be collected from customers. **Conclusion:** Legislation creates the right to collection, currently and in the future. With either OEB or IESO board involvement a regulatory asset can be recognized.
3. Can IESO sell the variance account related to the deferral of the annual Global Adjustment account?	• The sale of the variance account to OPG Trust must be structured as an absolute assignment of future economic benefits of the Asset with no obligations, rights or benefits remaining of IESO. • In that case, this would represent a sale of the future right to collect these amounts from the ratepayer. **Conclusion:** Based upon proposed terms of the sale agreement, there would be no future economic benefit for IESO. Risk and rewards are entirely transferred to OPG Trust.

B. GA Smoothing – OPG Accounting Considerations

- OPG's Special Purpose Vehicle (SPV)/Trust is a stand-alone entity able to conduct business separately under a Trust agreement. **Note:** The conditions required for OPG to consolidate the SPV/Trust are outlined in the following table:

Issue	Response
1. Decision Making	• OPG must have decision making authority on the operation of the SPV/Trust (without a veto right by the Province), including naming of trustees, establishing operating plans and budgets, setting or changing financing policies. • The SPV/Trust while operating within the legislation, must be controlled by OPG to operate freely and to alter terms and conditions not specified in the legislation to ensure recovery of the deferred amounts.
2. Business Risk	• The SPV/Trust must have variability of returns as a normal business enterprise would, including such things as interest charged on deferred amounts, decisions on how to finance these deferred amounts, the ability to make / lose and keep any spread from financing.
3. Funding	• The Province cannot directly or indirectly fund more than 50% of SPV/Trust or any investment in the SPV/Trust. • OPG must own at least 50% of the most exposed equity /sub-debt in the SPV/Trust.
4. Directive	• Directive that is issued should not be prescriptive or direct OPG to set up this business. The directive should only be "guiding" i.e. to allow OPG to evaluate options and put forward to the OPG Board a recommended plan for Shareholder approval.

B. GA Smoothing – OPG Accounting Considerations (cont'd)

Issue	Response
5. Other required Attributes	• The legislation that supports the formation of the SPV/Trust must have the following attributes: – Must require interest, carrying and administrative costs be paid to the Trust to allow for Revenue recognition; – The amount to be deferred must either be specified or be calculated based on a specific formula that is not subject to ongoing decision making by the Province. **The Province cannot have the ability to override this formula;** – SPV/Trust and its debt holders will require their capital guaranteed and paid for directly by the Province if the Province revokes the legislation; and – The spirit of the legislation should be reflected in the Trust Indenture Agreement.

B. GA Smoothing – OPG's Financing Structure Requirements

KEY ELEMENTS REQUIRED TO ENSURE THE DEFERRAL OF GA CHARGES CAN BE FINANCED:

Creating the Right to Recover Deferred GA

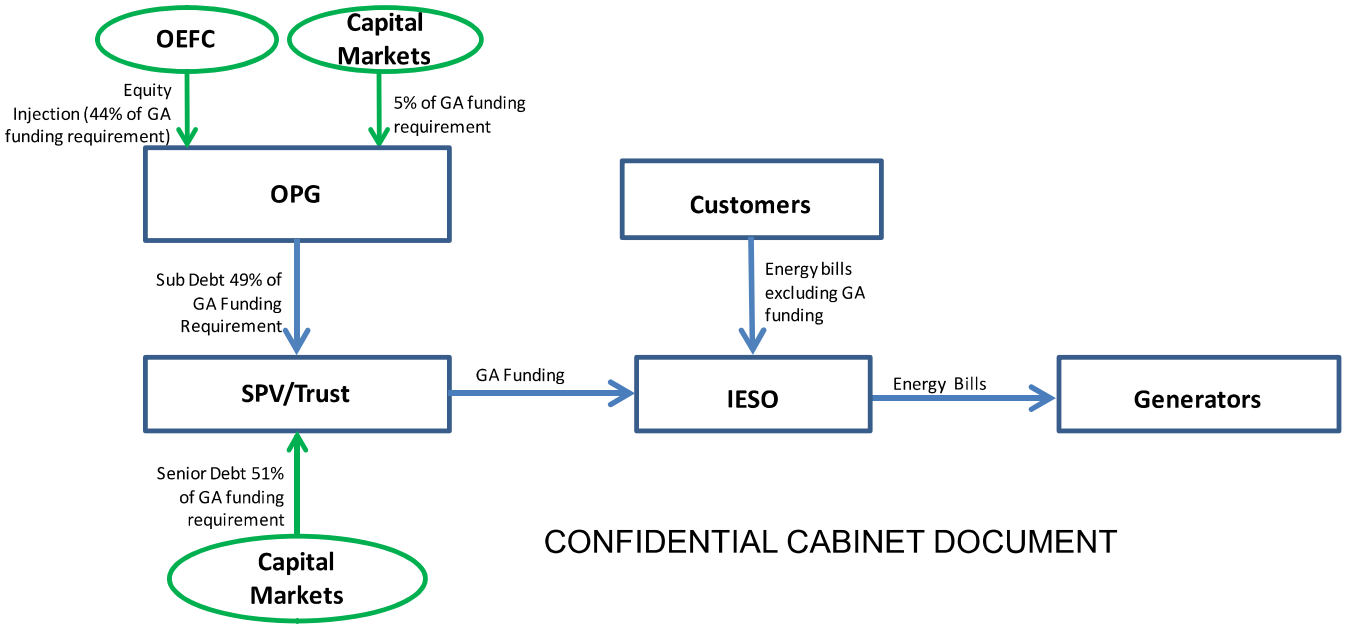
- Legislation enshrines the ability of the IESO to create a Right to charge customers in the future for the Global Adjustment (GA) deferred today including principal amount deferred, interest and other financing costs on the amount deferred and fees, expenses and other administrative costs.
- The Right can be sold to an appropriate Trust or Special Purpose Vehicle (SPV) to obtain funds to pay amounts due to generators under contracts or regulation. These SPVs are generally single purpose entities with no other operations that could add risk to the entity, dilute debt holder rights, allow parties from other operations to claim rights to the future recovery from customers or allow these other parties to initiate bankruptcy proceedings.
- Right must be irrevocable and if the Right is amended by future governments the debt holders have the right of action against the government to recover the amount outstanding including interest, fees, expenses and any damages resulting from the amendment.
- Right must specify the recovery period or the mechanism for setting the recovery rate including true up of the rate to ensure all amounts are recovered.

Economic Factors

- Limits on the recovery amount (principal, interest, fees and expenses) charged to customers in future periods must have compensating elements such as longer recovery period to ensure the full amount deferred plus interest, financing and other administration costs is recovered from customers.
- Need to balance customer relief with debt holder risk. Longer recovery periods and larger deferred balances increase risk to the debt holder of future government intervention.
- The amount required by the SPV to purchase and service the Right will be funded 51% from debt holders, 5% from OPG through capital markets and 44% from OPG via equity injection to OPG from the Province. The funding from OPG will be loaned to the SPV as subordinated debt.

B. GA Smoothing – OPG's Financing Structure Requirements (cont'd)

- Special Purpose Vehicle (SPV) will be used to raise the GA financing and ring fence OPG from its legal obligations
- SPV will be structured to allow for GBE accounting consolidation into OPG
- Given that SPV will be consolidated into OPG for accounting purposes, the significant amount of debt required to fund the GA deferral will have a severe impact on OPG's credit rating. If 100% of the requirement is funded by debt OPG would be downgraded.
- To manage this exposure and minimize the cost of funding. The required funding would be split into 2 buckets:
  1. 56% from capital markets; and
  2. The remainder provided by the Province via equity injection, which would be loaned to SPV as subordinated debt.
- The use of equity to fund a portion of the GA deferral also allows for an improvement in both Net Income and EBITDA as incremental revenue is captured by the increase in the value of the deferral which would offset the fiscal impact of the borrowing at Province level.
- Credit rating metrics are generally maintained within established limits.



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GA Smoothing – OEB Considerations

- Ontario Energy Board (OEB) oversight may be required as part of creating a regulatory asset.
- Subject to final confirmation, there are several other spheres for possible OEB oversight:
  - The rate payer impact of IESO deferral account and eventual repayment of the deferred Global Adjustment (GA), within pre-defined legislative parameters;
  - The administrative costs of the OPG's Special Purpose Vehicle (SPV) /Trust (e.g., as the OEB reviews and approves IESO's expenditure and revenue requirements and makes orders fixing just and reasonable rates for the Smart Metering Entity);
  - The SPV/Trust's returns (e.g., as the OEB does with OPG's regulated assets) and whether any income to OPG can be used for the benefit of rate payers;
  - The review of the final structure of the debt issuance for the limited purpose of ensuring requirements of law have been met; and
  - In out years, review of the collection of charges to ensure that collection is sufficient, and not greater than necessary, to pay debt service.
- The scope of OEB oversight will ultimately need to balance the interests and needs of rate payers, the market, OPG and the Province.

B. GA Smoothing – Ontario Financing Authority (OFA) Considerations

- Under the proposed structure, the financing of the deferred Global Adjustment (GA) costs would be effectively done in part by each of the OPG Special Purpose Vehicle (SPV)/Trust, the Province and OPG: the OPG SPV/Trust would borrow 51%, the Province 44% and OPG 5% of the required GA amounts needed to be financed.
  - In the alternative, the Province (through the OFA/OEFC) could borrow the required amounts each year, likely at a lower cost. However, the target for an arms-length trust and potential risk transfer would not be achieved.

	OPG Structured Financing	OFA/OEFC/Provincial Financing
Financing Considerations	• As the OPG SPV/Trust would be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • This would increase the cost of GA smoothing and the ultimate rate impact on future consumers. • The Trust would be exposed to interest rate changes. • Availability of debt financing may also be limited, depending on the overall amount of deferral, and the subsequent rate impact during the recovery period. OPG has cited examples of a 10% threshold on overall rate impacts of the deferral recovery amounts. • With a potential guarantee from the Province for the borrowing of the OPG SPV/Trust, OPG could see borrowing costs closer to the Province. However, this would redirect the risk back to the Province, removing the intended benefits of using this particular structure, and could add risk to the targeted accounting treatment. • With, or potentially even without a provincial guarantee, OPG SPV/Trust's borrowing could be seen as debt effectively supported by the Province by credit rating agencies and included in their analysis and determination of the Province's ratings. • If a Provincial guarantee endangers the targeted accounting treatment, it may be hard to justify the higher cost borrowing by OPG SPV/Trust to be passed through to ratepayers.	• Province's borrowing from the public markets would add to the borrowing program and the Province's gross debt. • The Province would expect to be able to finance the GA deferral at a lower financing cost than the OPG SPV/Trust, but would likely not achieve the targeted accounting treatment based on OPG's analysis. • Net debt would not increase, to the extent supported by increased equity in OPG under that model, and/or if the accounting treatment can be achieved as backed by a GA-related asset (OPG does not consider that the accounting can be achieved if the SPV/Trust is financed by the Province). • The Province's interest on debt (IOD)cost would need to be effectively recovered through the GA. – E.g., an OPG equity return to cover the cost of borrowing for the equity injection. – Or more directly if the Province is providing financing directly to the GA entity. • The cost of borrowing for the Province could change: 1. The Province's credit rating could be at risk of being re-evaluated by Rating Agencies, which may negatively impact the cost at which the Province borrows and 2. An increase in the Province`s borrowing rates, as a result of increased borrowing. The market may not have adequate demand for the Province to carry-out these borrowings without increasing the interest rate on the debt issues for GA financing and for all of the Province's borrowings. • The interest cost of GA deferral would be exposed to changes in the interest rate environment generally.

GA Smoothing – Legal Considerations

- In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the short term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

- Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:
  - The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
  - If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
  - By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
  - The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

GA Smoothing – Policy Considerations

- Borrowing money to smooth the Global Adjustment (GA), while lowering costs in the short term, results in a more rapid rise in electricity prices beyond the rate of increase already expected.
  - In addition, should Ontario electricity demand be lower than forecasted, the cost of paying off the debt will be spread over a smaller pool of consumption, further increasing future costs for individual ratepayers.

- The impacts are also based on a GA forecast. Since the GA fluctuates, actuals will vary based on demand, the addition of new generation and natural gas prices.
  - A "true-up" mechanism will be required to account for the difference between the "estimate" and "actual" GA costs.

- Although Class B electricity consumers, such as commercial and small industries, do not receive the benefit of GA smoothing (i.e., because it is only targeted to RPP consumers), the Ministry has a proposal later in the submission to address competitiveness for Class B consumers (i.e., targeted lowering of the Industrial Conservation Initiative (ICI) eligibility thresholder from 1 MW to 500 kW).
  - Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness.
  - **Note:** Although Class B and Class A consumers will not receive the rate relief benefits of GA smoothing, both consumers will benefit from tax-basing the electricity social programs.

- Given the legal framework the amount of GA smoothing needs to be proportionate to the generating contracts (i.e., 20-year) and the additional years of generation services still available (i.e., additional 10-years of service).

- Rating agencies and investors in the Province's debt may view this borrowing as an obligation of the Province, regardless of accounting treatment. Depending on the magnitude of the debt to be incurred could have an impact on the Province's borrowing cost.

- The GA smoothing proposal will accrue total interest of $25 billion based on the proposed option. This amount of interest is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.
  - An increase in the borrowing rate from 5% to 6% would increase the total interest costs by almost $9 billion and would require an extension of the financing term beyond 30 years.

GA Smoothing – Fiscal Considerations

- If the proposed legal and accounting treatment of the GA financing smoothing proposal is not implemented, there would be a negative impact on the province's fiscal plan, as shown below.

Fiscal Impact ($M)	2017-18	2018-19	2019-20	2020-21	2021-22
Bills Lowered by 25%, RPP-Eligible Only*	2,534	2,668	2,942	3,420	3,232

*Numerical values represent amount borrowed in indicated fiscal year plus accumulated interest from previous year's accumulated debt

Source: Ministry of Energy

ENHANCING COMPETITIVENESS FOR CLASS B ELECTRICITY CONSUMERS

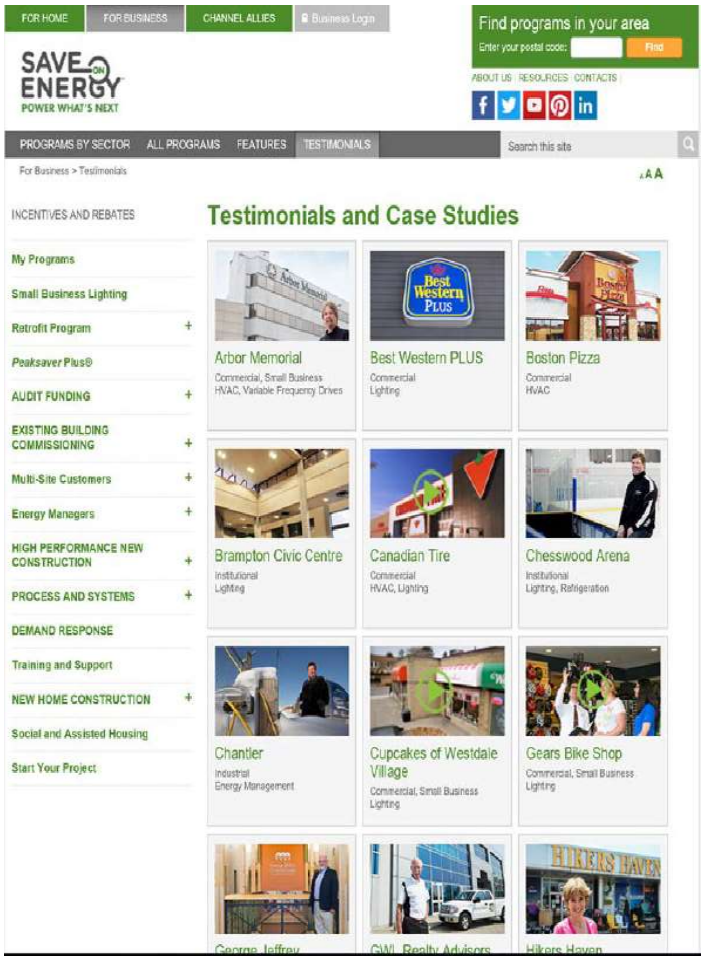
Support for Class B Consumers

- Class B electricity consumers comprise about 50,000 customers, including many mid-size manufacturers (i.e., automotive parts suppliers, plastics manufacturers), large commercial buildings (i.e., office blocks, mid-sized shopping malls) and broader public sector facilities (i.e., hospitals, college campuses).

- Through saveONenergy, many Class B consumers have already taken advantage of energy efficiency programs.

  - Although saveONenergy programs like Process and Systems Upgrade Incentive exist, these programs generally require significant investment on behalf of the customer in addition to the incentives and therefore may be difficult to take advantage of.

  - For Class B manufacturers whose electricity consumption is primarily based on process activities (e.g., injection moulding, welding, etc), traditional conservation measures like lighting and ventilation upgrades have limited benefit.



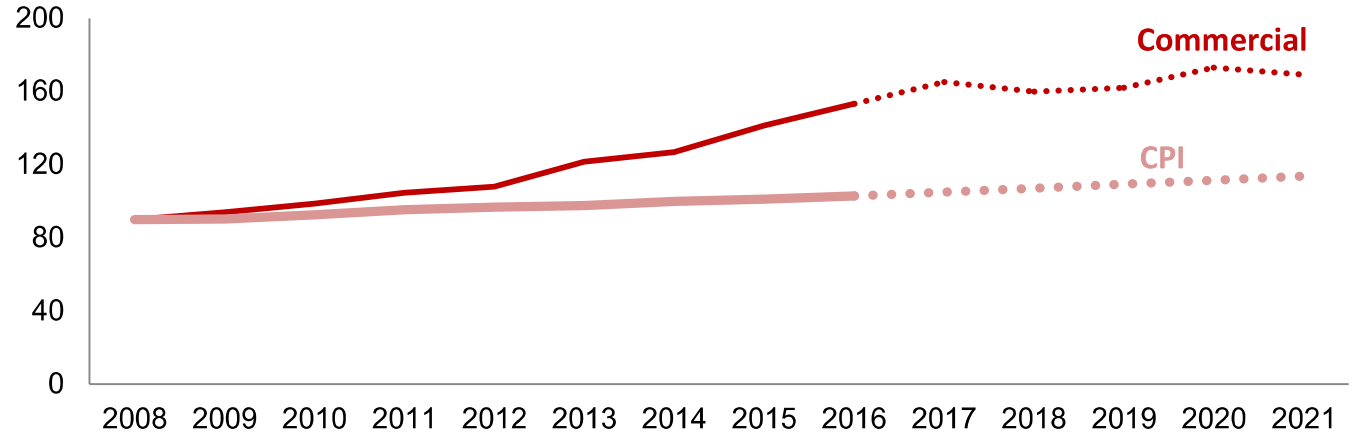
Support for Class B Consumers (cont'd)

- Class B consumers are too large for the Regulated Price Plan (so do not qualify for the 8% rebate for small businesses or Time-Of-Use pricing) and too small to be Class A (so do not qualify for the Industrial Conservation Initiative (ICI) for large consumers).

- Price mitigation initiatives could be provided to Class B to address stakeholders' concerns (e.g., Coalition of Concerned Manufacturers of Ontario, etc).

- The chart below highlights that the cost of electricity for Class B consumers has risen faster than CPI.

Illustrative Electricity Prices
in $/MWh



***Source*:** IESO; OEB; Ministry of Energy

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Lower ICI Threshold Below 1 MW for Energy Intensive Industry

- The Industrial Conservation Initiative's (ICI) eligibility threshold for participation was recently lowered to 1 MW. The lowering of the ICI eligibility threshold provides an opportunity for additional Class B consumers to save on their electricity costs if they choose to opt-in to ICI (i.e., and become new Class A consumers):
  - Beginning in July 2017, new participants will be billed Global Adjustment (GA) on the basis of their contribution to province-wide peak demand.
  - Prior to lowering the ICI eligibility threshold, electricity consumers with peak demand between 3 and 5 MW could only participate in ICI if they belonged to the following sectors: manufacturing, mining, data processing, refrigerated warehousing and greenhouses. **Note:** To achieve the benefits of ICI, participants must reduce their electricity demand during the five system peak hours.

- To enhance the competitiveness of larger Class B consumers whose electricity demand are too low to currently qualify for ICI, the Ministry proposed to:
  1. Expand ICI by extending eligibility to larger Class B consumers with average monthly peak demand over 500 kilowatts; and
  2. Target the expansion to energy intensive industries with the North American Industry Classification System (NAICS) codes 31 - 33 (i.e., Manufacturing).

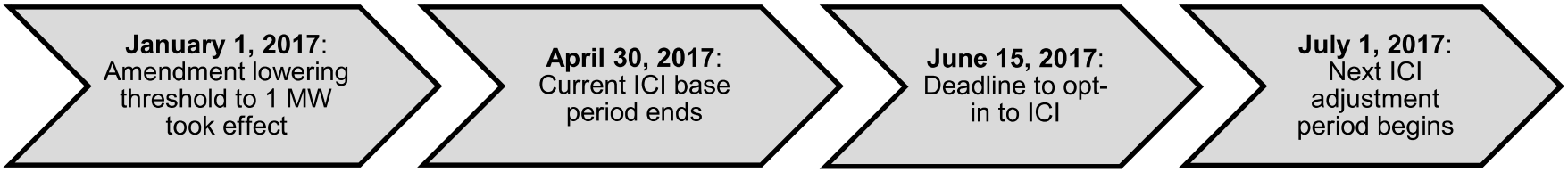
- In addition, the Ministry will assist Class B participation in ICI through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

Lower ICI Threshold Below 1 MW – Considerations

- A targeted lowering of the ICI eligibility threshold from 1 MW to 500 kW provides benefit to larger Class B consumers (i.e., manufacturing) while limiting the cost shift to other electricity consumers.
  - **Note:** A Class B consumer that run only a day shift, resulting in fairly peaky load profiles would need to adjusted its behaviour to maximize the benefits of ICI.

- Preliminary analysis by ENERGY staff show that the estimated impact of a targeted lowering of the ICI eligibility threshold from 1 MW to 500 kW would increase a typical residential bill by up to 0.66% or just over $1/month based on a 2016 bill of about $158.
  - The actual impact would vary depending on uptake and consumer responsiveness.
  - With the recent lowering of the ICI eligibility threshold to 1 MW, there is no information available regarding the actual impact on new participants and the electricity system.

- In order for any changes to ICI eligibility to take effect before the next 12-month billing period beginning July 1, 2017, regulatory amendments would have to be made before the end of April 2017.



Lower ICI Threshold Below 1 MW – Legal Considerations

- The quantum of a regulatory charge may be set at different rates within a regulatory structure where the differential prices are intended to serve other regulatory goals including an intention to modify the behavior of persons within the scheme.

- Expanding access to the Class A pricing regime is intended to serve regulatory goals by encouraging consumers to shift their electricity use away from peak hours, which benefits the electricity system as a whole. While Class B consumers will have to pay more of the GA cost in order to finance the reduction for Class A consumers, this is generally permissible since Class B consumers are not modifying their behaviour and the total amount recovered for the GA does not exceed its cost. CLB has previously advised that the differential pricing structure generally only attracts a **moderately low risk** of being a tax, and this risk level does not change if the option of Class A pricing is extended to a broader class of consumers.

- It is more difficult to justify a differential regulatory charge on the basis of behavioral modification when the lower charge is not available to some participants in the regulatory scheme whose conduct could equally serve the same goals. To the extent that there is not a regulatory rationale for extending the new class A option only to certain sectors, risk increases. The amount of risk in this scenario will vary depending on the quantum of the premium that Class B consumers pay to create the behavior modification incentive for Class A and the degree to which the excluded sectors can credibly claim to be able to achieve the same outcome were they permitted to participate in this aspect of the program.

ELECTRICITY SUPPORT AND CONSERVATION PROGRAMS TO HELP VULNERABLE ELECTRICITY CONSUMERS

Electricity Support and Conservation Programs to Help Vulnerable Electricity Consumers

- To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

- These customers include:
  - **High Delivery Cost Customers:** Some customers in rural areas where the cost to deliver electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
  - **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
  - **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

- To provide targeted assistance to the customers and alleviate electricity cost burden, ENERGY proposes to:

  A. **Enhance Rural or Remote Rate Protection** (RRRP) by funding its costs through the tax base and providing additional support to customers of designated Hydro One rate classes and other high distribution cost Local Distribution Companies (LDCs).

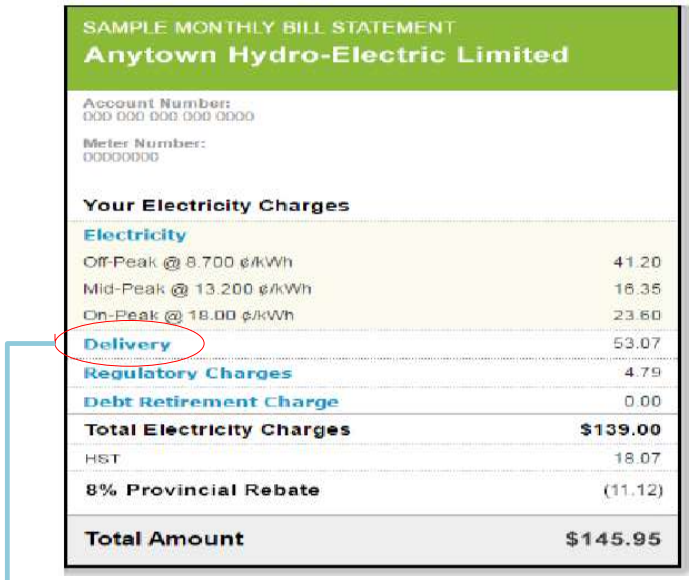
  B. **Enhance Ontario Electricity Support Program** (OESP) by funding its costs through the tax base and increasing eligible benefits by 50%.

  C. **Establish a new Affordability Fund**, providing energy efficiency measures at no or minimal cost to those who are ineligible for low-income conservation programs, have difficulty paying their electricity bills and who cannot make energy efficiency upgrades without financial assistance.

  D. **Implementing On-Reserve First Nations Delivery Credit**, to remove Delivery charges for on-reserve First Nations customers.

A. Delivery and Distribution Charge – Background

- The **Delivery** line on a typical consumer bill is specific to a consumer's Local Distribution Company (LDCs) and accounts for roughly 25-35% of the total bill before taxes.
- Delivery covers the costs of getting electricity from generating stations across the province to homes and businesses and combines three cost components of the electricity sector into one line item charge:
  - **Transmission:** The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable charge that is approved by the OEB.
  - **Distribution:** The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line.
    - This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.
  - **Line Loss:** The costs to recover electricity that is lost as heat when its delivered over a power line. Each LDC is assigned by the OEB a specific line-loss adjustment factor to reflect their loses particular to their assets. This factor is multiplied against the monthly electricity cost to determine the monthly cost.



SAMPLE MONTHLY BILL STATEMENT

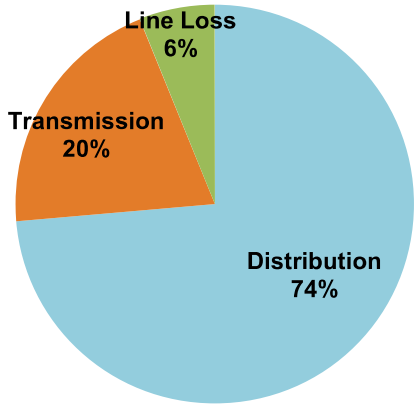
Anytown Hydro-Electric Limited

Account Number:
000 000 000 000 0000

Meter Number:
00000000

Your Electricity Charges	
Electricity	
Off-Peak @ 8.700 ¢/kWh	41.20
Mid-Peak @ 13.200 ¢/kWh	16.35
On-Peak @ 18.00 ¢/kWh	23.60
Delivery	53.07
Regulatory Charges	4.79
Debt Retirement Charge	0.00
Total Electricity Charges	**$139.00**
HST	18.07
8% Provincial Rebate	(11.12)
Total Amount	**$145.95**

Cost breakdown of Delivery Line for an Average Residential Bill*



* Toronto Hydro Bill @ 750kWhs

A. Rural or Remote Rate Protection Program – Background

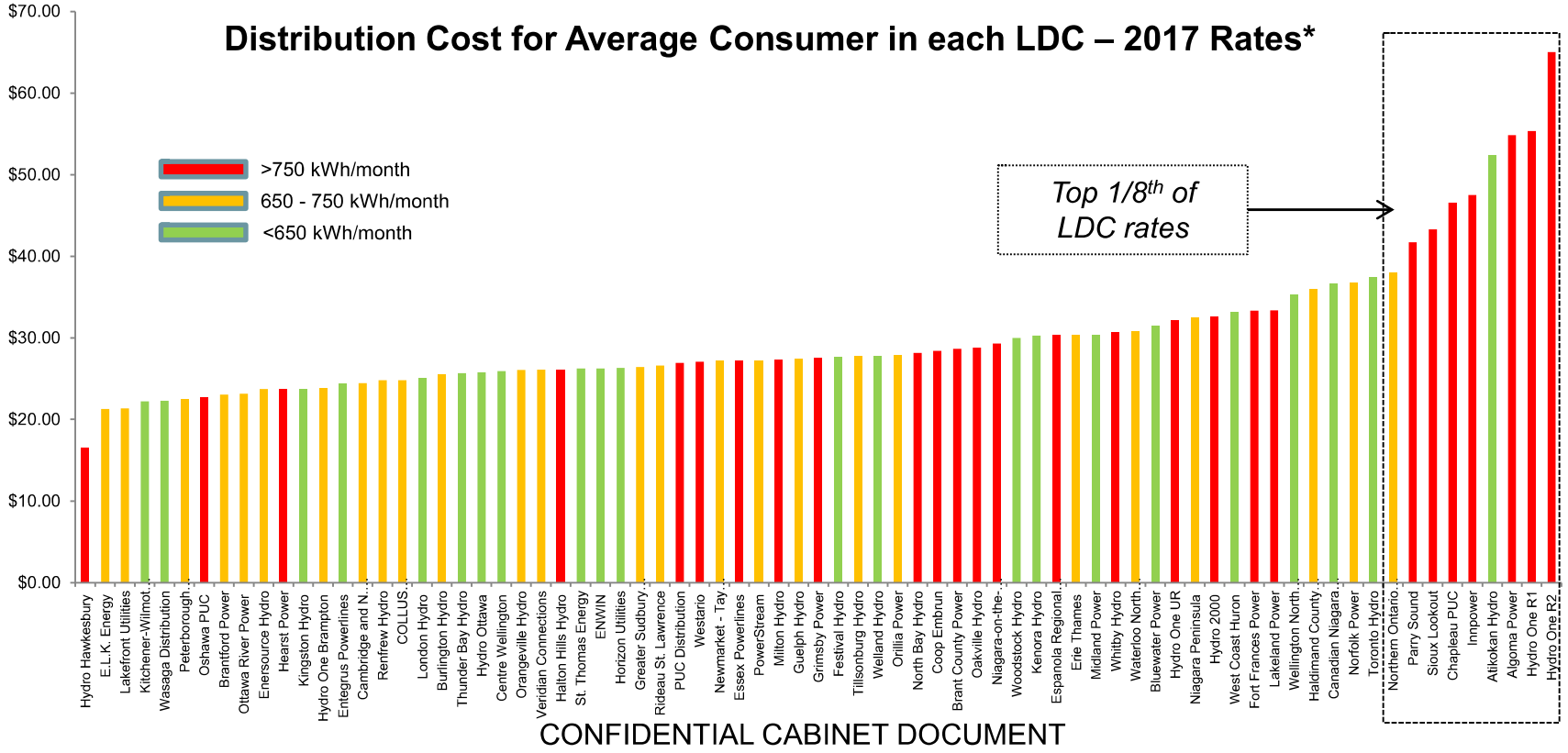
- Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.
  - RRRP is funded by ratepayers in Ontario and funded through the regulatory line of the electricity bill. Currently costs $1.58/month for a 750kWh consumer.
- Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are 335,000 R2 customers across the Province. These customers have some of the highest Delivery costs in the Province.
  - From 2001-2016 the program provided $125.4 million annually to help defray these costs.
  - In the 2016 Speech from the Throne, this funding was expanded by $116.4M to a total of $241.9 million.
  - As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.
- These customers still have high delivery and high distribution costs and are often faced with significantly higher than average bills.
  - The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

A. Enhancing the Rural or Remote Protection Program (RRRP)

- While the RRRP helps mitigate some of the higher distribution costs for Hydro One R2 customers, there is an opportunity to provide further relief to consumers in relatively high-distribution cost outlier LDCs (top ~1/8th of distribution rate classes).
  - If expanded to the top 1/8th of distribution costs, this enhancement would also include Hydro One R1 customers (medium density), as well as LDCs with high distribution costs including: Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma.
- Mitigation could be provided by harmonizing distribution rates for these LDCs at the lowest distribution rate paid by an average consumer in this group.
  - Based on projected 2017 LDC rates, the lowest distribution rate paid by an average consumer in this group would be ~$38/month (with the highest being $65).
  - Is consistent with the OEB's mandated move to fully fixed distribution rates for all LDCs.
  - Roughly 800,000 customers would receive benefits from the current RRRP program and from these additional enhancements.
  - Setting a lowest distribution rate across these LDCs would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.
- Mitigation for all electricity consumers would be provided by moving the existing RRRP program costs and the proposed enhancements from the electricity rate base to the tax-base.

A. Enhancing the Rural or Remote Protection Program (RRRP)

- The table below shows what 2017 distribution costs are projected to be for the average consumer within each LDC across the province, and highlights the highest-cost distribution rates.
- The charts on the following slides show what the benefits would be in each LDC if the fiscal plan was used to support harmonizing distribution costs for customers of the LDCs in the top ~1/8th of rate classes at $38/month.



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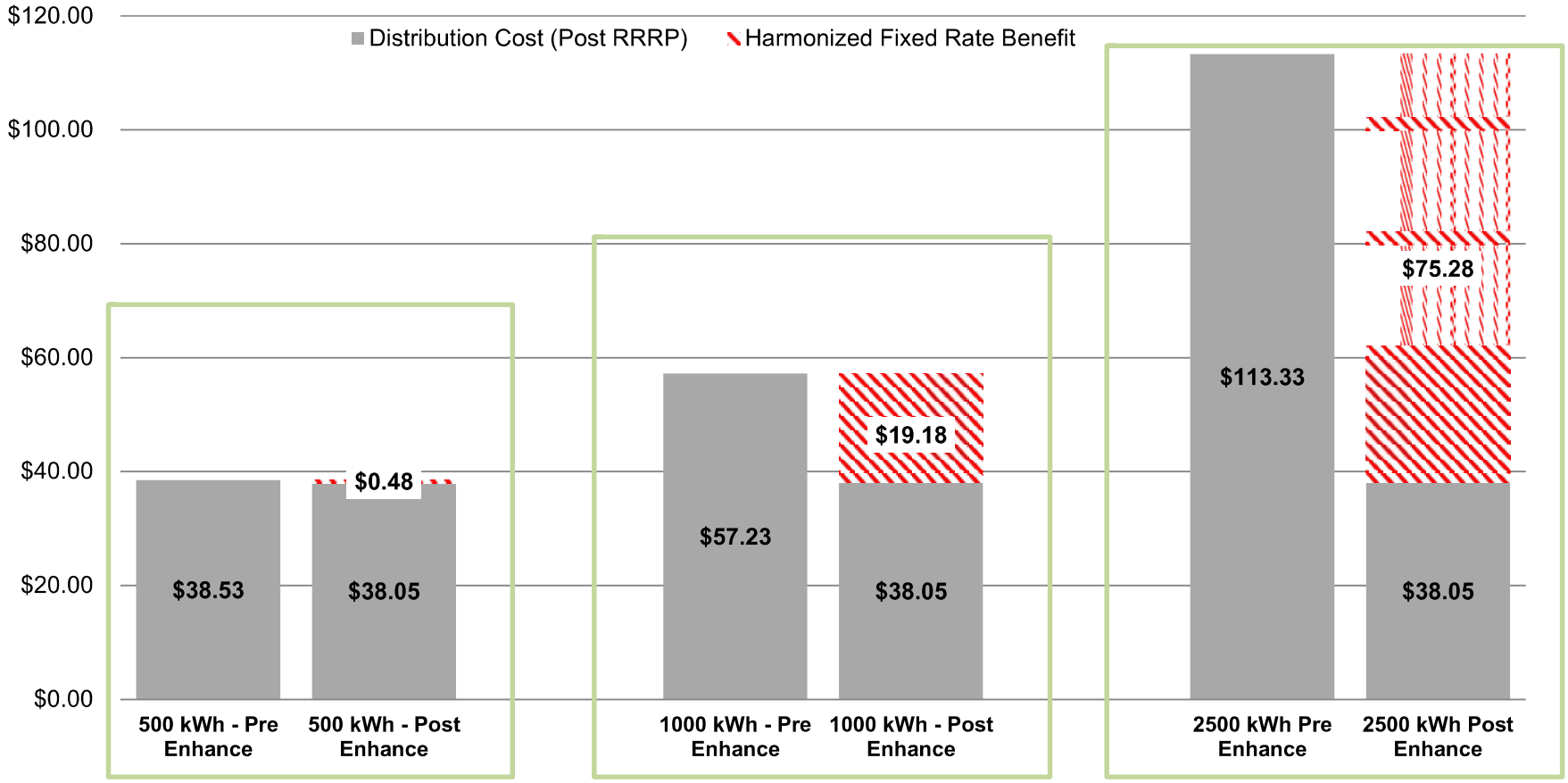
**2017 Approved and Proposed (Decisions Pending – rates are subject to change).*

A. Harmonized Distribution Cost – Ratepayer Impact (Hydro One R2)

- For Hydro One R2 customers, the enhanced benefits below are in addition to the $60.50 they already receive through the existing RRRP.



Note: *Rates are for 2017 (either approved or proposed). Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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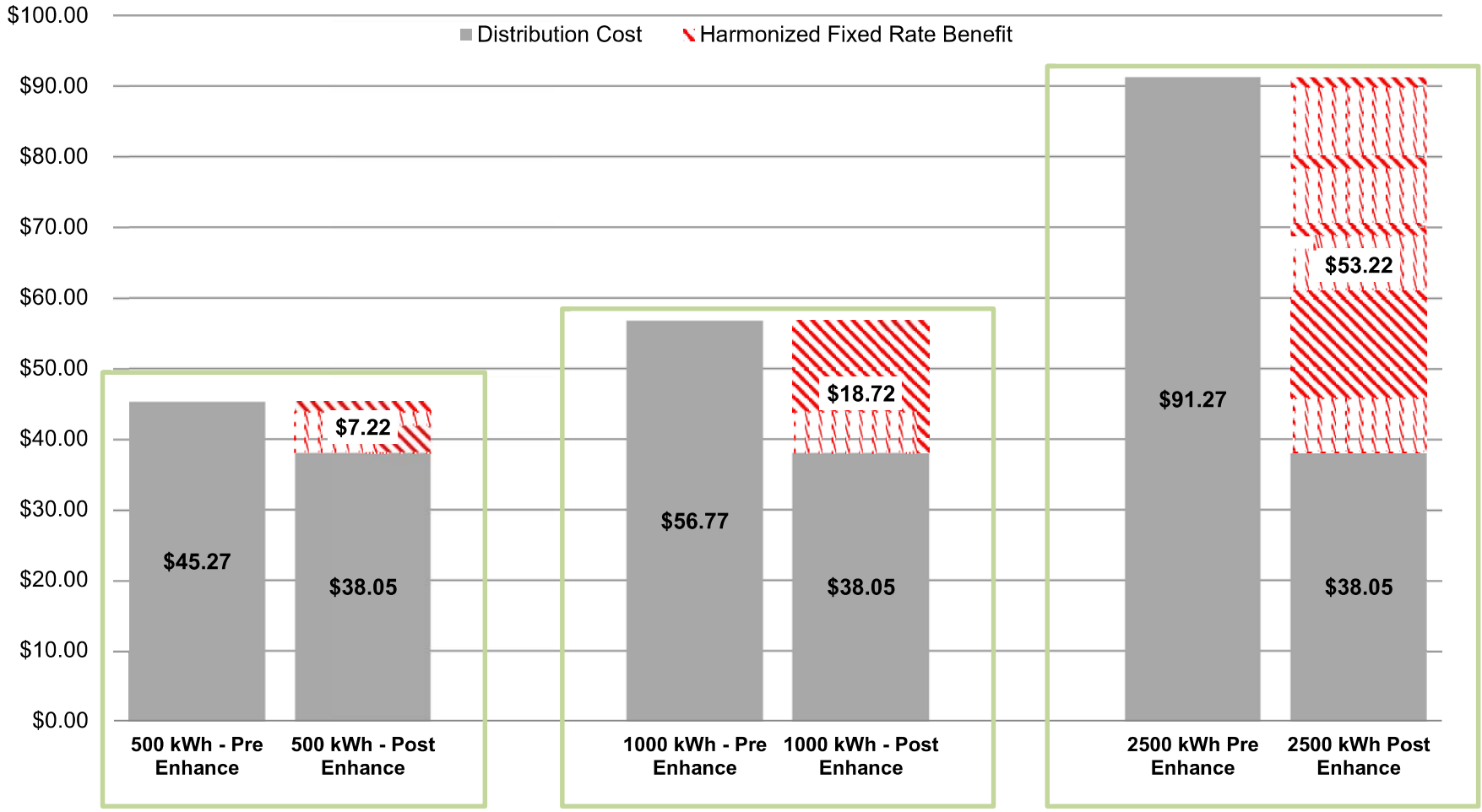
A. Harmonized Distribution Cost – Ratepayer Impact (Hydro One R1)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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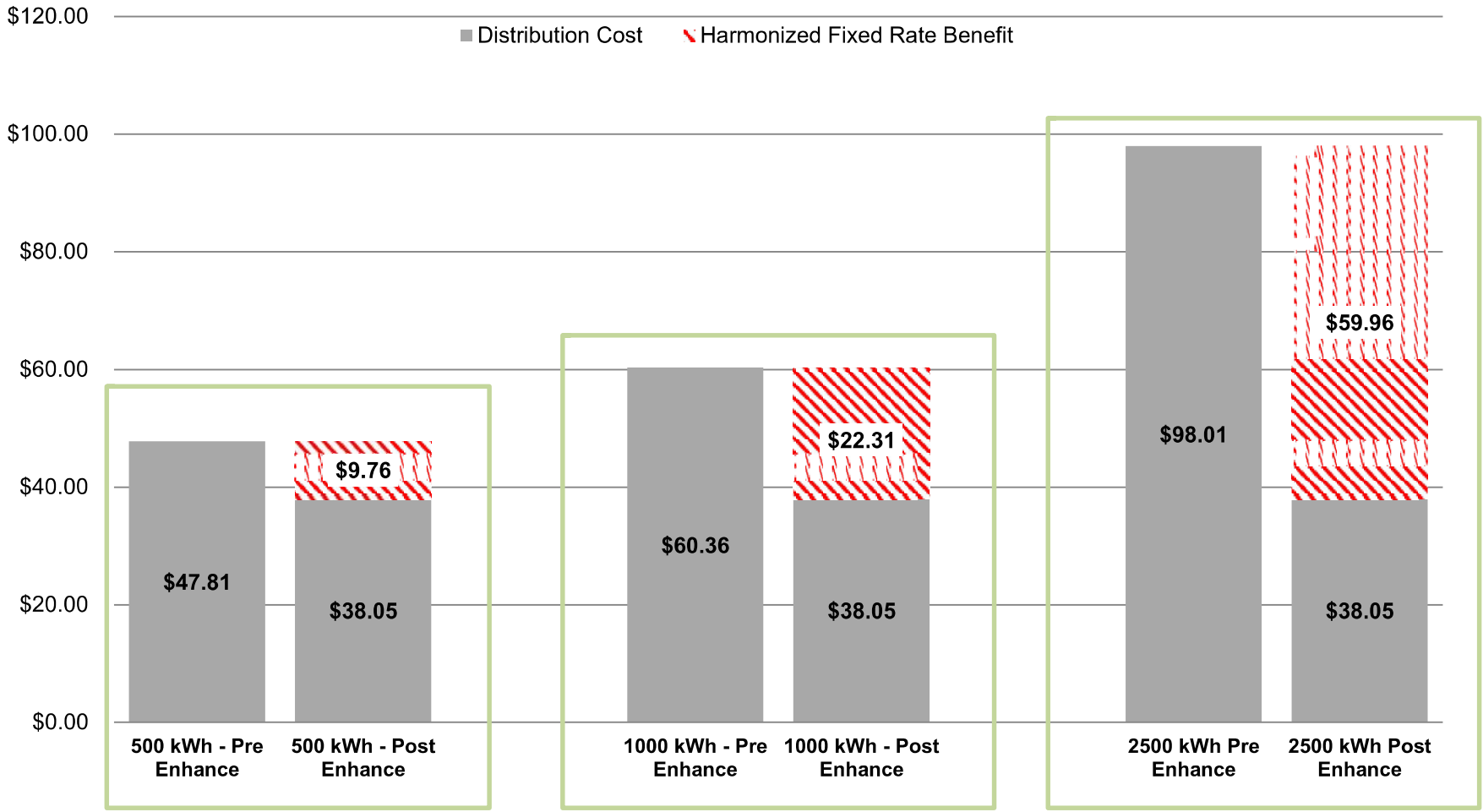
A. Harmonized Distribution Cost – Ratepayer Impact (Algoma Power)



Note: *Rates are for 2017 (either approved or proposed). Algoma Power receives RRRP to support operational costs. Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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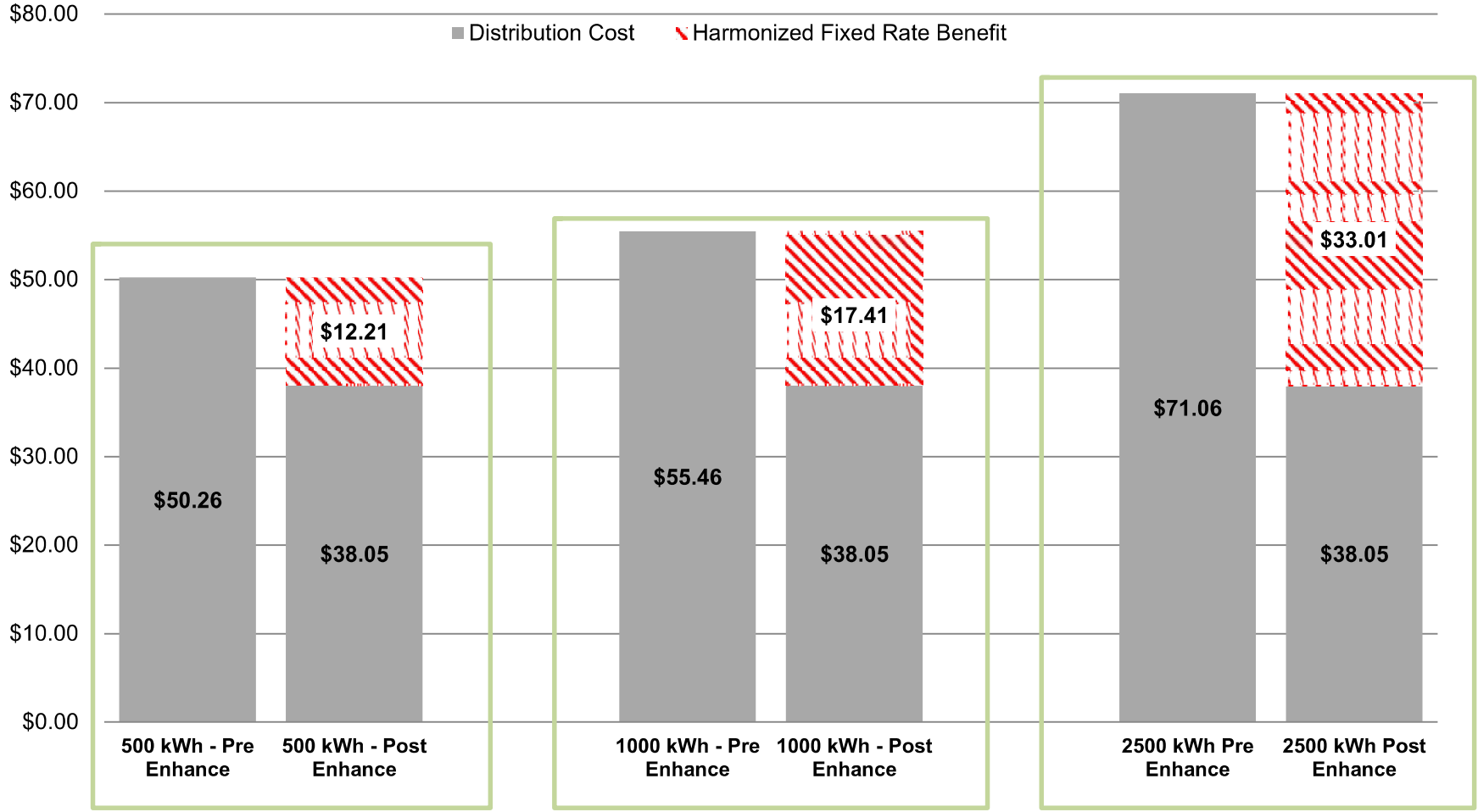
A. Harmonized Distribution Cost – Ratepayer Impact (Atikokan Hydro)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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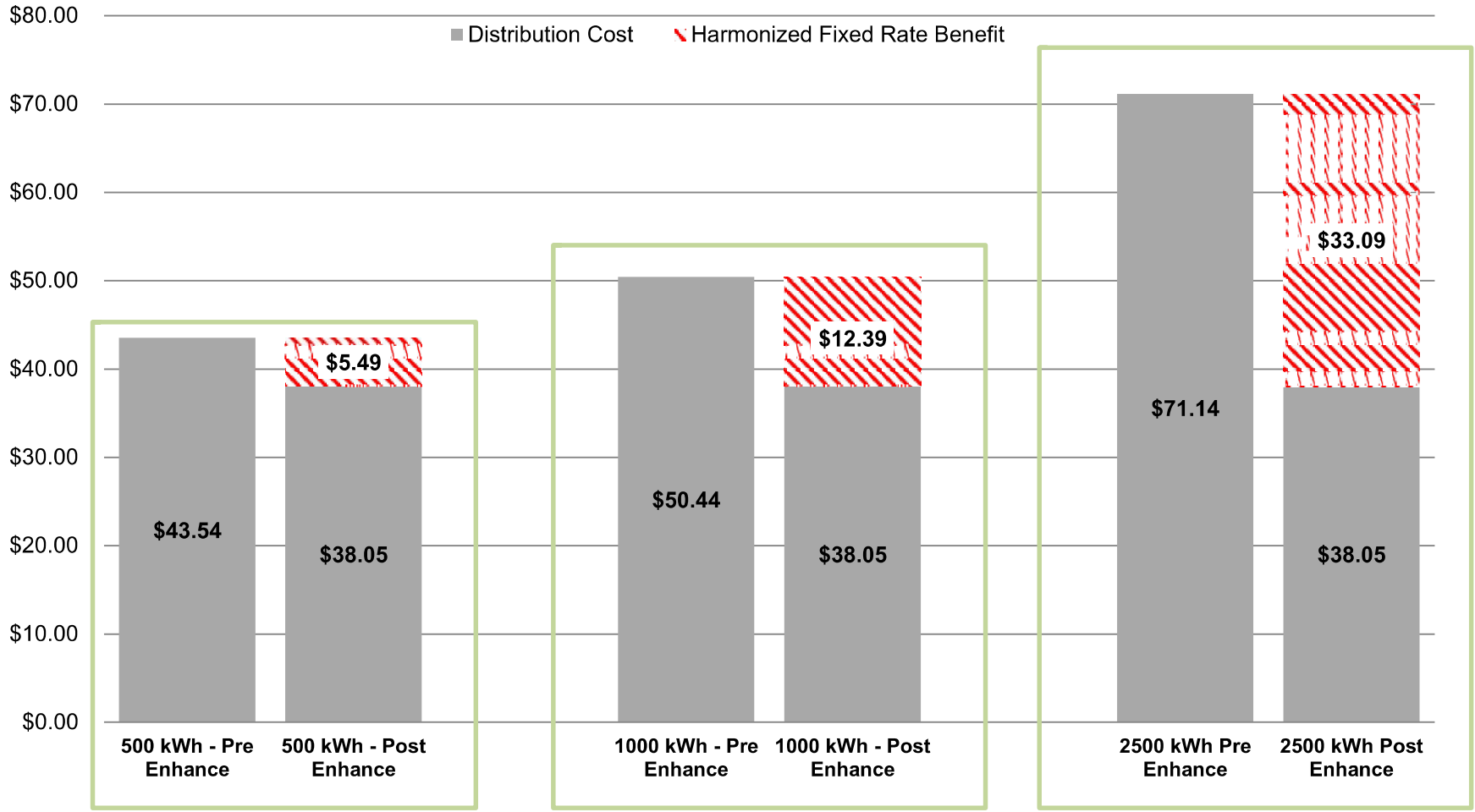
A. Harmonized Distribution Cost – Ratepayer Impact (InnPower)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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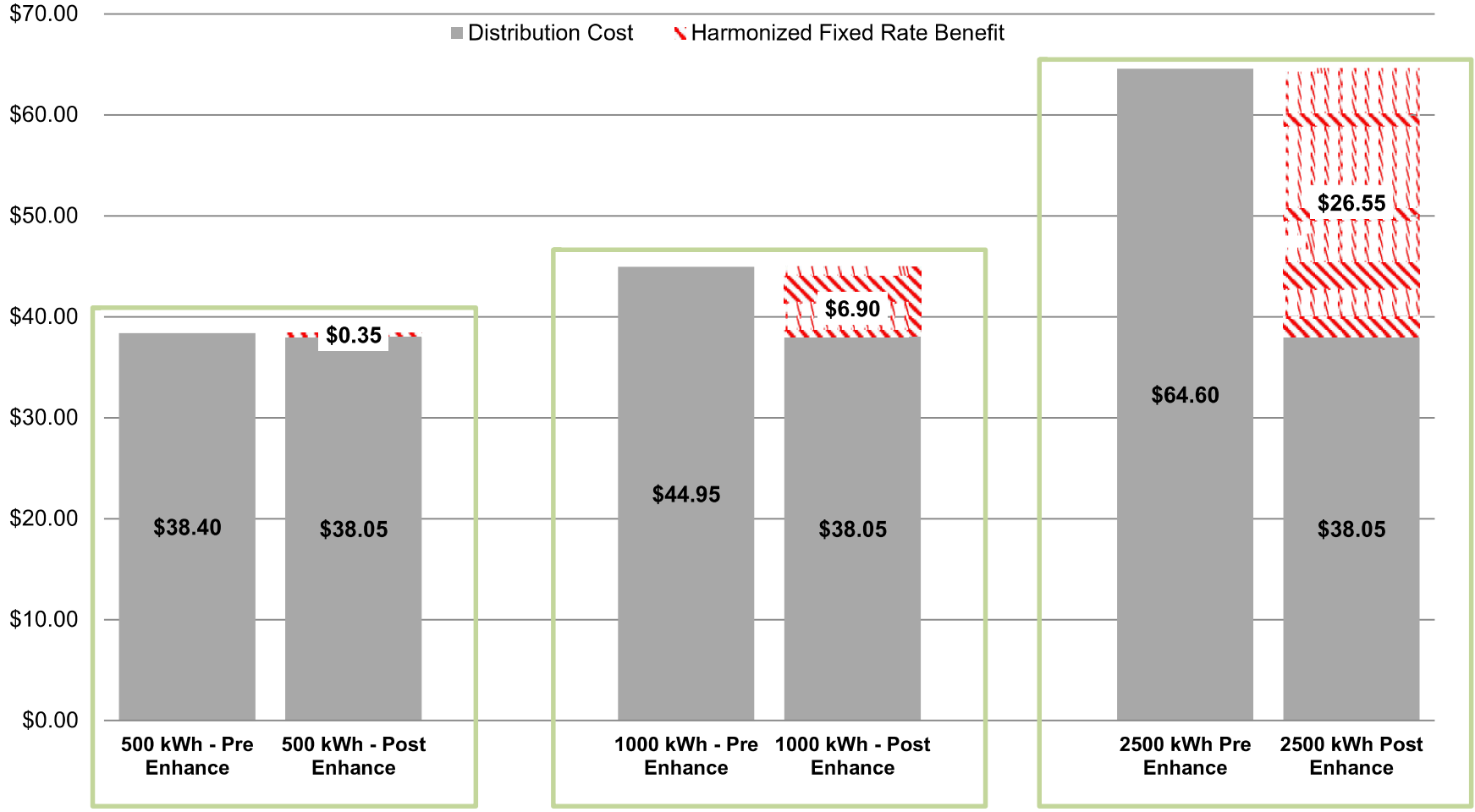
A. Harmonized Distribution Cost – Ratepayer Impact (Chapleau PUC)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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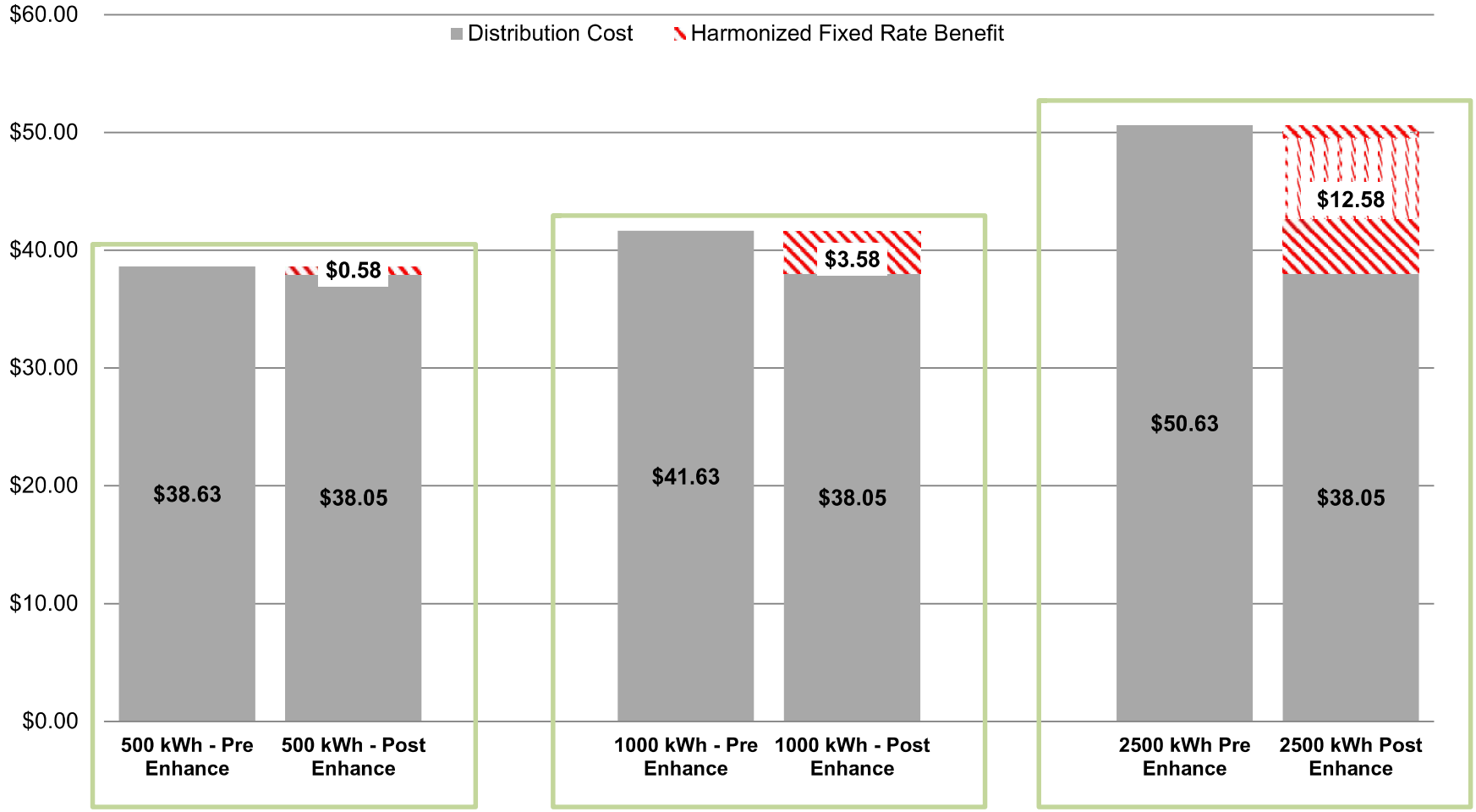
A. Harmonized Distribution Cost – Ratepayer Impact (Sioux Lookout Hydro)



Note: *Rates are for 2017 (either approved or proposed) Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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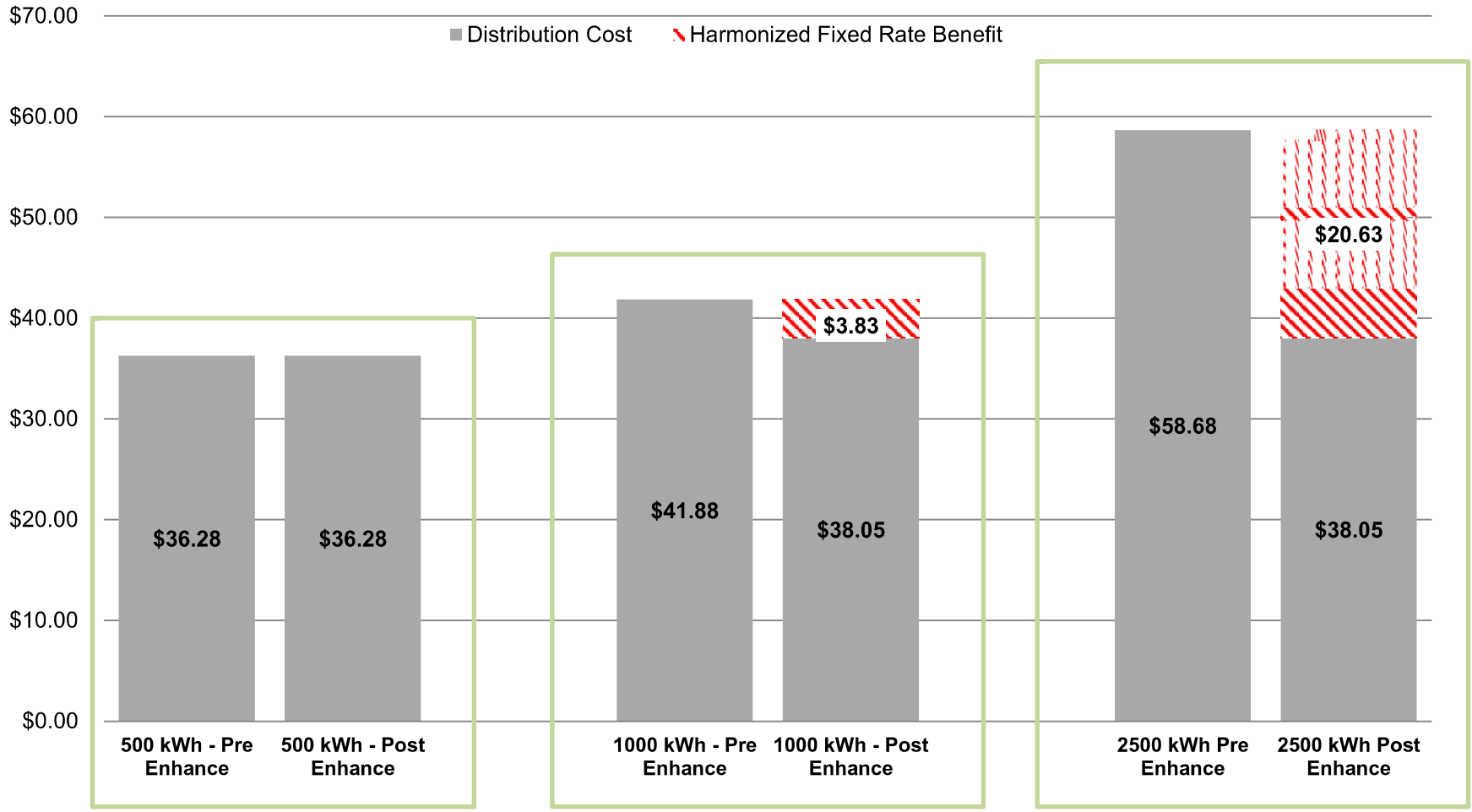
A. Harmonized Distribution Cost – Ratepayer Impact (Lakeland Power – Parry Sound)



Note: *Rates are for 2017 (either approved or proposed). Rates are for the Parry Sound territory within Lakeland Power. Other Lakeland Power customers (Huntsville area) not impacted. Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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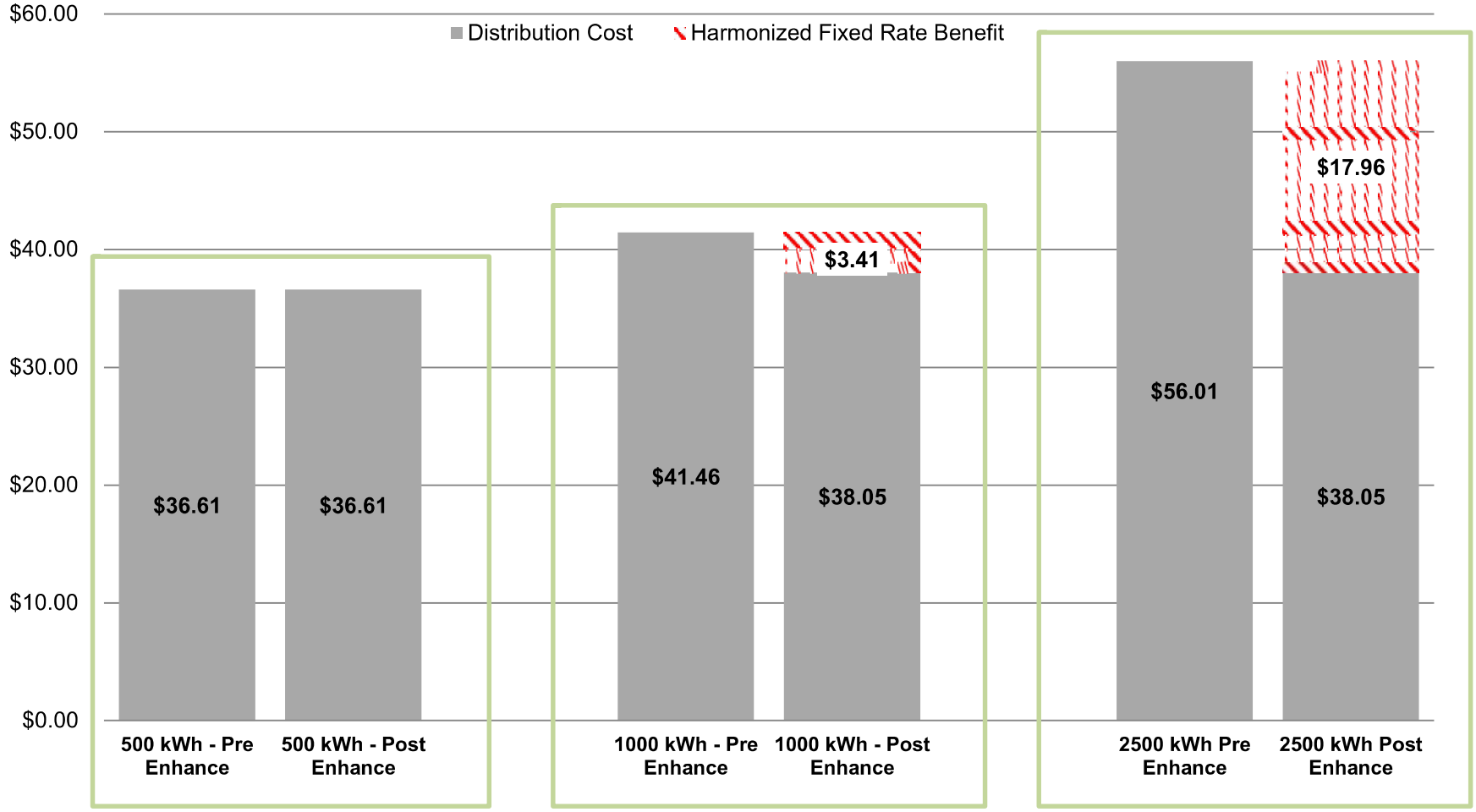
A. Harmonized Distribution Cost – Ratepayer Impact (Northern Ontario Wires Inc.)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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A. RRRP Enhancement – Considerations

Implementation

- The Ministry will need to ensure that only the high distribution cost LDCs are captured within the program framework
  - LDCs may need to be named explicitly in the legislation/regulation
  - A mechanism would also need to be created to ensure the level of benefit changes year to year
- LDCs will need to change their billing and customer information systems. OEB estimates that the implementation would take at least 6 months or more, following finalized regulations
- New legislation would be required to establish this program.
- Providing a tax-based subsidy outside of exiting rate setting mechanism reduces incentives for customers and distributors to engage on operating costs and capital planning.
- A mechanism will need to be created to ensure that LDCs/OEB/IESO/Province are aligned in the year-to-year forecasting and costing of the RRRP program and the enhancements.

A. RRRP Enhancement – Considerations (cont'd)

Fiscal

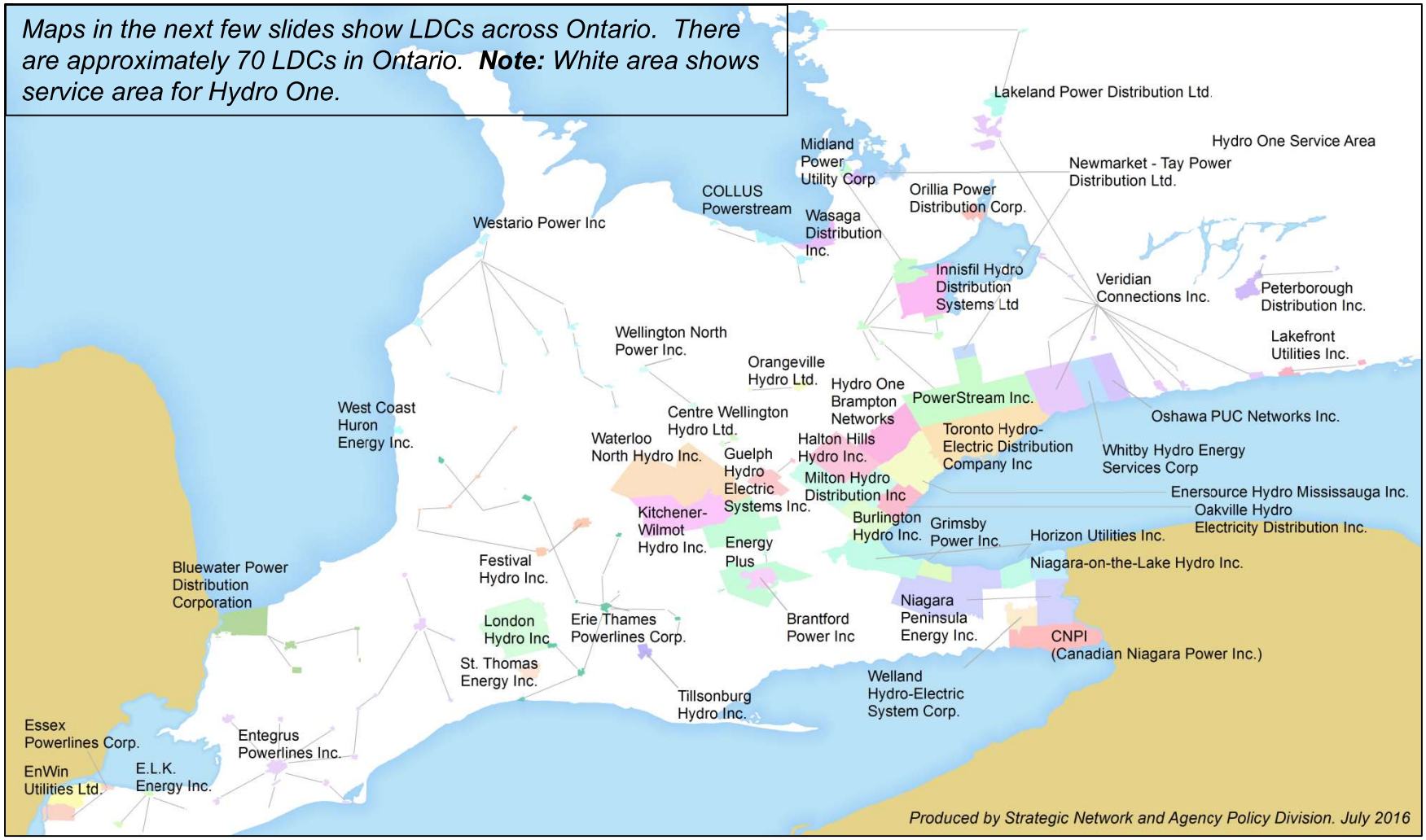
- As distribution costs vary year to year, forecasting fiscal impacts are challenging:
  - Hydro One is expected to submit its cost of service application for 2018 and beyond (3-5 years) in spring 2017. The rate increases requested in this application could potentially increase the proposed fixed rate which could have a significant impact on fiscal requirements and ratepayer impacts.
  - The other high distribution cost LDCs generally have lower distribution cost increases, however, it is difficult to forecast fiscally the impact of the program until LDCs submit their cost of service applications to the Ontario Energy Board (OEB).

Fiscal Impact ($M)	16-17	17-18	18-19	19-20	20-21
Legacy RRRP to Hydro One R2 Customers	-	126	130	133	136
2016 Speech from the Throne Enhancements to R2 Customers	-	117	120	123	127
Proposed Enhancements to Hydro One and Identified LDCs	-	216	222	228	234
TOTAL	-	**459**	**472**	**484**	**497**

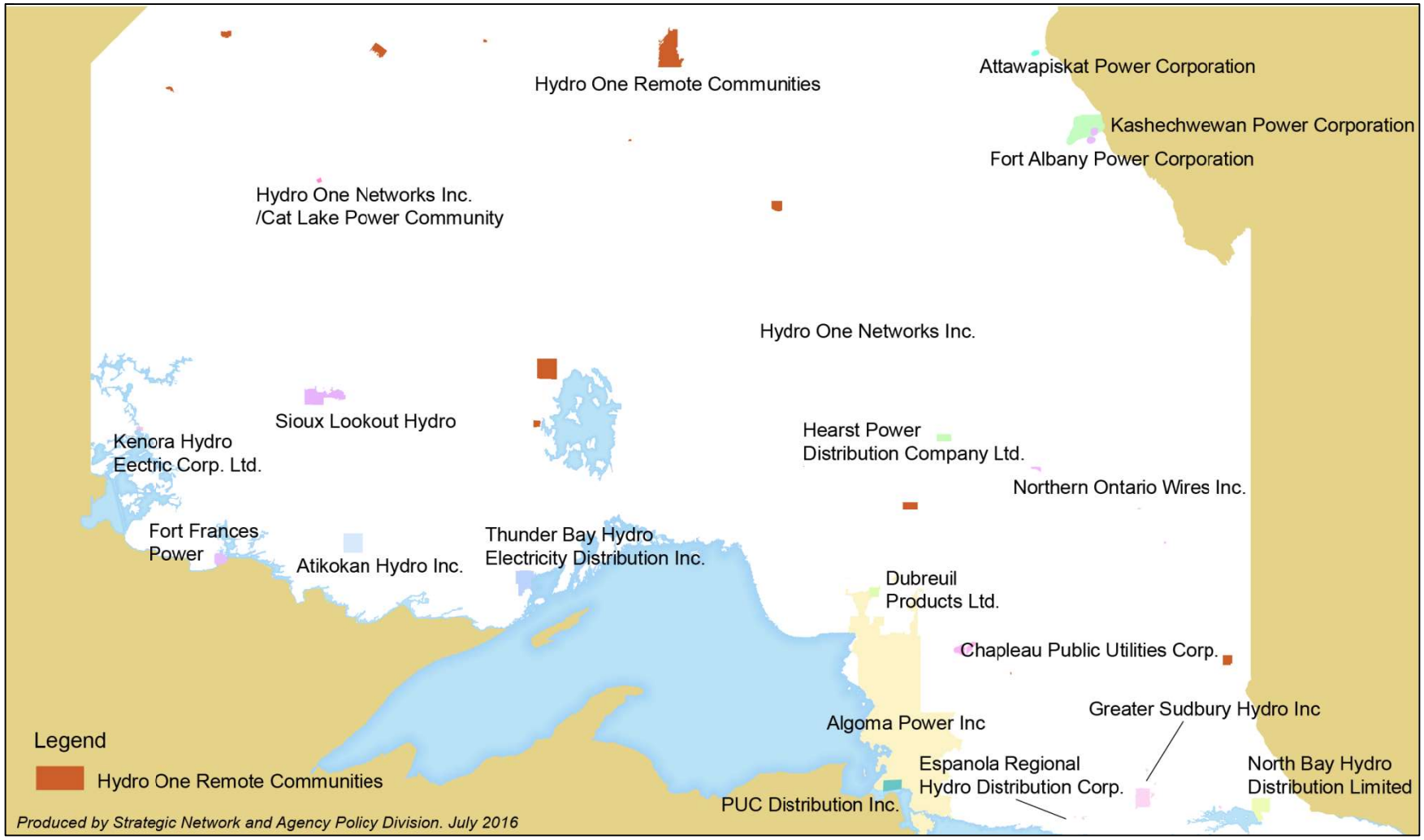
Note: Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate-base.

A. RRRP Enhancement – LDC Service Territory (Southwestern Ontario)

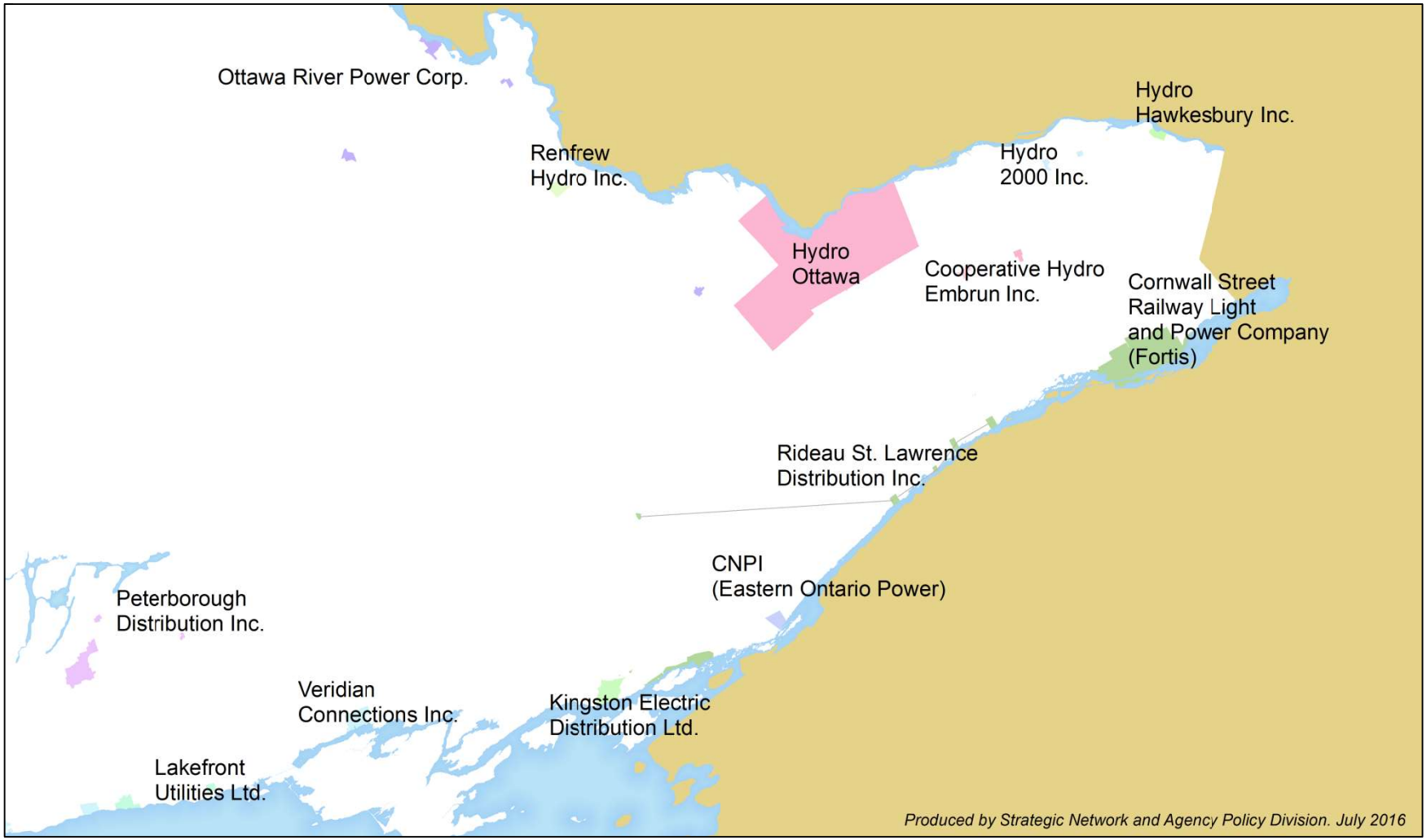
Maps in the next few slides show LDCs across Ontario. There are approximately 70 LDCs in Ontario. ***Note:*** *White area shows service area for Hydro One.*



A. RRRP Enhancement – LDC Service Territory (Northern Ontario)



A. RRRP Enhancement – LDC Service Territory (Eastern Ontario)



B. Ontario Electricity Support Program (OESP)

- The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by a rebate directly on bills. The OESP is currently funded by the rate base.
- OESP credits vary by income level and family size, and there are two credit scales that include:
  - The basic program credit ranges from $30/month to $50/month.
  - An enhanced credit that ranges from $45/month to $75/month for consumers that are either Indigenous, use electric heat or have certain medical devices.
- The OESP launched on January 1, 2016, and in just over a year:
  - Almost 180,000 have been enrolled in the program representing 30% of the total targeted low-income population and some 278,000 applications have been received.
  - Almost $50 million in credits have been provided to vulnerable consumers.
  - Some 172 intake agencies have been mobilized to assist low income consumers to apply for the OESP.
- To drive this uptake, the OEB has engaged in extensive outreach, including advertising in multiple languages, and continuing to work with partner agencies to develop a model for “application clinics” across the province to increase program awareness and uptake across the province.

B. Ontario Electricity Support Program (OESP) (cont'd)

- There are a numbers of ways that the OESP program can be enhanced:
  - Streamline the OESP process to drive participation toward 100%:
    - ENERGY and the Ministry of Community and Social Services (MCSS) have been working on automatic OESP qualification for Ontario Works (OW) and Ontario's Disability Support Program (ODSP) recipients who pay electricity bills.
      - MCSS estimates some 110,000 OW and ODSP recipients pay electricity bills;
      - This process could follow the "deemed eligibility" model used for the Healthy Smiles program. Using an existing model should simplify the implementation process.
      - The qualification process may have to be done manually at first, with a more automated IT solution in the longer-term.
    - Working with the CRA to make the application process easier / quicker to get through by finding an alternative to the requirement to mail-in signed consent forms;
    - Putting in place a more aggressive communications strategy and application intake clinics across the Province to increase awareness of/enrollment in the OESP.
  - Increasing the existing OESP credit scales by an additional 50%; and
  - Expanding the categories of OESP credits.

- It is also recommended that the OESP be supported from the tax-base as part of the rate mitigation package.

B. Ontario Electricity Support Program (OESP) (cont'd)

- The tables below outline the existing OESP credit scales and how the scales would be enhanced if increased by 50% and credits are extended to additional groups (represented in the circled boxes):

Existing OESP Credit Scales

Sliding Scale #1		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$30	$30	$34	$38	$42	$50	$50
	$28,001 - $39,000			$30	$34	$38	$42	$50
	$39,001 - $48,000					$30	$34	$38
	$48,001 - $52,000							$30

Sliding Scale #2		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$45	$45	$50	$55	$60	$75	$75
	$28,001 - $39,000			$45	$50	$55	$60	$75
	$39,001 - $48,000					$45	$50	$55
	$48,001 - $52,000							$45

Proposed +50% OESP Credit Increase*

Sliding Scale #1		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$45	$45	$51	$57	$63	$75	$75
	$28,001 - $39,000		$40	$45	$51	$57	$63	$75
	$39,001 - $48,000			$35	$40	$45	$51	$57
	$48,001 - $52,000					$35	$40	$45

Sliding Scale #2		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$68	$68	$75	$83	$90	$113	$113
	$28,001 - $39,000		$60	$68	$75	$83	$90	$113
	$39,001 - $48,000			$52	$60	$68	$75	$83
	$48,001 - $52,000					$52	$60	$68

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***Note:** The proposed higher scale, including the amounts in circles are proposed and will be refined in consultation with the OEB.

B. Ontario Electricity Support Program (OESP) – Considerations

Fiscal Impact

- Changes to legislation / regulation may be required to establish and define the parameters for OESP to receive funding from the tax-base. The scope of changes would depend on the implementation / delivery mechanisms.
- The OESP regulation will likely require changes to enable OW and ODSP recipients to be "deemed eligible" for the OESP.
- Financial flow-through mechanisms would need to be considered in consultation with IESO and LDCs. Likely to be modeled after processes used for the Ontario Rebate for Electricity Consumers (OREC).
- The OEB has been collecting program funding in excess of program costs and has accrued a positive balance. This balance must be addressed when moving to the tax base.
- If OESP amounts are increased, it will need to be confirmed that the credit is not treated as taxable income. This was addressed in the current iteration of the OESP.
- Adding additional categories to the OESP matrix will take time to implement as it will require changes to the central system as well as LDCs' billing systems. As well, the matrix will no longer follow the Low Income Measure (LIM), which could put additional pressure on the OESP and other provincial programs.

Fiscal Impact ($M)	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
Existing OESP credits	–	118	159	193	222
Incremental Enhance OESP credits by +50%	–	59	80	97	111
Incremental additional OESP categories	–	8	22	35	42
Total	–	**186**	**261**	**325**	**375**

C. Establishing a New Affordability Fund

- For eligible low-income customers, the Home Assistance Program (HAP), delivered by LDCs under the Conservation First Framework, provides efficiency upgrades and education, at no cost, to help improve the energy efficiency and comfort of their homes and help customers manage their electricity bills.

- HAP does not address the needs of those customers that do not qualify as “low-income” but could benefit from conservation programs.
  - At the end of 2015, there were over 560,000* residential electricity accounts in arrears; of these about 19,900** (~3.6%) accounts were eligible to participate in low-income conservation and support programs.
  - According to the Ontario Energy Board (OEB), in 2015 about 60,000 customers had their electricity service disconnected.

Proposal: Establish Affordability Fund to Provide Existing Low-Income Conservation Program to Other Electricity Customers

- The Ministry proposes establishing an Affordability Fund which would be available to LDCs to provide similar energy efficiency measures as provided under HAP to targeted customers.

* **Note:** Unverified numbers reported by LDCs to the OEB
** **Note:** Low-income customers identified through participation in LEAP

Ontario

C. Establishing a New Affordability Fund (cont'd)

Fund Details:

- An Affordability Fund would be accessible to LDCs only, and would target those customers who cannot qualify for low-income conservation programs and are in need, such as those who are facing disconnection.
  - By providing support for energy efficiency improvements, the Fund could help these customers reduce their future bills and avoid future disconnections.
  - The Fund would provide LDCs with an additional tool to provide assistance to their customers.

Eligibility Criteria/Fund Principles:

- Determination of eligibility could involve a number of factors and metrics:
  - Do not meet the definition of "low-income";
  - May have triggered action by an LDC collection department (e.g., are in arrears, have been placed on one or more payment plans, are due to be disconnected, etc.);
  - Priority could be given to eligible customers in electrically-heated homes, or other unique circumstances; and
  - Require financial assistance to pay for energy efficiency measures.

C. Establishing a New Affordability Fund (cont'd)

Implementation

- ENERGY is currently in discussions with several large LDCs to determine the principles of the Fund and is working with Hydro One to set up an independent Trust to serve as the Fund Administrator.
  - The Fund Administrator would manage the flow of funds to LDCs based on principles set by the province, and be responsible for establishing processes, administration, and criteria for funding applications, thereby ensuring the program is managed on a consistent basis across the province.
  - LDCs would apply for funding to the Fund administrator, to offer energy efficiency measures to those customers in their service territories that meet the targeted eligibility criteria.
  - LDCs have over 10 years of experience in delivering conservation programs, including experience specific to contracting for programs that target low-income customers.
  - LDCs are best positioned to identify and target their customers who are most in need.

- Given the scope of the Fund, an LDC would need a firm financial commitment up front before implementation. LDCs rely on rate-payer funding for most of their activities. The Affordability Fund would be a unique venture from an LDC perspective given that it is tax funded.

C. Establishing a New Affordability Fund (cont'd)

<u>Implementation</u> (cont'd)

- Recipients could receive measures ranging from an average of $3,000 to $5,000 per customer, at no or minimal cost. For example, measures available in the Home Assistance Program include:
  - Energy-saving light bulbs (LEDs); power bars; energy efficient window ACs, refrigerators, freezers, dehumidifiers; low-flow showerheads, hot water blankets, pipe wrap and faucet aerators (in homes with electric water heating); and
  - Programmable thermostats, weather stripping, insulation (in homes with electric heating).

- Cold climate air source heat pumps would also be an eligible measure under the Affordability Fund. Heat pumps range in cost from $7,000 to $13,000.

- As an illustration, with $200 million, the estimated reach of the fund could be 15,000 to 65,000 households, depending on measures and uptake.

C. Establishing a New Affordability Fund – Considerations

Considerations

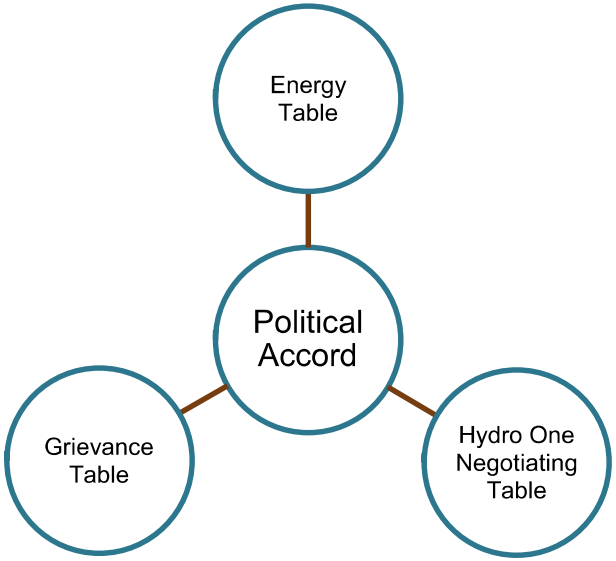
- The Affordability Fund addresses a real need.
  - LDCs have expressed the need for an additional tool to provide assistance to their customers.
- Determining allocation of funds to LDCs:
  - Some LDCs may have a disproportionate number of customers in need of assistance; and
  - ENERGY is proposing to seek input from the OEB, LDCs and potentially low income organizations to help develop funding allocation and eligibility principles for the Trust.
- While eligibility principles will be established, LDCs will need a degree of flexibility to target customers:
  - Not all customers who are in need will actively seek help;
  - Some customers in arrears may be "gaming the system" and not truly in need; and
  - LDCs recommend targeted outreach as opposed to broad marketing; a high volume of applications would limit the ability to deliver assistance to customers who need it most.

Fiscal Impact

- The Affordability Fund would represent a fiscal impact of $200 million in fiscal year (FY) 2016/17.
- To allow for funds to flow in FY 2016/17, ENERGY would sign a Transfer Payment Agreement (TPA) with Hydro One and transfer money before end of fiscal year to ensure Hydro One can establish the Trust and the Trust can begin operation as the Fund Administrator.
- There is a fiscal risk if monies used for the Fund do not flow before FY year-end 2016/17 and for monies that are sitting in Hydro One at year-end (because of consolidation with province), and a corresponding fiscal pressure in the following years when the funds are flowed from Hydro One (H1) to ratepayers.

D. Implementing On-Reserve First Nations Delivery Credit

- ENERGY has a number of Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.
- The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).
- The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.



- On June 27, 2016, following discussions on Hydro One shares and rates at COO's All Chiefs Conference, the Minister of Energy issued a letter directing the OEB to prepare a report providing "*advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers*".
  - OEB engaged with First Nations, including remote communities, the distributors serving them, and consumer groups such as the Low Income Energy Network. It also established an Advisory Committee with the Chiefs of Ontario's Grievance Committee.
- The Ontario Energy Board (OEB) has worked with COO to engage with First Nations to develop options for a First Nations electricity rate. The OEB provided a report to the Minister on December 29, 2016.

D. Implementing On-Reserve First Nations Delivery Credit (cont'd)

- On-reserve First Nations customers face unique challenges that impact electricity affordability, such as the poor quality of the housing stock on-reserve. These challenges result in significantly higher electricity consumption levels and costs.
- First Nations living on reserve are particularly vulnerable low-income consumers: the average income is considerably lower compared to First Nations living off reserve and compared to non-Indigenous populations:
  - Average income of First Nations on reserve in Ontario: $21,100;
  - Average income of First Nations off reserve in Ontario: $31,527;
  - Average income of Non-Indigenous people in Ontario: $42,506; and
  - Median incomes on smaller reserves can fall below $10,000 (e.g., Cat Lake FN).
- Employment rates also differ between on-reserve First Nations, off-reserve First Nations and Non-Indigenous individuals, as well as other indices of social vulnerability:
  - 54% of Indigenous people over 15 years old and living on-reserve in Ontario are unemployed or not in the labour force;
  - The on-reserve unemployment rate is 18.3% compared to 6.4% in Ontario generally; and
  - 67% of families residing on-reserve are single parent families, compared to the Canadian equivalent of 19%.
- First Nations are seeking redress for historic grievances related to lands affected by energy developments, such as transmission or distribution infrastructure built on reserve lands and traditional territories where, in some cases, they may not have been appropriately consulted.
- Further, in some circumstances, linear infrastructure corridors cut First Nation reserves in half, significantly disturbing the use and management of an already small land base; the First Nation communities disturbed by energy infrastructure report having experienced long wait times (e.g., 20 years) for their communities to get connected and receive the benefits of the energy derived from the local infrastructure.

D. Implementing On-Reserve First Nations Delivery Credit (cont'd)

- The OEB report to the Minister of Energy on a First Nation on-reserve rate recommended:
  - Eliminate the delivery charge for all on-reserve First Nations residential customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate;
    - The OEB estimates this would provide residential customers an average monthly benefit of $85 at a total annual cost of $13 to $20 million.
  - Automatically qualify on-reserve First Nations residential customers (~21,500 customers);
  - Enable greater information sharing between distributors and band councils to identify all on-reserve First Nations customers; and
  - Continue to provide assistance through OESP and LEAP to eligible on-reserve First Nations customers.
- The OEB suggested the program should be funded from the tax base as it is targeted to a particular segment of the provincial population, or, if rate based, to use a province-wide charge.
- ENERGY recommends moving forward with the implementation of the OEB's recommendations as part of the wider electricity rate relief package and as the Hydro One share agreement with COO continues to be implemented.

Distributor	Number of On-Reserve Residential Customers
Algoma Power Inc.	473
Attawapiskat Power Corporation	336
Bluewater Power Distribution Corporation	237
Cat Lake Power Utility Ltd.	80
Cornwall Electric Distribution	514
Hydro One Networks Inc.	16,679
Hydro One Remote Communities Inc.	2,579
PUC Distribution Inc. (Sault Ste. Marie)	264
Thunder Bay Hydro Electricity Distribution	332
Total Number of Customers	**21,494**

Source: OEB Report to Minister: Options for an Appropriate Rate Assistance Program for On-Reserve First Nations Electricity Consumers (Page 5).

D. Implementing On-Reserve First Nations Delivery Credit – Considerations

- Legislative and regulatory will be required to implement this program.
- The OEB will need to work with the LDCs to identify on-reserve consumers to administer the delivery rebate.
- Development of a communications plan containing the following elements:
  - Public release of the OEB report;
  - Commitment to working with LDCs on implementation details; and
  - Advanced notice to the OEB and COO regarding the ministry's decision to move forward on the OEB's recommendation and indicate a willingness to work collaboratively with COO on ways in improve community-LDC communication to ease implementation.
- The rebate will appear on customer's electricity bills, either as a specific line item or a communicated call-out.
- Recipients would continue to be eligible for programs such as the Ontario Electricity Support Program (OESP) and the Low-Income Electricity Assistance Program (LEAP).
- There is a risk that either non-status Indigenous communities without reserves or Métis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. A genuinely ameliorative program that targets some people but excludes others is shielded from a s. 15 challenge if it serves or advances the ameliorative goal. The proposal has an ameliorative purpose as it targets First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities, that affect electricity affordability.

Fiscal Impact ($M)	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
On-Reserve First Nation Delivery Credit	-	20	20	20	20

Fiscal Roll-Up

Fiscal Impact ($M)	16-17	17-18	18-19	19-20	20-21
RRRP Enhancements*	-	459	472	484	497
Ontario Electricity Support Program, including the 50% Enhancement & New Matrix Categories	-	186	261	325	375
On-Reserve First Nation Delivery Credit	-	20	20	20	20
Affordability Fund**	200	-	-	-	-
Total	200	665	753	829	892

***Note:** Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate-base.
****Note:** Funding for the Affordability Fund is one-time in 2016/17.

BENDING THE FUTURE COST CURVE OF ELECTRICITY

Existing Rate Mitigation Actions To Bend The Cost Curve

- Since 2013, the government has taken a number of actions to reduce electricity ratepayer costs, including:
  - Renegotiating the Green Energy Investment Agreement to reduce contract costs by $3.7 billion.
  - Reducing Feed-In Tariff (FIT) prices saving ratepayers at least $1.9 billion.
  - Introducing a competitive Large Renewable Procurement (LRP) process to drive down costs approximately $1.5 billion lower than the 2013 LTEP forecast.
  - Deferring the construction of two new nuclear reactors at Darlington, avoiding an estimated $15 billion in new construction costs.
  - Maximizing the value of our existing nuclear fleet by starting Bruce refurbishments in 2020 instead of 2016, thus helping to achieve $1.7 billion in savings and by continuing to operate Pickering up to 2024, pending regulatory approvals, which could save ratepayers about $600 million.
  - Suspending the second round of the LRP process and the Energy-from-Waste Standard Offer Program, which is expected to save up to $3.8 billion in costs.
  - Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – up to [$xx] cost savings.

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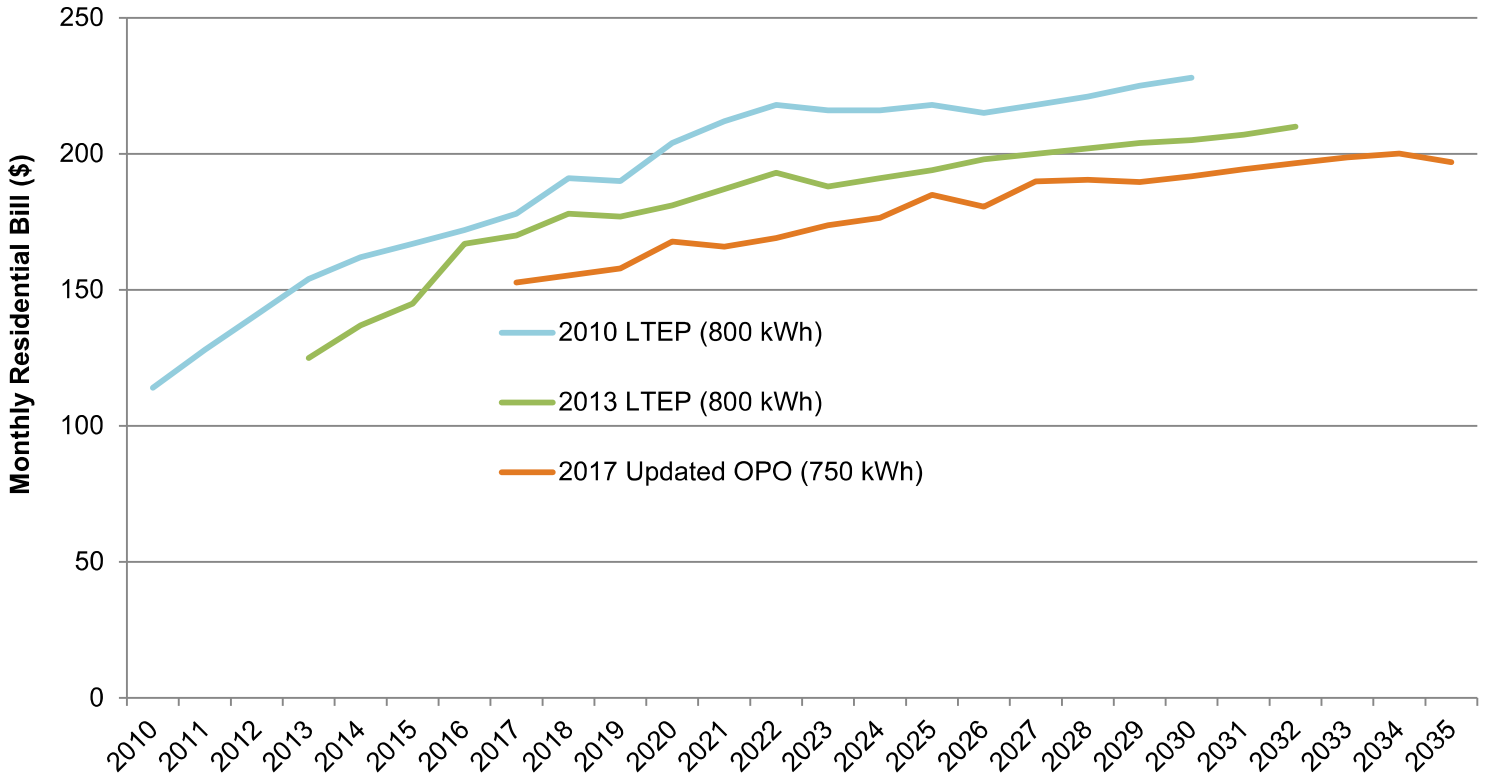
Existing Rate Mitigation Actions To Bend The Cost Curve (cont'd)

- The chart below shows how electricity rate forecasts have trended down over time.



Sources: *2010 LTEP (800 kWh/month); 2013 LTEP (800 kWh/month); Revised Ontario Planning Outlook (750 kWh/month as of February 2017) which includes: ICI expansion, RRRP update, 8% rebate, HQ agreement, suspension of LRP II and EFWSOP.*

A. OEB – LDC Efficiencies and Rates

Leveraging the OEB

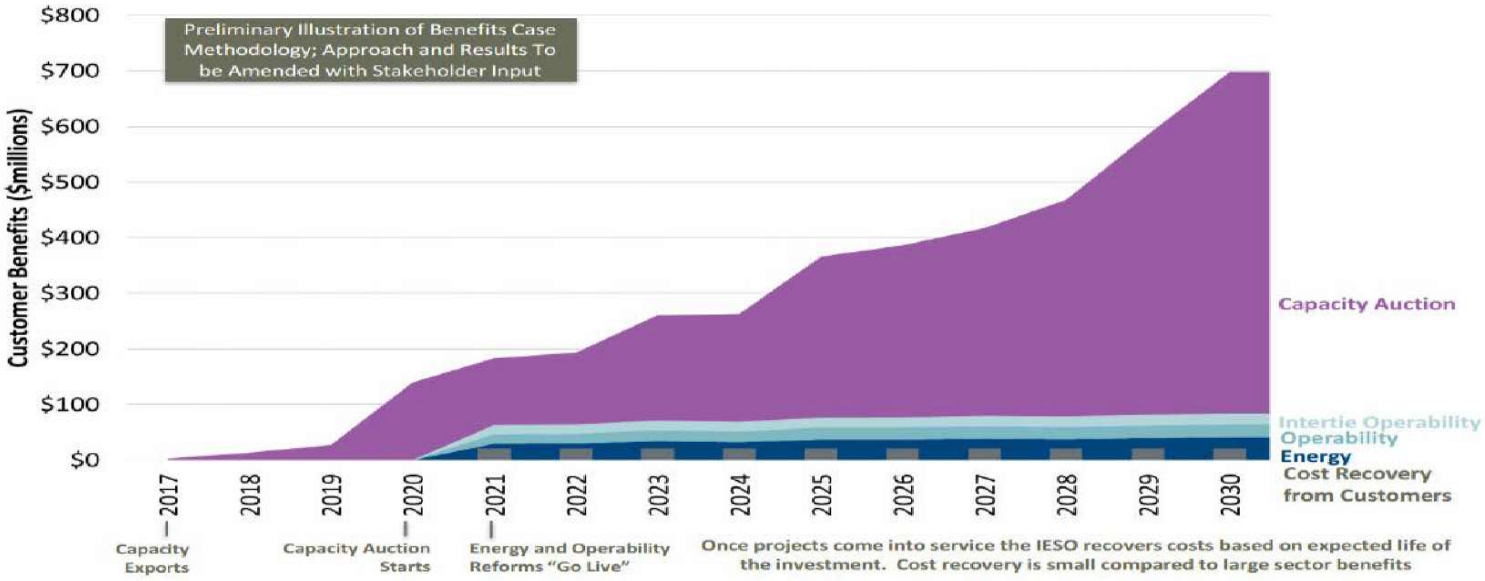
- The Ontario Energy Board (OEB) has a mandate to regulate the electricity distribution sector in the public interest, ensuring the financial viability of the sector while promoting reliable service to customers at just and reasonable rates.
- The OEB, through the Renewed Regulatory Framework for Energy (RRFE), has since 2012 attempted to move the distribution sector towards a performance/outcomes-based regulatory framework.
  - While new reporting requirements such as the LDC performance scorecard are positive developments, RRFE does not tie these system performance expectations to LDC financial performance.
- Encouraging shared partnerships on services between utilities will help reduce costs in the back end and encourage further innovation for small to medium sized utilities.
- In 2012, the government asked the Ontario Distribution Sector Review Panel to make recommendations about how the distribution sector could become more efficient. The Panel concluded that a $1.2 billion net present value in savings could be achieved by consolidating LDCs into 8-12 regional entities.

Opportunities

- ENERGY could help promote and accelerate these efforts by asking the OEB to look at opportunities to further drive LDC efficiencies and productivity. This may indirectly incent LDC consolidation.
- In parallel, the OEB could be instructed to review business cases behind its own regulatory requirements to reduce “red tape” and eliminate costs that LDCs indicate are creating pressures on operating expenses.
- This could be done through the Minister's letter, the LTEP Implementation Directive, s. 35 of the *Ontario Energy Board Act, 1998*, and/or the 2017 Mandate Letter and other agency business planning processes.

B. IESO – Market Renewal

- Continue to move forward with Independent Electricity System Operator's (IESO) Market Renewal initiatives:
  - Moving to "technology-agnostic" procurements will provide new opportunities for innovation and modernization and ensure ratepayers receive the best prices possible.
  - Market Renewal encompasses projects such as a single-schedule system (from the current two-schedule system), more frequent intertie scheduling to better align with other jurisdictions and a day-ahead market. There will be up front capital costs to enable the initiative. IESO is currently assessing these costs.
- Changes related to IESO's Market Renewal initiatives, reflected in HOEP and uplifts, are estimated to save up to $300 million per year, starting in 2021, leading to a reduction of:
  - About $1/month or less than 1% at current retail prices for a typical residential bill; and
  - About $1.30/MWh at current all-in prices for industrial and SME electricity consumers.



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SUPPORT FOR TENANTS

Support for Tenants – Context

- The government is considering measures to provide relief from high electricity prices, and is interested in ensuring that tenants also receive electricity cost reductions and/or relief.

- Currently, tenants generally either pay for their own electricity use through suite meters (i.e., sub-meters or direct arrangements with hydro providers) or pay for electricity indirectly as a service included in their rent:
  - Tenants who pay for their own electricity will receive electricity costs savings directly through their bills; and
  - Low-income tenants who pay own electricity bills can access energy support programs such as the Ontario Electricity Support Program administered by the Ontario Energy Board (OEB).

- Any potential initiatives could focus on the following options:

For tenants who pay own electricity bills

1. Expand OESP to increase relief or raise income thresholds.

For tenants whose electricity is included in rent

2. Require that landlords pass savings on to tenants (could be addressed by MHO through RTA amendments).
   - Options could include requiring landlords to automatically reduce rents, or allow tenants to apply the Landlord and Tenant Board for relief.
3. Provide energy rebates directly to tenants whose rent includes electricity.

Support for Tenants – Potential RTA Hydro Relief Measures / Considerations

- RTA amendments with respect to tenant relief, remedies, and enforcement would be complex, and unable to provide immediate, direct and transparent cost remedies to tenants:
  - Impact of hydro relief measures and electricity cost savings for landlords may vary depending on size of rental building and location (urban/rural):
    - One size fits all approaches would not match actual landlord savings to direct tenant relief; and
    - More targeted approaches would add extreme complexity, leading to greater confusion for landlords and tenants, and difficulty administering enforcement.
  - Passing on actual savings could likely only be done after landlords have experienced decreased costs for a period of time (i.e. one year).
  - Difficulty in informing landlords of their responsibilities and enforcing reductions; would likely have significant resource implications for the Landlord & Tenant Board/Ministry of Attorney General.
  - Difficult for tenants to understand, with the most vulnerable tenants potentially less able to pursue remedies through the LTB.
- The kinds of potential RTA remedies would depend on various specifics regarding the way in which relief was being provided to landlords including whether:
  - The actual electricity cost savings for landlords are transparent to facilitate easy calculation of rent reductions or relief;
  - Hydro relief measures are permanent or temporary; and
  - All relief should be passed on to tenants, or just a portion of the relief (e.g., global adjustment fund, 8% rebate, any other relief).

Support for Tenants – Potential RTA Hydro Relief Measures / Other Considerations (cont'd)

- As part of Climate Change Action Plan, MHO has been directed to mitigate the impact of carbon costs on tenants, and is proposing to prevent landlords from charging above-guideline rent increases for extraordinary utility costs increases.
  - May seem unfair that landlords are required to reduce rents or provide relief when utility costs decrease but cannot increase rents when utility costs increase.
- Relief would be limited to certain segments of tenant population:
  - Post-1991 buildings are exempt from the Rent Increase Guideline and landlords could negate any savings to tenants in these buildings through a higher subsequent rent increase.
    - Over 19% of tenant households are estimated to live in post-1991 private rental units including individually rented condos; a high proportion may already pay for electricity separately.
  - Relief may not be required for social housing tenants:
    - Most social housing tenants (80%) pay as per utility scales, which covers electricity usage other than electric heat; and
    - Utility scales were last updated in 2000 and are reflective electricity prices at that time.
- MHO, working with ENERGY and MAG will report back in Spring 2017 with options for electricity rate mitigation for tenants.

Legislative Authority – Considerations

GA Smoothing

- **Amendments to *Electricity Act, 1998* (EA) and *Ontario Energy Board Act, 1998* (OEBA)**
  - The OPG Trust will require authority to recover principle, interest and administrative costs through GA from customers.
  - Legislation would authorize IESO to collect amounts on behalf of the OPG's SPV/Trust and settle accounts with the OPG Trust as a service provider. Regulatory amendments to GA Regulations would require IESO to:
    - Separately settle and track amounts received from the SPV/Trust to lower GA (including maintaining variance accounts).
    - Separately settle and track amounts paid back to the SPV/Trust (including maintaining variance accounts).
    - Distributors would continue to collect from consumers and settle with IESO. Generators would continue to be paid by IESO.
  - OEBA-related amendments would allow for OEB oversight. Light touch would focus on the borrowing entity's recovery of administrative costs and its calculation of amounts owing in a period. Heavy touch would give OEB the discretion to determine repayment over time.
  - The certainty of the legislative mechanism to recover the debt and interest, and the extent of discretion of the OEB to alter either amount over time, will have impacts on the availability and cost of capital.
  - Further legal analysis is required as the GA option is developed.

Class B

- **Targeted Lowering ICI Threshold Below 1 MW (to 500kW):** Regulatory amendments (O.Reg. 429/04) will be required to address program details.

Legislative Authority – Considerations (cont'd)

Electricity Support Programs

- **RRRP, OESP and First Nations Rate:** Moving costs to the tax base and creating a First Nations rate will require amendments to OEBA. Regulatory amendments (442/01, 314/15, 275/04) will be required to address program details.

- **Affordability Fund:** In order to implement new affordability fund the Province would need to enter into Transfer Payment Agreements with qualified third parties to administer the fund.

Bending the Future Cost Curve of Electricity

- No specific legislative or regulatory amendments identified. IESO may need to amend market rules. Agency MOUs/MOAs may require amendment.

Communication Plan

Objective:

- Demonstrate Ontario's commitment to lower electricity costs for ratepayers through new rate relief initiatives.

Strategic Approach

- High-profile Premier's announcement and Technical Briefing
- News release, backgrounders, QA's are being prepared.
- A multimedia marketing and advertising campaign is being prepared on the topic of rate mitigation for electricity consumers.

APPENDIX: SEE MINISTRY OF ENERGY'S ELECTRICITY PRICE MITIGATION – APPENDIX

Q&A Response

Q. What is the revised cost forecast for the 8% rebate as result of the measures announced in Ontario's Fair Hydro Plan?

Key measures announced in Ontario's Fair Hydro Plan (OFHP) are expected to reduce the cost of the 8% rebate for the Province. The cost to the Province is expected to decrease as the total cost of electricity paid by eligible customers, upon which the rebate is based, will be reduced.

ENERGY has updated the cost forecast for the 8% rebate based upon the following:

- Independent Electricity System Operator updated its Ontario Planning Outlook (OPO) with respect to a typical bill for a residential consumer as outlined in the March 1, 2017 Cabinet Submission. This revised OPO price outlook is inclusive of all the recently announced measures including cancellation of LRP II and EFW and expansion of ICI.

- ENERGY's estimates of the reduction to a typical bill for a residential consumer as a result of the Global Adjustment (GA) refinancing and funding electricity support programs through provincial revenues as announced in the OFHP.

- ENERGY's estimates of the reduction in costs for consumers that benefit from electricity support programs as announced in the OFHP (i.e., expanded Rural or Remote Rate Protection, enhanced Ontario Electricity Support Program and the First Nations Delivery Rebate). For Fiscal Year 2017-2018 this includes a 50% adjustment to the cost given that implementation of the expanded programs is expected to be deferred to September 2017.

	2017-2018	**2018-2019**	**2019-2020**	**2020-2021**
ENERGY Estimate **(August 26, 2016)** ($ million)	1,006	1,004	944	n/a
ENERGY's Revised Cost Estimate **(September 8, 2016)** ($ million)	1,119	1,086	1,171	n/a
ENERGY Revised Estimate **(March 15, 2017)** ($ million)	939	882	882	895
Change: **March 15, 2017** vs **August 26, 2016**	-7%	-12%	-7%	n/a
Change: **March 15, 2017** vs **September 8, 2016**	-16%	-19%	-25%	n/a

NOTE: The above estimates are subject to variances as result of uncertainties in demand, natural gas prices and other factors. These uncertainties also impact the variance account for the Regulated Price Plan (RPP).

Estimate Assumptions:

	2017	2018	2019	2020
Annual Average Electricity Price, Pre-tax, after Mitigation Programs ($ per month)	127*	120	122	125

***Note:** Value adjusted from $117 to account for deferral of implementation to May 2017 (GA refinancing) and July 2017 (tax-basing electricity support programs).
Source: OPO February 2017 and ENERGY estimates / Cabinet Submission March 1, 2017

	2017-2018	2018-2019	2019-2020	2020-2021
Cost of Expanded Electricity Support Programs in OFHP** ($m)	499***	753	829	892
RRRP	344			
OESP	140			
ONFNDC	15			

****Note:** Includes the Rural and Remote Rate Protection (RRRP), Ontario Electricity Support Program (OESP) and On-Reserve First Nations Delivery Credit (ORFNDC)
***__Note__: Value adjusted from $665 million to account for deferral of implementation to July 2017.
Source: ENERGY estimates / Cabinet Submission March 1, 2017

	Base year
Total volume eligible for rebate (TWh)	71
Residential sector total eligible for rebate (TWh)	42
Portion of residential sector on retail contract (%)	10
Retail Premium: Residential ($/kWh)	0.03
Multi-unit sector total eligible for rebate (TWh)	7
Portion of multi-unit sector on retail contract (%)	10
Retail Premium: multi-unit ($/kWh)	0.02
Commercial sector total eligible for rebate (TWh)	20
Portion of commercial sector on retail contract (%)	26
Retail Premium: Commercial ($/kWh)	0.02
Agricultural sector total eligible for rebate (TWh)	1.9
Residential demand growth (2016-2023)	-0.6%
Commercial demand growth (2016-2023)	0.3%

Source: OCEB database, 2016 OPO and ENERGY analysis

From:	Ronald Kwan
To:	John Kim; Emily Kerr; Bruno Amara
Cc:	Deena Padamadan
Subject:	FW: OFHP Placemat/definitions
Date:	Wednesday, May 03, 2017 9:48:24 AM
Attachments:	2017-03-01 - Cabinet Submission - Electricity Price Mitigation.pdf QA - Revised Rebate Cost Post FHP - to DMO_ESPD ADM Approved_ESP_v0.2 - ....docx

Hi,

FYI.

Further comments to Scott?

Ron

From: Ronald Kwan
Sent: May-03-17 02:38
To: Scott Nelms (ENERGY) <Scott.Nelms@ontario.ca>; Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Subject: RE: OFHP Placemat/definitions

Hi Scott,

On the numbers for the second slide, they do not appear to reflect the numbers from the March 1, 2017, Energy CabSub in each year (see attached). Also, the 17-18 numbers in the fiscal plan were adjusted to reflect ¾ of a year, per a July 1, 2017 implementation date (see attached Q&A file). With regard to the latter file, it might be useful to add to the second slide the revised OREC estimated cost numbers too.

On slide 1, I'd suggest separating out the Province and OFA bubble, to show the credit facility and equity injection separately.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-02-17 8:01 PM
To: Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Subject: OFHP Placemat/definitions

Hi Nancy, Ron, Gadi,

Attached is an early cut at products we thought may be helpful as guides for the Fair Hydro plan. We have developed a two page overview placemat that follows Brandon's format. We also have a 1-pager with definitions that help to decode language in the OFHP legislation.

These products still require some refinement particularly on next steps for the tax based social programs (2nd slide). I need to check back with Energy to get some dates and to ensure what we have is correct. Ron, it would also be very helpful if your group could take a look at the numbers to ensure they align with the Budget forecasts. If anyone has additional key issues they would suggest flagging, please let us know and I we will drop them in. Also happy to take suggestions on format as we crashed this together fairly quickly (note that some of the numbers show up small on the screen, but hopefully look better on 11x17 sheets). We will treat this as an iterative product over the next few days / week.

While not perfect, I realize fiscal prep and MMP meetings are occurring tomorrow. I wanted to get this into the system in case it is helpful to have a reasonably accurate summary of a very complex initiative.

Thanks,
Scott

Ontario

Electricity Price Mitigation

Ministry of Energy

March 1, 2017

Minister

Deputy Minister

Context

- Electricity costs are increasing as the necessary investments are made to decarbonize and modernize the province's electricity infrastructure (i.e., $35 billion+ investment in cleaner generation and $15.5 billion investment in transmission and local distribution systems).

- Ontario has taken a number of actions to lower electricity costs for all consumers by:
  - Deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement (LRP)).
  - Increasing cost effectiveness and improving efficiency by adopting new electricity market approaches (e.g., no new NUG contracting and demand response).

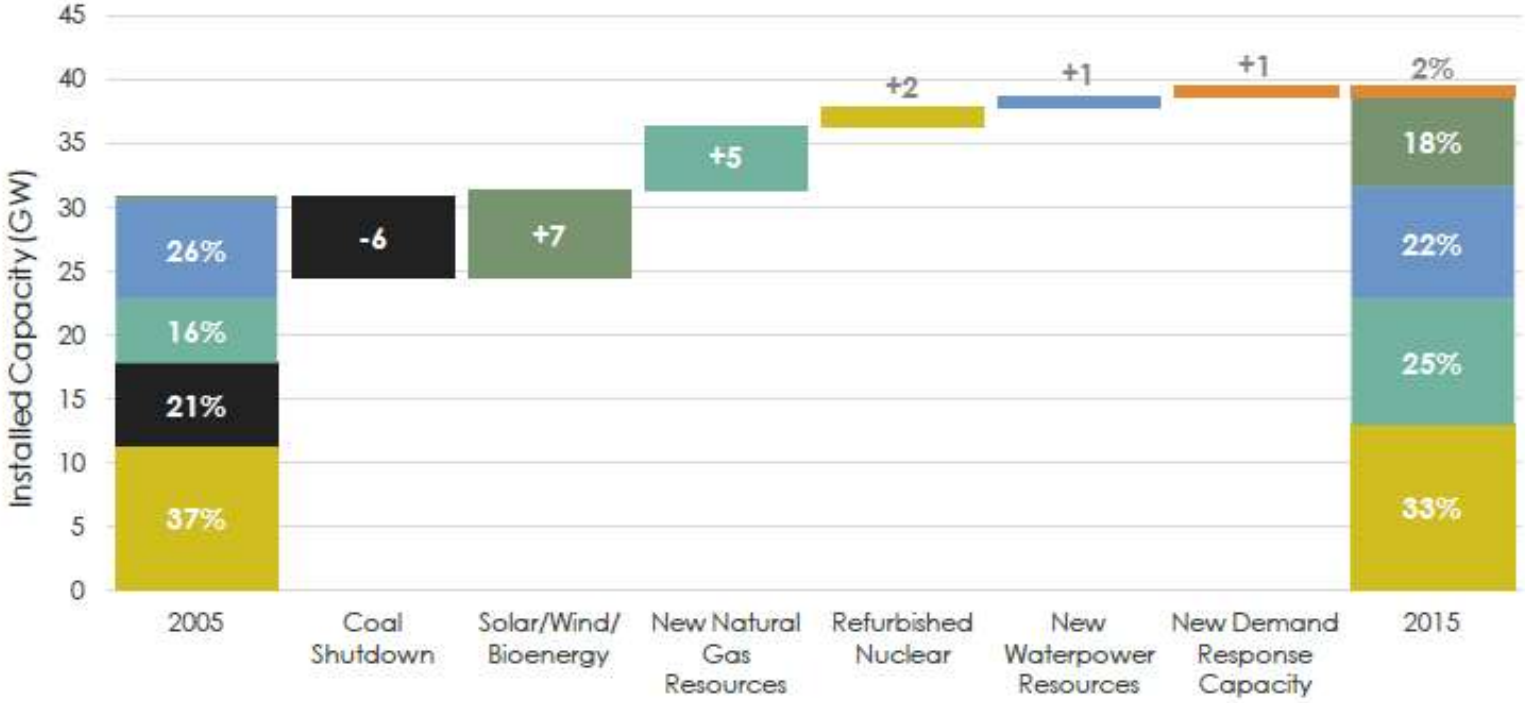
- On November 28, 2016, the Minister of Energy announced the need for changes in how electricity resources are procured, the need for wholesale market renewal and greater electricity consumer choice.

- The Ministry of Energy is currently updating its Long-Term Energy Plan (LTEP), which provides an opportunity to consider a range of policy changes to how the Ontario energy sector operates.

- On a number of occasions the Premier has indicated publicly that further relief on electricity prices will be provided to consumers in the near term.

Context – Infrastructure Investments

- In the eleven year period between 2005 and 2015, government added new electrical capacity to Ontario's grid to restore reliability, replace coal and meet environmental objectives.



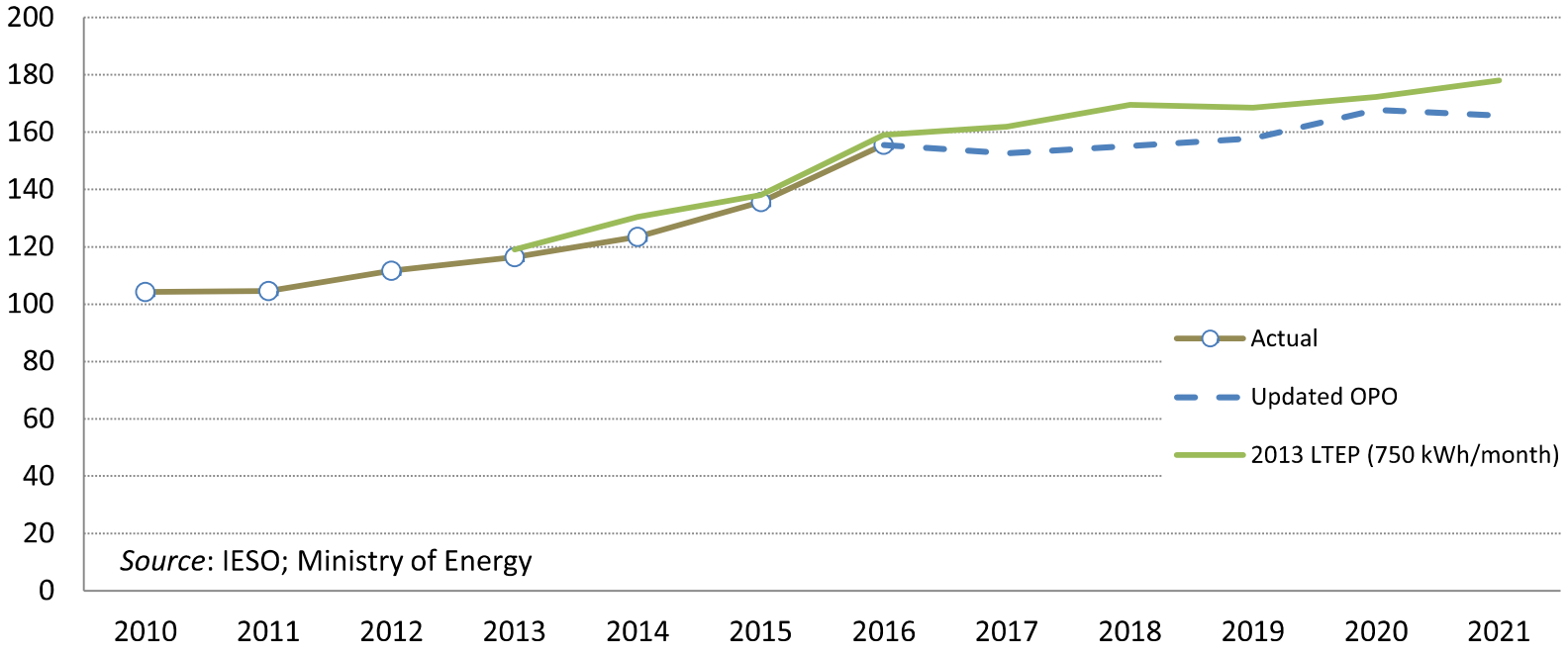
Source: IESO Ontario Planning Outlook

Context – Electricity Prices

- Electricity price increases have generally outpaced inflation. There have been several government policies that have impacted electricity prices over the past several years, including: HST, the Industrial Conservation Initiative, the Ontario Clean Energy Benefit (OCEB) and the Debt Retirement Charge (DRC).

Illustrative Typical Residential Electricity Bills

Historical and Forecast in $/month



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Context – Recent and Existing Government Funded Electricity Cost Mitigations

($Millions)	14-15	15-16	16-17[1]	17-18[1]	18-19[1]	19-20[1]	20-21[1]	Who Benefits
Ontario Clean Energy Benefit (OCEB) [2]	1,078	860	***OCEB ended on December 31, 2015***					• Residential customers, farms, small business (i.e., 10% off, on up to 3,000 kWh/month)
Ontario Rebate for Electricity Consumers (OREC or 8% rebate)*	-	-	300	1,100	1,200	1,200	1,200	• Residential customers, farms, small business (i.e., amount equal to the 8% Provincial portion of HST)
Ending Debt Retirement Charge (DRC) for Residential[3]	-	85	330	330	--	--	--	• Residential customers (i.e., saves about $70 per year for a typical residential consumer)
Northern Ontario Energy Credit (NOEC) [4]	24	26	25	25	25	25	25	• For eligible northern Ontario residents (i.e., for 2017, single people can receive up to $148,and families up to $227, depending on adjusted family income)
Ontario Energy and Property Tax Credit (OEPTC) (Energy component only)[4]	429	444	450	460	470	481	481	• For eligible low-to moderate-income individuals and families, & qualifying seniors (i.e., for 2017, up to $227, depending on adjusted family income)
Northern Industrial Electricity Rate Program (NIERP)	108	120	120	120	120	120	120	• Qualifying northern Ontario large industrial electricity consumers (i.e., rebate of 2cents/kilowatt-hour)
TOTAL	**1,639**	**1,535**	**1,225**	**2,035**	**1,815**	**1,826**	**1,826**	

Notes:

1. 2016-17 to 2020-21 based on forecasted numbers
2. OCEB ended December 31, 2015
3. 2015-16 estimated for 3 months of reduced DRC revenue. Estimated impact up to March 31, 2018.
4. Part of the Ontario Trillium Benefit. While related to energy generally, key policy driver for OEPTC when introduced in 2010 was electricity, as prices were forecast to rise, while fossil fuel prices, particularly natural gas, were low and falling.

* Sourced from Energy PRRT submission

Source: Ministry of Finance

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Context – Recent Actions Taken To Mitigate Electricity Rates

- Following the 2016 Throne Speech, the several actions were announced to further reduce electricity costs.

1. As of January 1, 2017, Ontario is rebating an amount equal to the provincial portion of the HST to reduce eligible residential, small business and farm electricity bills by 8%.

2. Expanded support available to eligible rural ratepayers by updating Rural or Remote Rate Protection (RRRP) with additional relief, decreasing total electricity bills by an average of $45 each month when combined with the 8% rebate.

3. Expanding the Industrial Conservation Initiative (ICI) – up to one-third savings for participants.

4. Suspending the LRP II and the Energy from Waste Standard Offer Program (EFWSOP) – up to $3.8 billion in cost savings.

5. Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – an average annual savings of $15 million.

Rate Mitigation Proposal

- The following approaches are proposed:

1) Smoothing the global adjustment (GA) to provide significant and immediate rate relief through cost deferral of the GA:
   - Smoothing Mechanism (i.e., 25% reduction); and
   - Implementation Model.

2) Enhancing competitiveness for Class B electricity consumers (i.e. manufacturing) by lowering the eligibility threshold for Industrial Conservation Initiative (ICI).

3) Helping vulnerable electricity consumers by enhancing electricity support and conservation programs and shifting cost onto the tax-base:
   - Rural or Remote Electricity Rate Protection (RRRP) Enhancement (Delivery Charge Relief);
   - Ontario Electricity Support Program (OESP) Expansion;
   - New Affordability Fund; and
   - On-Reserve First Nations Delivery Credit.

4) Ongoing activities to bend the future cost curve of electricity:
   - Ontario Energy Board (OEB) – Identify opportunities for future LDC efficiencies and rates;
   - Independent Electricity System Operator (IESO) – Modernize Ontario's electricity market through electricity Market Renewal initiatives.

GLOBAL ADJUSTMENT (GA) SMOOTHING

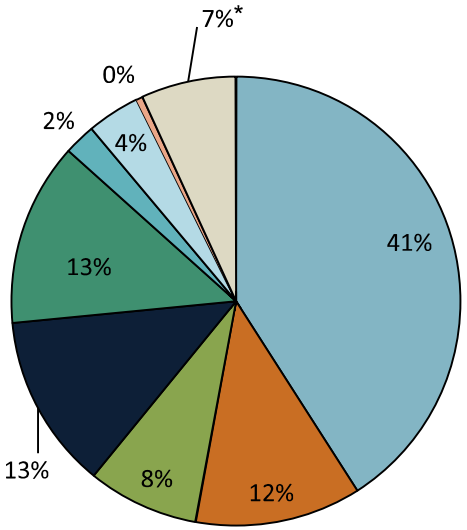
Overview – GA Smoothing

- The Global Adjustment (GA) has risen over the past decade as the province's electricity system has decarbonized.
  - The vast majority of GA costs now stem from greenhouse gas (GHG) emissions-free renewable and nuclear generation facilities, as well as natural gas plants that were constructed to restore system reliability and replace coal-fired capacity.
  - Generators in Ontario received contracted or regulated rates, which are typically designed to recover capital, financing, and fixed operations costs. The GA recovers these fixed costs of running the province's generation fleet, as well as the cost of conservation programs.
- The majority of the province's electricity generators are under 20-year contracts and account for less than half of the GA. Some of these generators will continue to provide value to the electricity system beyond their contract lives (i.e., beyond 20-years).
  - There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.
  - GA Smoothing would spread these costs over a longer period and provide immediate ratepayer relief (i.e., similar to re-financing a mortgage). By recognizing that generation assets are expected to continue to provide residual benefit to future ratepayers, beyond the term of current contracts, future ratepayers are expected to be able to utilize these assets and reduce the need to finance the development of new generation assets.
- The GA Smoothing option under consideration is illustrative and show potential rate mitigation measures to meet a targeted 25% reduction from the projected residential bill in 2017.
  - These residential impacts are based on a forecast for a household connected to Toronto Hydro that consumes 750 kWh per month.
  - Actual ratepayer savings would vary due to differences in consumption patterns.
  - Targeted to Regulated Price Plan (RPP) -eligible;
  - Rate increases would be capped at Consumer Price Index (CPI) for the first four years. Subsequent years would be set above CPI in order to ensure that bill increases due to repayments are capped at around 10% of the total bill.

GA Smoothing – Cost Breakout

- The Global Adjustment (GA) accounts for the fixed costs, including capital costs, of running Ontario's generation fleet, as well as the cost of conservation programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
  - Generators in Ontario received contracted or regulated rates, which are typically designed to recover capital, financing and fixed operations costs. Most generators are on 20-year contracts with the exception of hydroelectric and nuclear plants. They operate on longer contracts (or are regulated on a cost-of-service basis by the OEB) in recognition of the much longer operating lives of these facilities.
- Chart below shows the breakout of the GA by generator and program types. In 2016, the GA costs were $12.3 billion. These costs will evolve over time as 2,181 MW of previously contracted generation comes online in the coming years.

2016 GA Cost: $12.3 billion



	GA ($M)
Nuclear	5,053
Hydro	1,473
Natural Gas	985
Wind	1,552
Solar	1,630
Biomass, Landfill and Byproduct	278
Conservation	467
IEI Program	60
OEFC*	842

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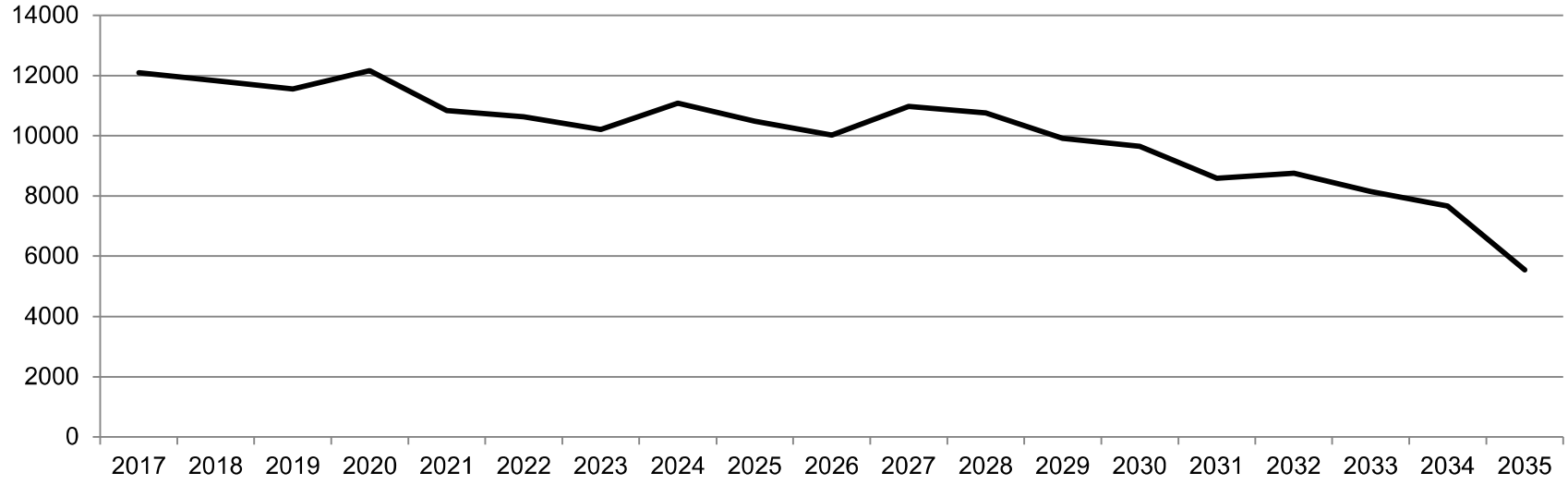
***Note:** OEFC indicates the cost of generator contracts managed by the OEFC which include contracts for natural gas, hydro and biomass generators**.**
**** Note:** Conservation measures, not quantified here, serve to reduce Ontario energy demand. Actual electricity generation would be larger than 155 TWh in the absence of conservation programs.

GA Smoothing – Global Adjustment Forecast

- The amount of Global Adjustment (GA) is forecast to decrease through the forecast period. Several factors contribute to the decline of GA, including:
  - Expiry of electricity generation contracts;
  - Cost of existing contracts reduced due to Inflation; and
  - Higher wholesale electricity prices due to higher natural gas/carbon prices, higher demand and reduced nuclear generating capacity.

Forecast Global Adjustment Cost (nominal $ million)



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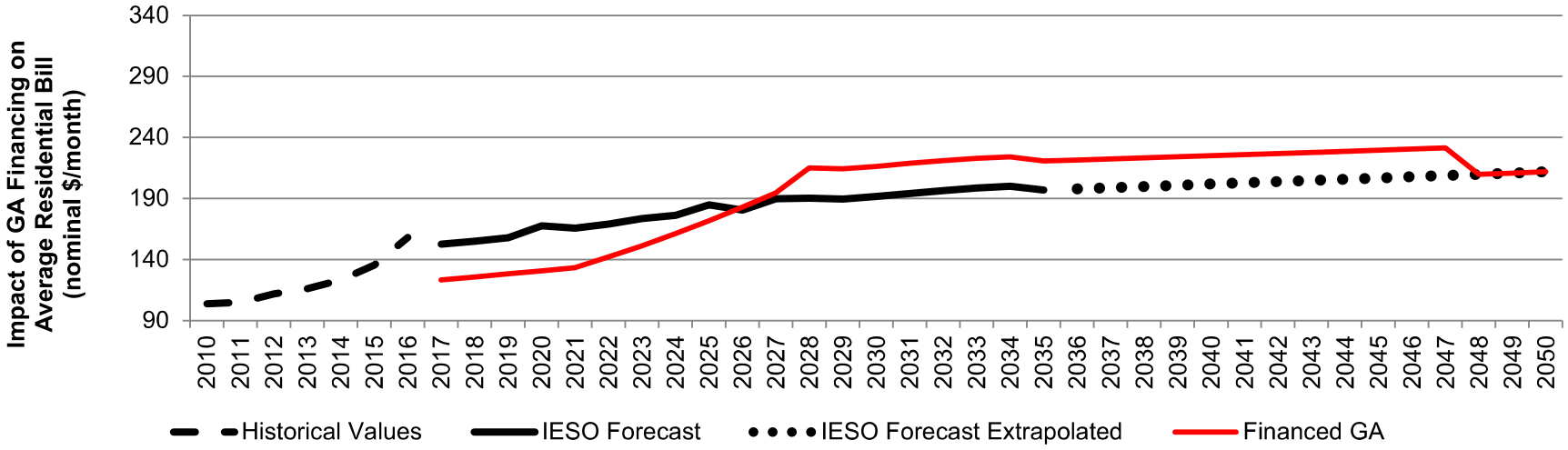
GA Smoothing – Expected Life of Electricity Generating Assets

- Gas, wind and solar generators are typically contracted for a 20-year period (e.g., with the Ontario Electricity System Operator (IESO), etc).
  - Nuclear and hydroelectric generators are contracted for a much longer period or regulated by the Ontario Energy Board (OEB) on a cost-of-service basis.
- While it is likely that gas, wind and solar generators will be able to operate beyond their current contracts, IESO advises that generators will need to decide what level of capital investment is appropriate for ongoing operations (i.e., by replacing and/or refurbishing major facility components).
  - In IESO's 2016 Ontario Planning Outlook (OPO), it was assumed that the service lives of generators could be extended beyond their contract term based on additional investments and ongoing costs. **Note:** This was not an assessment of the cost/benefits or a prediction of what the generators would actually do at the end of their contracts.
- The table below outlines IESO's current estimates for service lives of gas, wind and solar facilities. The ongoing service lives of these facilities depend on: initial facility design & build, operating activities (e.g., hours of operation, etc.) and level of facility maintenance (i.e., ongoing component repair and replacement).

Technology	Contract Life (yrs)	Expected Life (yrs)	Expected Cost Post-Contract Life
Gas	20	Up to 30	Life varies with initial design, how it is operated and maintained.
Wind	20	Up to 30	Older technologies may deteriorate faster. Elements such as foundations and electrical integration can last longer.
Solar	20	Up to 30	Performance deteriorates to about 80% by end of contract. Some facilities built in the initial contract periods may deteriorate more; however, technology is improving rapidly. Components need to replaced 5 to 30 years depending on design.

Source: IESO consultant reports (2014 and 2015)

A. GA Smoothing for RPP-Eligible Only (Borrow $2.5 billion in 2017, Residential Bills Lowered 25%, Lower Total Debt)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly residential bill w GA financing impact and tax *($/month)*	104	105	112	116	124	136	158	123	126	128	131	133	142	151	161	172	183	195	215	214	216	219	221	223	224	221	222	222	223	224	225	226	227	228	229	230	230	231	210
Year-over-year change in bill *(%)*	-	1.0	6.7	3.9	6.1	9.8	16.7	-22.1	2.0	2.0	2.0	2.0	6.5	6.5	6.5	6.5	6.5	6.5	10.5	-0.4	0.9	1.2	1.0	0.8	0.6	-1.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-9.3
Impact of GA financing pre-tax *($/month)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-26.1	-26.1	-26.2	-32.8	-28.7	-23.9	-19.9	-13.5	-11.8	2.0	4.2	21.8	21.8	21.7	21.7	21.5	21.4	21.3	21.0	20.9	20.8	20.7	20.6	20.5	20.4	20.4	20.3	20.2	20.1	20.0	19.9	0.0
Total Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	5.1	7.9	11.4	14.6	17.8	20.8	23.2	25.6	26.7	27.7	26.8	26.0	25.1	24.1	23.1	22.0	20.9	19.7	18.5	17.2	15.9	14.4	12.9	11.3	9.7	7.9	6.1	4.2	2.1	0.0	0.0
Total Change in Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.6	2.8	3.5	3.2	3.2	2.9	2.4	2.4	1.1	0.9	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

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A. GA Smoothing for RPP-Eligible Only – Residential Bills Lowered 25% (with Tax-base Funded 8% Rebate and Social Programs, 2% increase)

- Total bill below is based on a revised IESO forecast. See footnotes for more information.

Residential (750 kWh/month)	Actual 2016	2017	2018	2019	2020	2021
Total Bill (includes HST)	**158**	**164**	**167**	**170**	**181**	**178**
Total Bill (excludes HST)	140	145	148	150	160	158
Impact of GA Financing		-26	-26	-26	-32	-28
Impact of Tax-Basing Social Programs		-2	-2	-2	-3	-3
Subtotal		117	120	122	125	127
8% rebate		-9	-10	-10	-10	-10
HST		15	16	16	16	17
Revised Bill (includes HST)	**158**	**123**	**126**	**128**	**131**	**133**
Year-over-Year Change		-22%	2%	2%	2%	2%
Change from Forecast		**-25%**	**-25%**	**-25%**	**-28%**	**-25%**

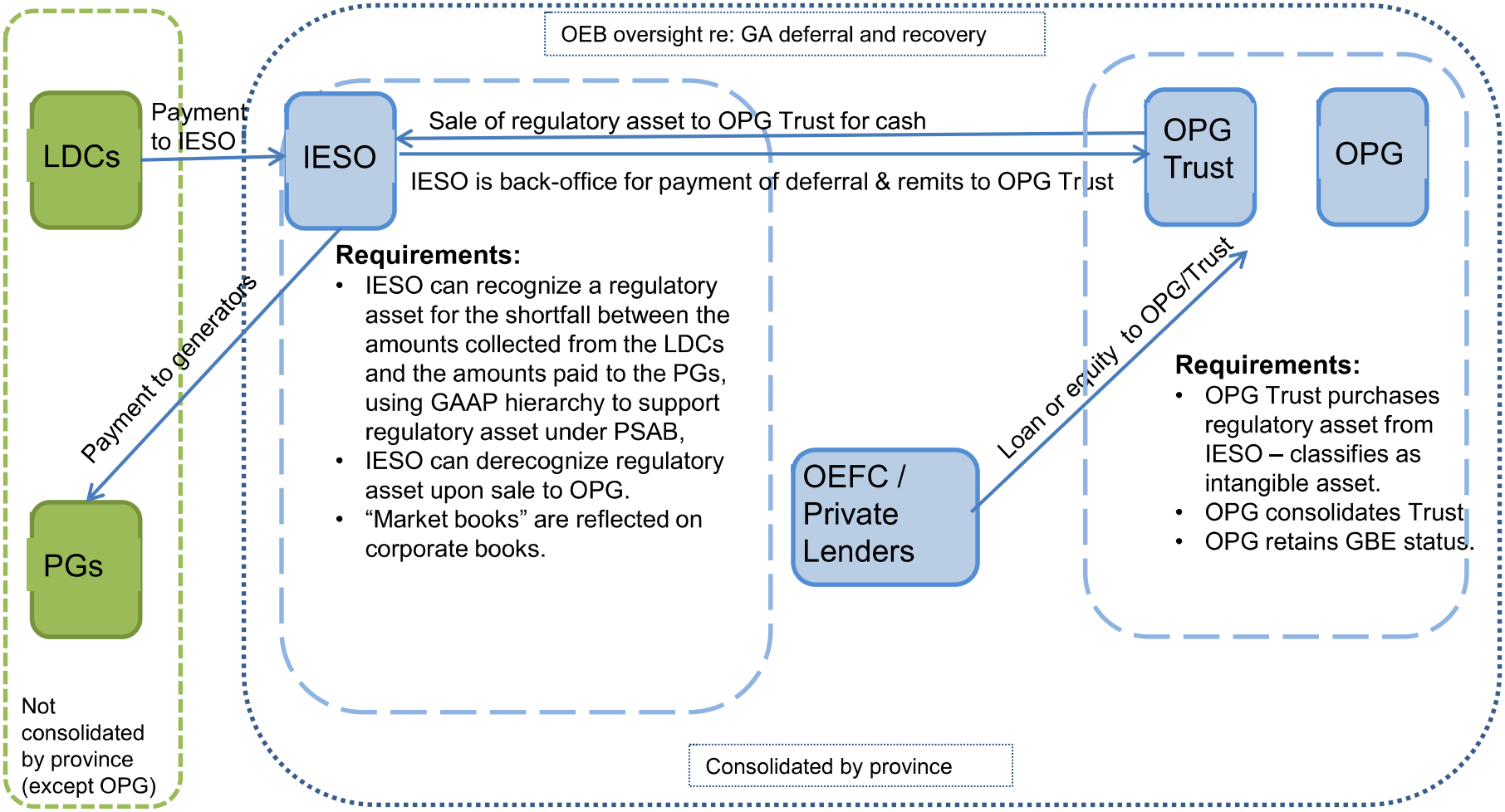
Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	**160**	**165**	**160**	**162**	**173**	**169**
Class B Revised Total (excludes HST)	**160**	**162**	**157**	**159**	**170**	**166**
Year-over-Year Change		1%	-3%	1%	7%	-2%
Change from Forecast		-2%	-2%	-2%	-2%	-2%

Large Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class A Total (excludes HST)	**90**	**91**	**93**	**88**	**95**	**96**
Class A Revised Total (excludes HST)	**90**	**88**	**90**	**84**	**92**	**93**
Year-over-Year Change		-2%	2%	-6%	9%	1%
Change from Forecast		-4%	-4%	-4%	-4%	-4%

Notes: Based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing.

B. GA Smoothing – Potential Structure

- The following diagram provides an overview of a potential GA smoothing structure, as well as interactions between sector entities and elements required to meet accounting objectives.



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Note: Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

B. GA Smoothing – Accounting Considerations

- OPCD advises that analysis is not complete; several requirements (below) are high risk re: satisfactory resolution.
- Complexity of the structure and length of deferral/recovery increase risk and decrease transparency
- If all requirements can be met, an accounting analysis is expected to support: (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit, but depending on funding to OPG/Trust from Province, an increase in interest on debt and an increase in income from OPG will result.
- IESO requirements – IESO Finance, KPMG (Energy advisor and IESO auditor), OPCD and EY (OPCD advisor) are evaluating accounting risks:
  - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB
  - IESO can derecognize regulatory asset upon sale to OPG; and
  - "Market books" are reflected on corporate books.
- OPG requirements – OPG Finance, EY (OPG auditor), PwC (OPG Advisor), and OPCD are evaluating accounting risks:
  - OPG Trust purchases regulatory asset from IESO – classifies as intangible asset;
  - OPG consolidates Trust; and
  - OPG retains GBE status.
- No discussion with OAG; in previous Annual Reports, the OAG has raised concerns about the appropriateness of recognizing rate regulated assets and liabilities.

B. GA Smoothing – IESO Considerations

- The Electricity Act enables the Independent Electricity System Operator (IESO) to recover from ratepayers the amounts paid to generators, distributors or other contracted entities.
- The accounting advice received by IESO is that reflecting market balances and regulated assets is a more appropriate presentation for its financial statements going forward.
- IESO is characterized as an "Other Government Organization" (OGO) and consolidated on a line-by-line basis into the Provincial books.

Issue	Response
1. Can IESO adopt regulatory accounting?	• Public sector accounting does not address regulated assets. • Guidance can be drawn from other accounting bodies. • US Federal Accounting Standards Advisory Board (FASB), US Governmental Accounting Standards Board (GASB) and International Accounting Standards Board (IASB) do provide guidance. • FASB accounting standard 980 and IASB have specific references that support the adoption of regulatory accounting. **Conclusion:** There is a hierarchy of accounting principles that support this approach.

B. GA Smoothing – IESO Considerations

Issue	Response
2. Can IESO recognize the GA deferral as a regulatory variance account?	Criteria for recognition are: • Rates are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers. • Rates are designed to recover the specific costs of regulated business-type activities. • In view of demand, it is reasonable to assume that rates will be set to recover the regulated business-type and can be collected from customers. **Conclusion:** Legislation creates the right to collection, currently and in the future. With either OEB or IESO board involvement a regulatory asset can be recognized.
3. Can IESO sell the variance account related to the deferral of the annual Global Adjustment account?	• The sale of the variance account to OPG Trust must be structured as an absolute assignment of future economic benefits of the Asset with no obligations, rights or benefits remaining of IESO. • In that case, this would represent a sale of the future right to collect these amounts from the ratepayer. **Conclusion:** Based upon proposed terms of the sale agreement, there would be no future economic benefit for IESO. Risk and rewards are entirely transferred to OPG Trust.

B. GA Smoothing – OPG Accounting Considerations

- OPG's Special Purpose Vehicle (SPV)/Trust is a stand-alone entity able to conduct business separately under a Trust agreement. **Note:** The conditions required for OPG to consolidate the SPV/Trust are outlined in the following table:

Issue	Response
1. Decision Making	• OPG must have decision making authority on the operation of the SPV/Trust (without a veto right by the Province), including naming of trustees, establishing operating plans and budgets, setting or changing financing policies. • The SPV/Trust while operating within the legislation, must be controlled by OPG to operate freely and to alter terms and conditions not specified in the legislation to ensure recovery of the deferred amounts.
2. Business Risk	• The SPV/Trust must have variability of returns as a normal business enterprise would, including such things as interest charged on deferred amounts, decisions on how to finance these deferred amounts, the ability to make / lose and keep any spread from financing.
3. Funding	• The Province cannot directly or indirectly fund more than 50% of SPV/Trust or any investment in the SPV/Trust. • OPG must own at least 50% of the most exposed equity /sub-debt in the SPV/Trust.
4. Directive	• Directive that is issued should not be prescriptive or direct OPG to set up this business. The directive should only be "guiding" i.e. to allow OPG to evaluate options and put forward to the OPG Board a recommended plan for Shareholder approval.

B. GA Smoothing – OPG Accounting Considerations (cont'd)

Issue	Response
5. Other required Attributes	• The legislation that supports the formation of the SPV/Trust must have the following attributes: – Must require interest, carrying and administrative costs be paid to the Trust to allow for Revenue recognition; – The amount to be deferred must either be specified or be calculated based on a specific formula that is not subject to ongoing decision making by the Province. **The Province cannot have the ability to override this formula;** – SPV/Trust and its debt holders will require their capital guaranteed and paid for directly by the Province if the Province revokes the legislation; and – The spirit of the legislation should be reflected in the Trust Indenture Agreement.

B. GA Smoothing – OPG's Financing Structure Requirements

KEY ELEMENTS REQUIRED TO ENSURE THE DEFERRAL OF GA CHARGES CAN BE FINANCED:

Creating the Right to Recover Deferred GA

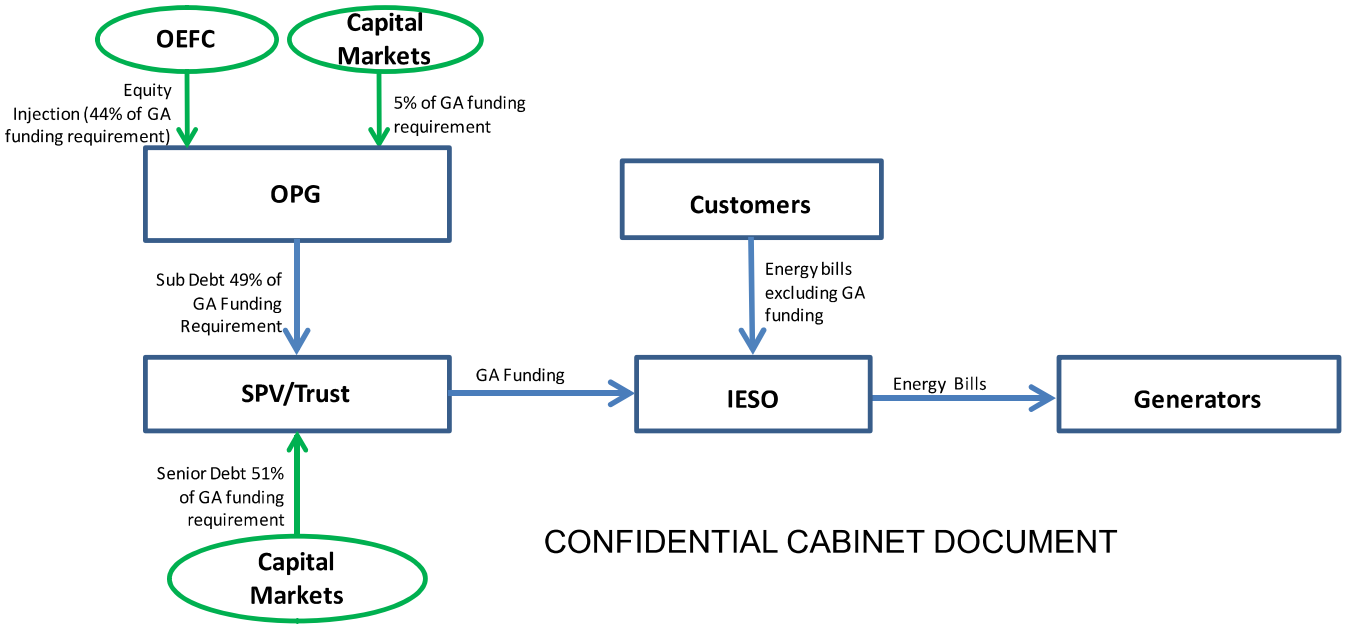
- Legislation enshrines the ability of the IESO to create a Right to charge customers in the future for the Global Adjustment (GA) deferred today including principal amount deferred, interest and other financing costs on the amount deferred and fees, expenses and other administrative costs.
- The Right can be sold to an appropriate Trust or Special Purpose Vehicle (SPV) to obtain funds to pay amounts due to generators under contracts or regulation. These SPVs are generally single purpose entities with no other operations that could add risk to the entity, dilute debt holder rights, allow parties from other operations to claim rights to the future recovery from customers or allow these other parties to initiate bankruptcy proceedings.
- Right must be irrevocable and if the Right is amended by future governments the debt holders have the right of action against the government to recover the amount outstanding including interest, fees, expenses and any damages resulting from the amendment.
- Right must specify the recovery period or the mechanism for setting the recovery rate including true up of the rate to ensure all amounts are recovered.

Economic Factors

- Limits on the recovery amount (principal, interest, fees and expenses) charged to customers in future periods must have compensating elements such as longer recovery period to ensure the full amount deferred plus interest, financing and other administration costs is recovered from customers.
- Need to balance customer relief with debt holder risk. Longer recovery periods and larger deferred balances increase risk to the debt holder of future government intervention.
- The amount required by the SPV to purchase and service the Right will be funded 51% from debt holders, 5% from OPG through capital markets and 44% from OPG via equity injection to OPG from the Province. The funding from OPG will be loaned to the SPV as subordinated debt.

B. GA Smoothing – OPG's Financing Structure Requirements (cont'd)

- Special Purpose Vehicle (SPV) will be used to raise the GA financing and ring fence OPG from its legal obligations
- SPV will be structured to allow for GBE accounting consolidation into OPG
- Given that SPV will be consolidated into OPG for accounting purposes, the significant amount of debt required to fund the GA deferral will have a severe impact on OPG's credit rating. If 100% of the requirement is funded by debt OPG would be downgraded.
- To manage this exposure and minimize the cost of funding. The required funding would be split into 2 buckets:
  1. 56% from capital markets; and
  2. The remainder provided by the Province via equity injection, which would be loaned to SPV as subordinated debt.
- The use of equity to fund a portion of the GA deferral also allows for an improvement in both Net Income and EBITDA as incremental revenue is captured by the increase in the value of the deferral which would offset the fiscal impact of the borrowing at Province level.
- Credit rating metrics are generally maintained within established limits.



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GA Smoothing – OEB Considerations

- Ontario Energy Board (OEB) oversight may be required as part of creating a regulatory asset.
- Subject to final confirmation, there are several other spheres for possible OEB oversight:
  - The rate payer impact of IESO deferral account and eventual repayment of the deferred Global Adjustment (GA), within pre-defined legislative parameters;
  - The administrative costs of the OPG's Special Purpose Vehicle (SPV) /Trust (e.g., as the OEB reviews and approves IESO's expenditure and revenue requirements and makes orders fixing just and reasonable rates for the Smart Metering Entity);
  - The SPV/Trust's returns (e.g., as the OEB does with OPG's regulated assets) and whether any income to OPG can be used for the benefit of rate payers;
  - The review of the final structure of the debt issuance for the limited purpose of ensuring requirements of law have been met; and
  - In out years, review of the collection of charges to ensure that collection is sufficient, and not greater than necessary, to pay debt service.
- The scope of OEB oversight will ultimately need to balance the interests and needs of rate payers, the market, OPG and the Province.

B. GA Smoothing – Ontario Financing Authority (OFA) Considerations

- Under the proposed structure, the financing of the deferred Global Adjustment (GA) costs would be effectively done in part by each of the OPG Special Purpose Vehicle (SPV)/Trust, the Province and OPG: the OPG SPV/Trust would borrow 51%, the Province 44% and OPG 5% of the required GA amounts needed to be financed.
  - In the alternative, the Province (through the OFA/OEFC) could borrow the required amounts each year, likely at a lower cost. However, the target for an arms-length trust and potential risk transfer would not be achieved.

	OPG Structured Financing	OFA/OEFC/Provincial Financing
Financing Considerations	• As the OPG SPV/Trust would be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • This would increase the cost of GA smoothing and the ultimate rate impact on future consumers. • The Trust would be exposed to interest rate changes. • Availability of debt financing may also be limited, depending on the overall amount of deferral, and the subsequent rate impact during the recovery period. OPG has cited examples of a 10% threshold on overall rate impacts of the deferral recovery amounts. • With a potential guarantee from the Province for the borrowing of the OPG SPV/Trust, OPG could see borrowing costs closer to the Province. However, this would redirect the risk back to the Province, removing the intended benefits of using this particular structure, and could add risk to the targeted accounting treatment. • With, or potentially even without a provincial guarantee, OPG SPV/Trust's borrowing could be seen as debt effectively supported by the Province by credit rating agencies and included in their analysis and determination of the Province's ratings. • If a Provincial guarantee endangers the targeted accounting treatment, it may be hard to justify the higher cost borrowing by OPG SPV/Trust to be passed through to ratepayers.	• Province's borrowing from the public markets would add to the borrowing program and the Province's gross debt. • The Province would expect to be able to finance the GA deferral at a lower financing cost than the OPG SPV/Trust, but would likely not achieve the targeted accounting treatment based on OPG's analysis. • Net debt would not increase, to the extent supported by increased equity in OPG under that model, and/or if the accounting treatment can be achieved as backed by a GA-related asset (OPG does not consider that the accounting can be achieved if the SPV/Trust is financed by the Province). • The Province's interest on debt (IOD)cost would need to be effectively recovered through the GA. – E.g., an OPG equity return to cover the cost of borrowing for the equity injection. – Or more directly if the Province is providing financing directly to the GA entity. • The cost of borrowing for the Province could change: 1. The Province's credit rating could be at risk of being re-evaluated by Rating Agencies, which may negatively impact the cost at which the Province borrows and 2. An increase in the Province`s borrowing rates, as a result of increased borrowing. The market may not have adequate demand for the Province to carry-out these borrowings without increasing the interest rate on the debt issues for GA financing and for all of the Province's borrowings. • The interest cost of GA deferral would be exposed to changes in the interest rate environment generally.

GA Smoothing – Legal Considerations

- In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the short term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

- Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:
  - The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
  - If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
  - By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
  - The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

GA Smoothing – Policy Considerations

- Borrowing money to smooth the Global Adjustment (GA), while lowering costs in the short term, results in a more rapid rise in electricity prices beyond the rate of increase already expected.
  - In addition, should Ontario electricity demand be lower than forecasted, the cost of paying off the debt will be spread over a smaller pool of consumption, further increasing future costs for individual ratepayers.

- The impacts are also based on a GA forecast. Since the GA fluctuates, actuals will vary based on demand, the addition of new generation and natural gas prices.
  - A "true-up" mechanism will be required to account for the difference between the "estimate" and "actual" GA costs.

- Although Class B electricity consumers, such as commercial and small industries, do not receive the benefit of GA smoothing (i.e., because it is only targeted to RPP consumers), the Ministry has a proposal later in the submission to address competitiveness for Class B consumers (i.e., targeted lowering of the Industrial Conservation Initiative (ICI) eligibility thresholder from 1 MW to 500 kW).
  - Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness.
  - **Note:** Although Class B and Class A consumers will not receive the rate relief benefits of GA smoothing, both consumers will benefit from tax-basing the electricity social programs.

- Given the legal framework the amount of GA smoothing needs to be proportionate to the generating contracts (i.e., 20-year) and the additional years of generation services still available (i.e., additional 10-years of service).

- Rating agencies and investors in the Province's debt may view this borrowing as an obligation of the Province, regardless of accounting treatment. Depending on the magnitude of the debt to be incurred could have an impact on the Province's borrowing cost.

- The GA smoothing proposal will accrue total interest of $25 billion based on the proposed option. This amount of interest is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.
  - An increase in the borrowing rate from 5% to 6% would increase the total interest costs by almost $9 billion and would require an extension of the financing term beyond 30 years.

GA Smoothing – Fiscal Considerations

- If the proposed legal and accounting treatment of the GA financing smoothing proposal is not implemented, there would be a negative impact on the province's fiscal plan, as shown below.

Fiscal Impact ($M)	2017-18	2018-19	2019-20	2020-21	2021-22
Bills Lowered by 25%, RPP-Eligible Only*	2,534	2,668	2,942	3,420	3,232

*Numerical values represent amount borrowed in indicated fiscal year plus accumulated interest from previous year's accumulated debt

Source: Ministry of Energy

ENHANCING COMPETITIVENESS FOR CLASS B ELECTRICITY CONSUMERS

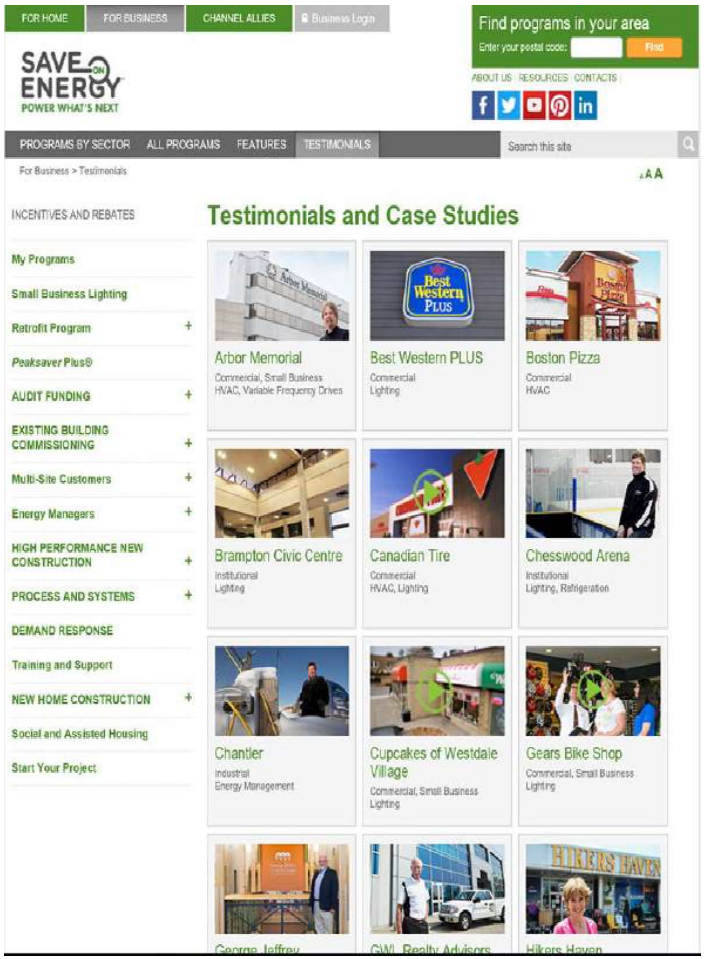
Support for Class B Consumers

- Class B electricity consumers comprise about 50,000 customers, including many mid-size manufacturers (i.e., automotive parts suppliers, plastics manufacturers), large commercial buildings (i.e., office blocks, mid-sized shopping malls) and broader public sector facilities (i.e., hospitals, college campuses).

- Through saveONenergy, many Class B consumers have already taken advantage of energy efficiency programs.

  - Although saveONenergy programs like Process and Systems Upgrade Incentive exist, these programs generally require significant investment on behalf of the customer in addition to the incentives and therefore may be difficult to take advantage of.

  - For Class B manufacturers whose electricity consumption is primarily based on process activities (e.g., injection moulding, welding, etc), traditional conservation measures like lighting and ventilation upgrades have limited benefit.



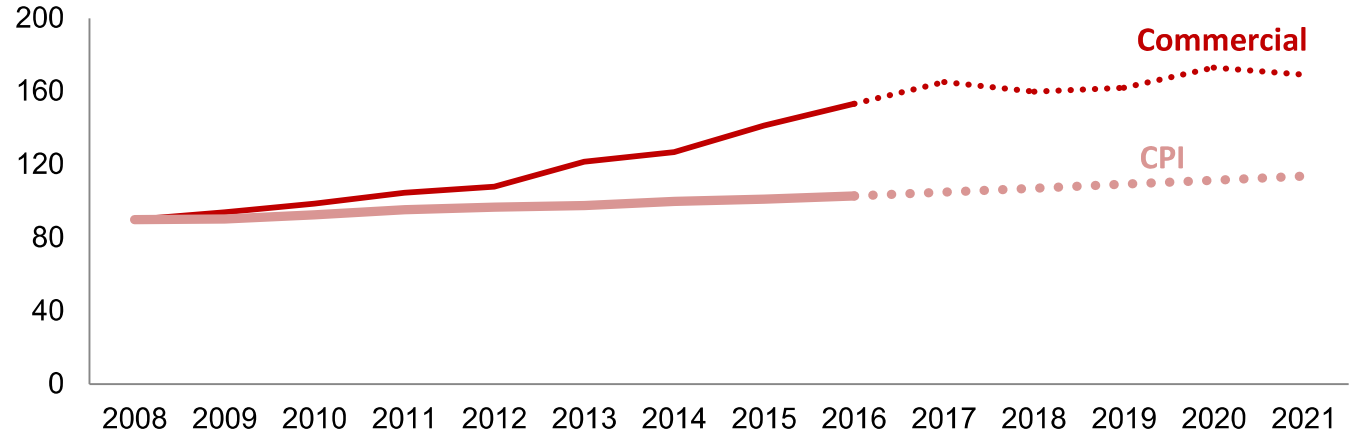
Support for Class B Consumers (cont'd)

- Class B consumers are too large for the Regulated Price Plan (so do not qualify for the 8% rebate for small businesses or Time-Of-Use pricing) and too small to be Class A (so do not qualify for the Industrial Conservation Initiative (ICI) for large consumers).

- Price mitigation initiatives could be provided to Class B to address stakeholders' concerns (e.g., Coalition of Concerned Manufacturers of Ontario, etc).

- The chart below highlights that the cost of electricity for Class B consumers has risen faster than CPI.

Illustrative Electricity Prices
in $/MWh



***Source*:** IESO; OEB; Ministry of Energy

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Lower ICI Threshold Below 1 MW for Energy Intensive Industry

- The Industrial Conservation Initiative's (ICI) eligibility threshold for participation was recently lowered to 1 MW. The lowering of the ICI eligibility threshold provides an opportunity for additional Class B consumers to save on their electricity costs if they choose to opt-in to ICI (i.e., and become new Class A consumers):
  - Beginning in July 2017, new participants will be billed Global Adjustment (GA) on the basis of their contribution to province-wide peak demand.
  - Prior to lowering the ICI eligibility threshold, electricity consumers with peak demand between 3 and 5 MW could only participate in ICI if they belonged to the following sectors: manufacturing, mining, data processing, refrigerated warehousing and greenhouses. **Note:** To achieve the benefits of ICI, participants must reduce their electricity demand during the five system peak hours.

- To enhance the competitiveness of larger Class B consumers whose electricity demand are too low to currently qualify for ICI, the Ministry proposed to:
  1. Expand ICI by extending eligibility to larger Class B consumers with average monthly peak demand over 500 kilowatts; and
  2. Target the expansion to energy intensive industries with the North American Industry Classification System (NAICS) codes 31 - 33 (i.e., Manufacturing).

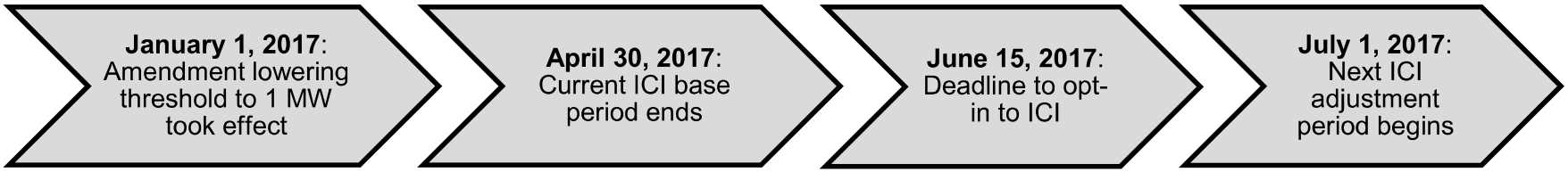
- In addition, the Ministry will assist Class B participation in ICI through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

Lower ICI Threshold Below 1 MW – Considerations

- A targeted lowering of the ICI eligibility threshold from 1 MW to 500 kW provides benefit to larger Class B consumers (i.e., manufacturing) while limiting the cost shift to other electricity consumers.
  - **Note:** A Class B consumer that run only a day shift, resulting in fairly peaky load profiles would need to adjusted its behaviour to maximize the benefits of ICI.

- Preliminary analysis by ENERGY staff show that the estimated impact of a targeted lowering of the ICI eligibility threshold from 1 MW to 500 kW would increase a typical residential bill by up to 0.66% or just over $1/month based on a 2016 bill of about $158.
  - The actual impact would vary depending on uptake and consumer responsiveness.
  - With the recent lowering of the ICI eligibility threshold to 1 MW, there is no information available regarding the actual impact on new participants and the electricity system.

- In order for any changes to ICI eligibility to take effect before the next 12-month billing period beginning July 1, 2017, regulatory amendments would have to be made before the end of April 2017.



Lower ICI Threshold Below 1 MW – Legal Considerations

- The quantum of a regulatory charge may be set at different rates within a regulatory structure where the differential prices are intended to serve other regulatory goals including an intention to modify the behavior of persons within the scheme.

- Expanding access to the Class A pricing regime is intended to serve regulatory goals by encouraging consumers to shift their electricity use away from peak hours, which benefits the electricity system as a whole. While Class B consumers will have to pay more of the GA cost in order to finance the reduction for Class A consumers, this is generally permissible since Class B consumers are not modifying their behaviour and the total amount recovered for the GA does not exceed its cost. CLB has previously advised that the differential pricing structure generally only attracts a **moderately low risk** of being a tax, and this risk level does not change if the option of Class A pricing is extended to a broader class of consumers.

- It is more difficult to justify a differential regulatory charge on the basis of behavioral modification when the lower charge is not available to some participants in the regulatory scheme whose conduct could equally serve the same goals. To the extent that there is not a regulatory rationale for extending the new class A option only to certain sectors, risk increases. The amount of risk in this scenario will vary depending on the quantum of the premium that Class B consumers pay to create the behavior modification incentive for Class A and the degree to which the excluded sectors can credibly claim to be able to achieve the same outcome were they permitted to participate in this aspect of the program.

ELECTRICITY SUPPORT AND CONSERVATION PROGRAMS TO HELP VULNERABLE ELECTRICITY CONSUMERS

Electricity Support and Conservation Programs to Help Vulnerable Electricity Consumers

- To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

- These customers include:
  - **High Delivery Cost Customers:** Some customers in rural areas where the cost to deliver electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
  - **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
  - **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

- To provide targeted assistance to the customers and alleviate electricity cost burden, ENERGY proposes to:

  A. **Enhance Rural or Remote Rate Protection** (RRRP) by funding its costs through the tax base and providing additional support to customers of designated Hydro One rate classes and other high distribution cost Local Distribution Companies (LDCs).

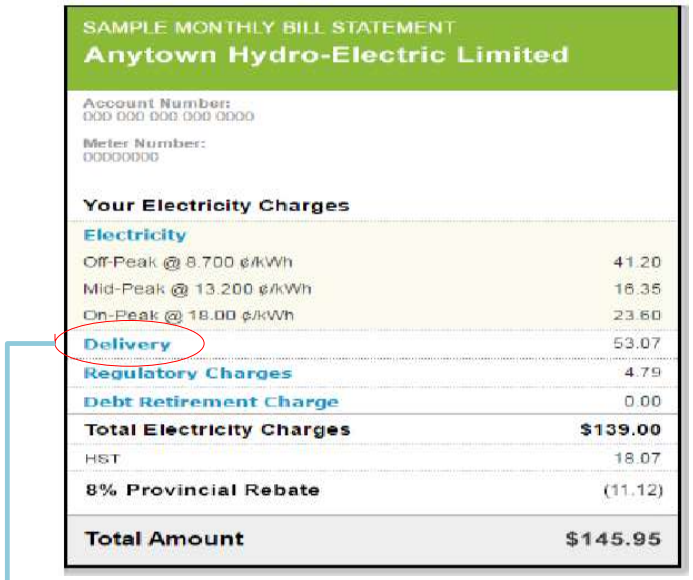
  B. **Enhance Ontario Electricity Support Program** (OESP) by funding its costs through the tax base and increasing eligible benefits by 50%.

  C. **Establish a new Affordability Fund**, providing energy efficiency measures at no or minimal cost to those who are ineligible for low-income conservation programs, have difficulty paying their electricity bills and who cannot make energy efficiency upgrades without financial assistance.

  D. **Implementing On-Reserve First Nations Delivery Credit**, to remove Delivery charges for on-reserve First Nations customers.

A. Delivery and Distribution Charge – Background

- The **Delivery** line on a typical consumer bill is specific to a consumer's Local Distribution Company (LDCs) and accounts for roughly 25-35% of the total bill before taxes.
- Delivery covers the costs of getting electricity from generating stations across the province to homes and businesses and combines three cost components of the electricity sector into one line item charge:
  - **Transmission:** The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable charge that is approved by the OEB.
  - **Distribution:** The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line.
    - This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.
  - **Line Loss:** The costs to recover electricity that is lost as heat when its delivered over a power line. Each LDC is assigned by the OEB a specific line-loss adjustment factor to reflect their loses particular to their assets. This factor is multiplied against the monthly electricity cost to determine the monthly cost.



SAMPLE MONTHLY BILL STATEMENT

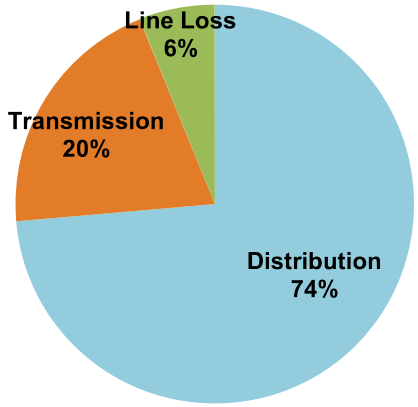
Anytown Hydro-Electric Limited

Account Number:
000 000 000 000 0000

Meter Number:
00000000

Your Electricity Charges	
Electricity	
Off-Peak @ 8.700 ¢/kWh	41.20
Mid-Peak @ 13.200 ¢/kWh	16.35
On-Peak @ 18.00 ¢/kWh	23.60
Delivery	53.07
Regulatory Charges	4.79
Debt Retirement Charge	0.00
Total Electricity Charges	**$139.00**
HST	18.07
8% Provincial Rebate	(11.12)
Total Amount	**$145.95**

Cost breakdown of Delivery Line for an Average Residential Bill*



* Toronto Hydro Bill @ 750kWhs

A. Rural or Remote Rate Protection Program – Background

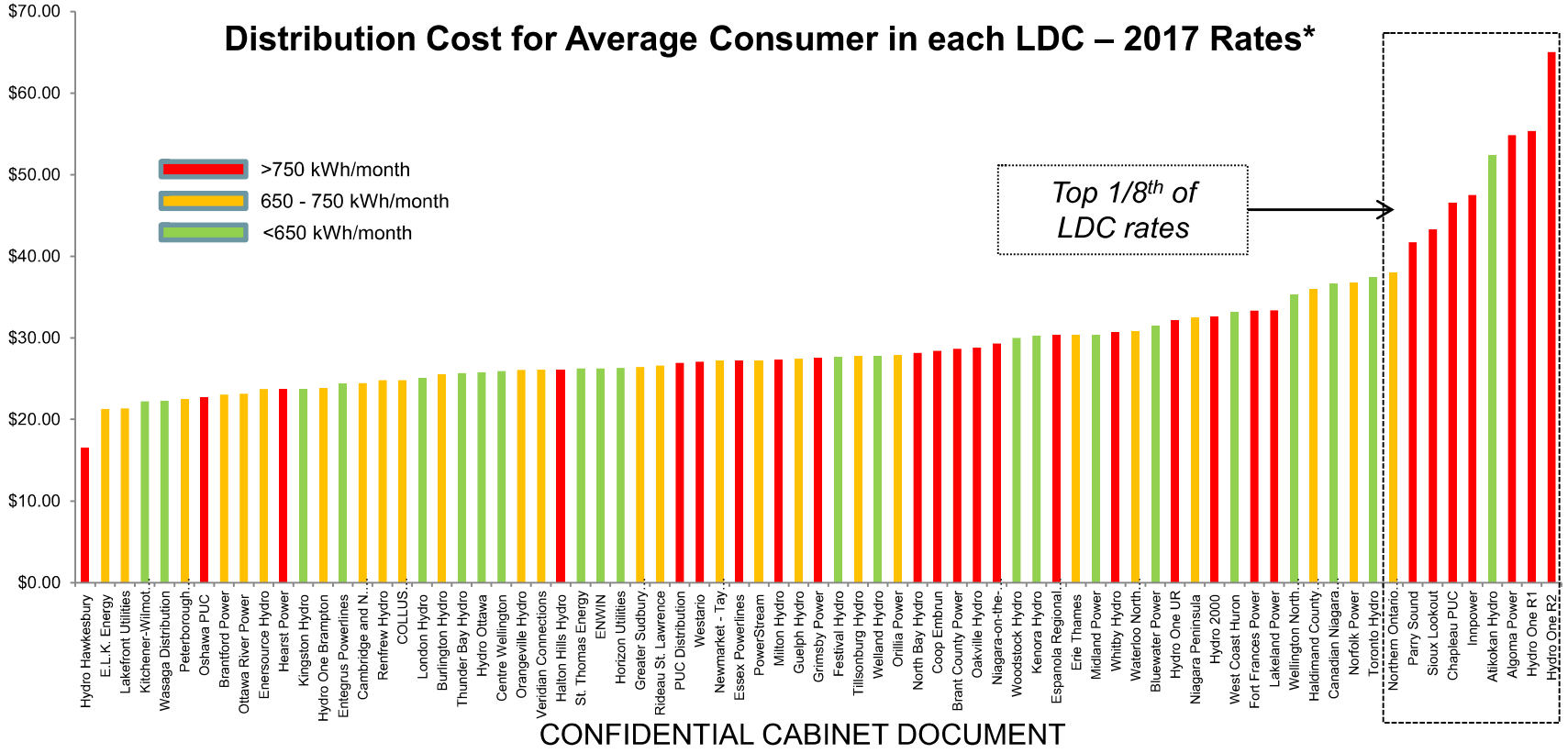
- Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.
  - RRRP is funded by ratepayers in Ontario and funded through the regulatory line of the electricity bill. Currently costs $1.58/month for a 750kWh consumer.
- Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are 335,000 R2 customers across the Province. These customers have some of the highest Delivery costs in the Province.
  - From 2001-2016 the program provided $125.4 million annually to help defray these costs.
  - In the 2016 Speech from the Throne, this funding was expanded by $116.4M to a total of $241.9 million.
  - As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.
- These customers still have high delivery and high distribution costs and are often faced with significantly higher than average bills.
  - The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

A. Enhancing the Rural or Remote Protection Program (RRRP)

- While the RRRP helps mitigate some of the higher distribution costs for Hydro One R2 customers, there is an opportunity to provide further relief to consumers in relatively high-distribution cost outlier LDCs (top ~1/8th of distribution rate classes).
  - If expanded to the top 1/8th of distribution costs, this enhancement would also include Hydro One R1 customers (medium density), as well as LDCs with high distribution costs including: Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma.
- Mitigation could be provided by harmonizing distribution rates for these LDCs at the lowest distribution rate paid by an average consumer in this group.
  - Based on projected 2017 LDC rates, the lowest distribution rate paid by an average consumer in this group would be ~$38/month (with the highest being $65).
  - Is consistent with the OEB's mandated move to fully fixed distribution rates for all LDCs.
  - Roughly 800,000 customers would receive benefits from the current RRRP program and from these additional enhancements.
  - Setting a lowest distribution rate across these LDCs would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.
- Mitigation for all electricity consumers would be provided by moving the existing RRRP program costs and the proposed enhancements from the electricity rate base to the tax-base.

A. Enhancing the Rural or Remote Protection Program (RRRP)

- The table below shows what 2017 distribution costs are projected to be for the average consumer within each LDC across the province, and highlights the highest-cost distribution rates.
- The charts on the following slides show what the benefits would be in each LDC if the fiscal plan was used to support harmonizing distribution costs for customers of the LDCs in the top ~1/8th of rate classes at $38/month.



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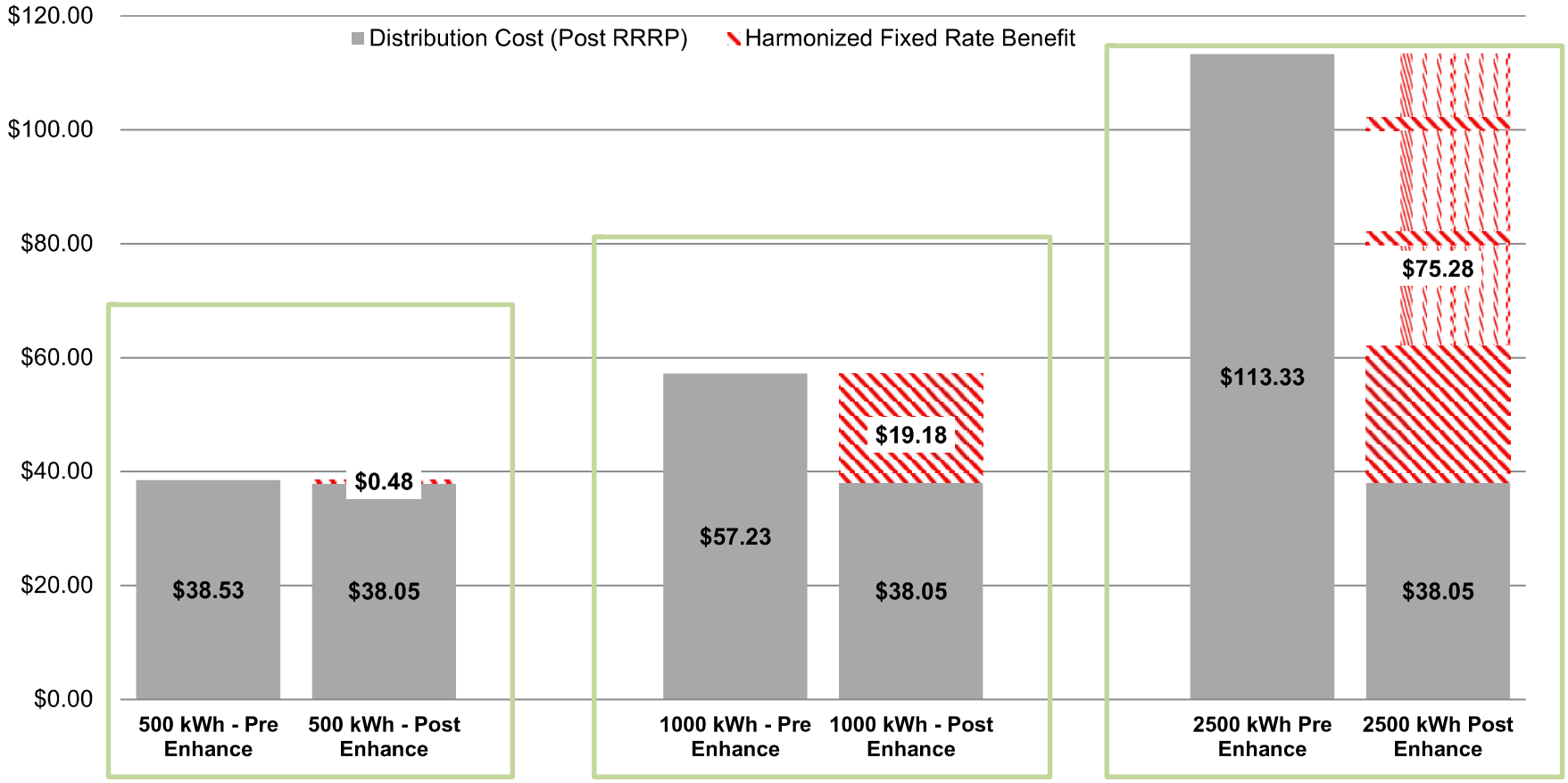
**2017 Approved and Proposed (Decisions Pending – rates are subject to change).*

A. Harmonized Distribution Cost – Ratepayer Impact (Hydro One R2)

- For Hydro One R2 customers, the enhanced benefits below are in addition to the $60.50 they already receive through the existing RRRP.



Note: *Rates are for 2017 (either approved or proposed). Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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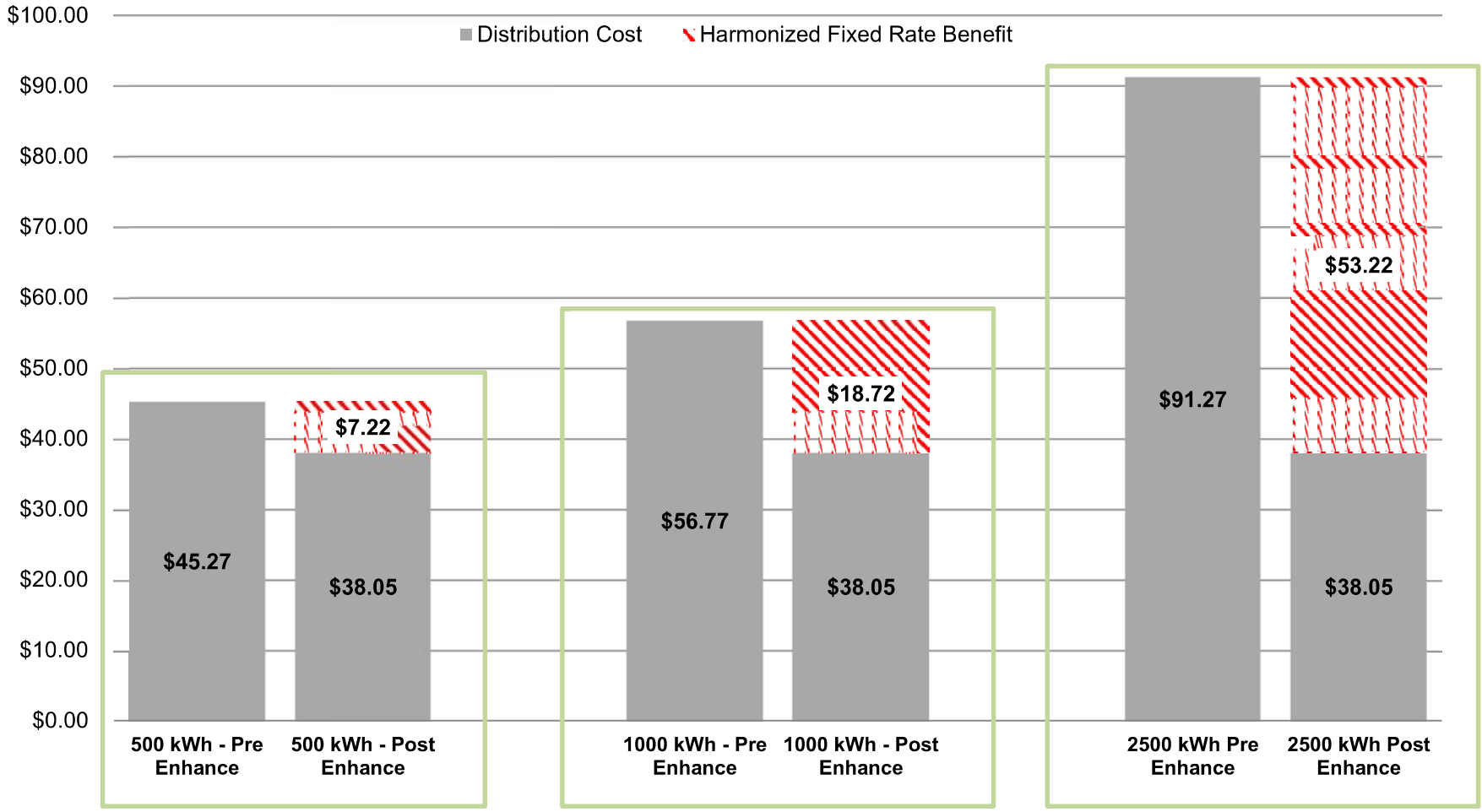
A. Harmonized Distribution Cost – Ratepayer Impact (Hydro One R1)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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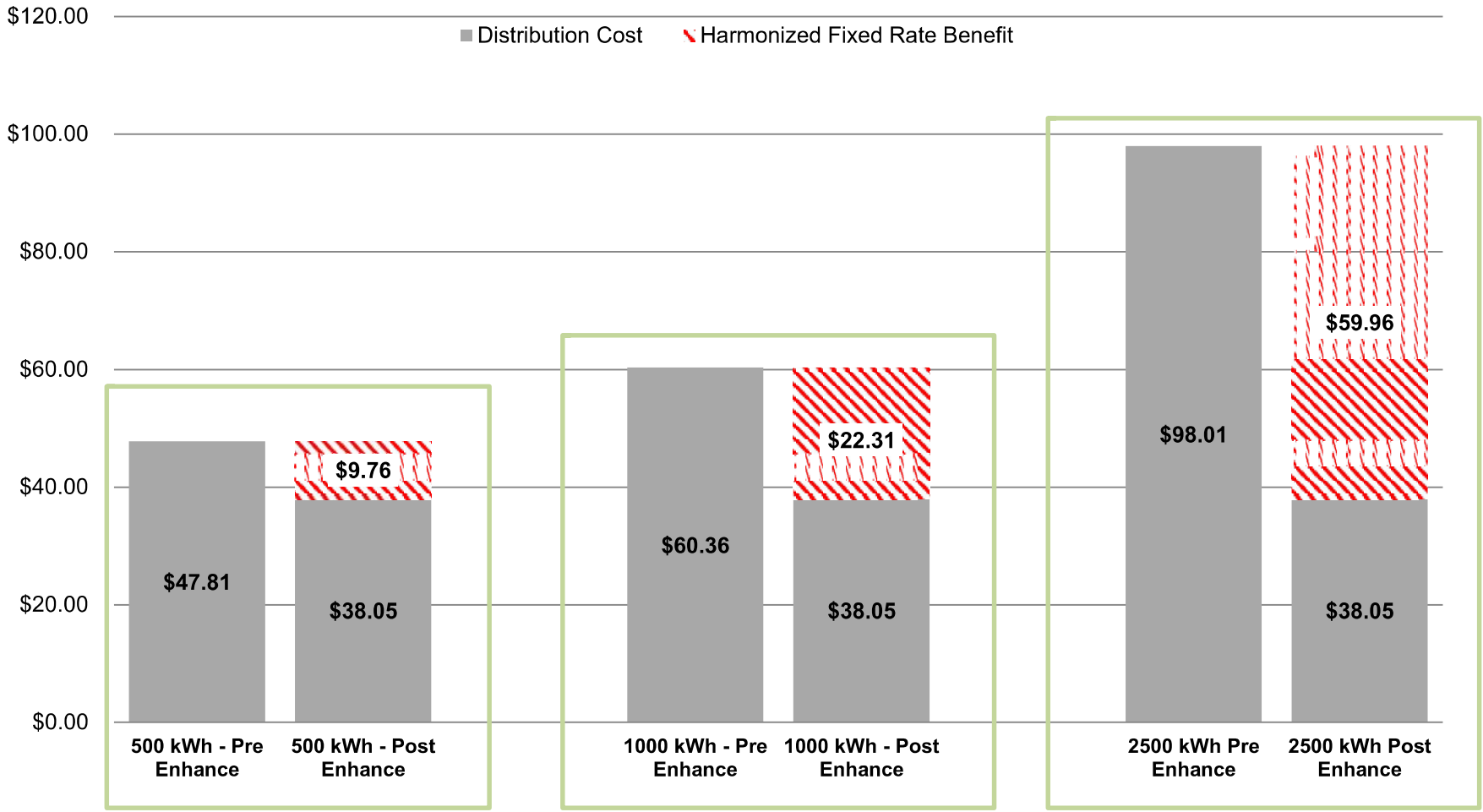
A. Harmonized Distribution Cost – Ratepayer Impact (Algoma Power)



Note: *Rates are for 2017 (either approved or proposed). Algoma Power receives RRRP to support operational costs. Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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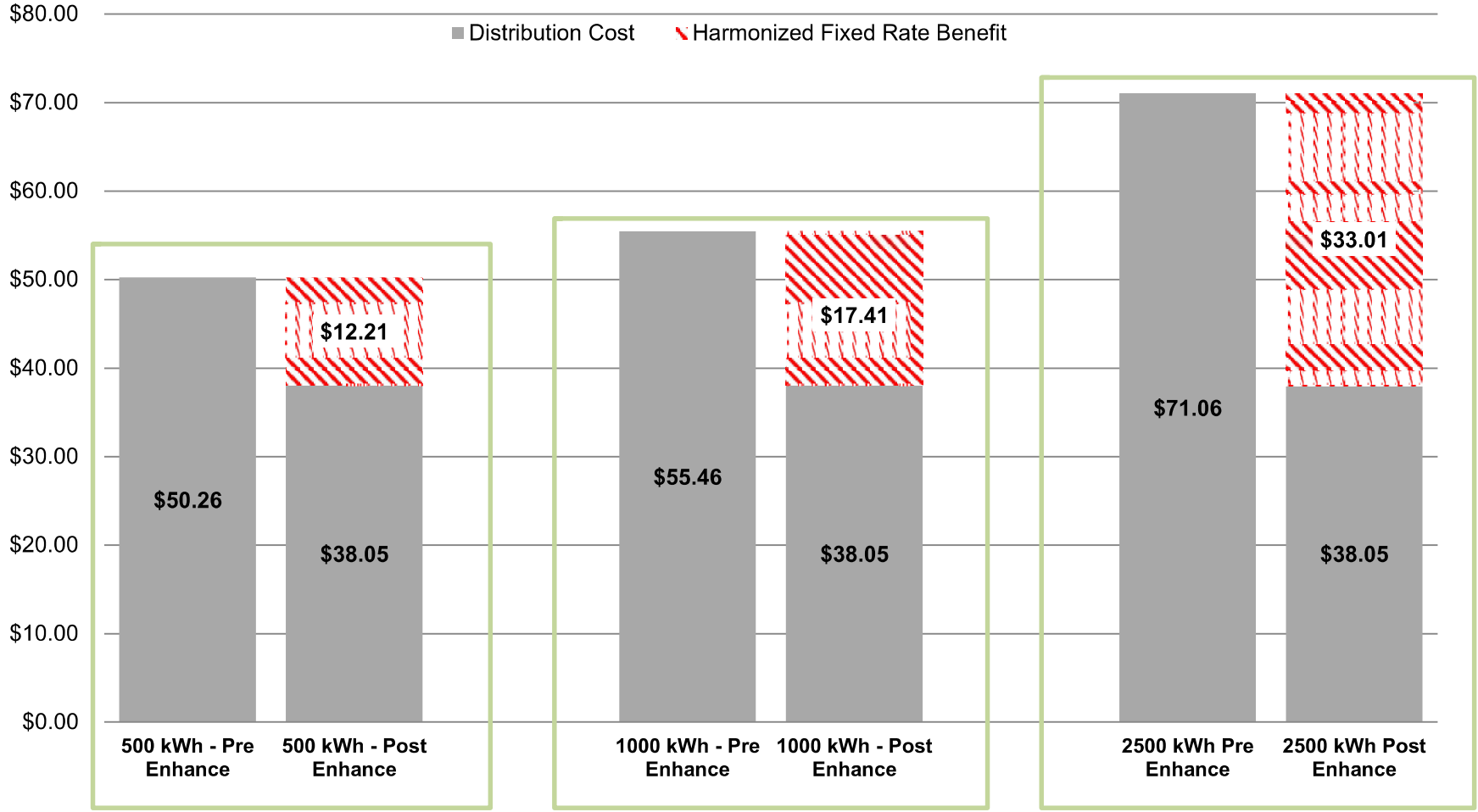
A. Harmonized Distribution Cost – Ratepayer Impact (Atikokan Hydro)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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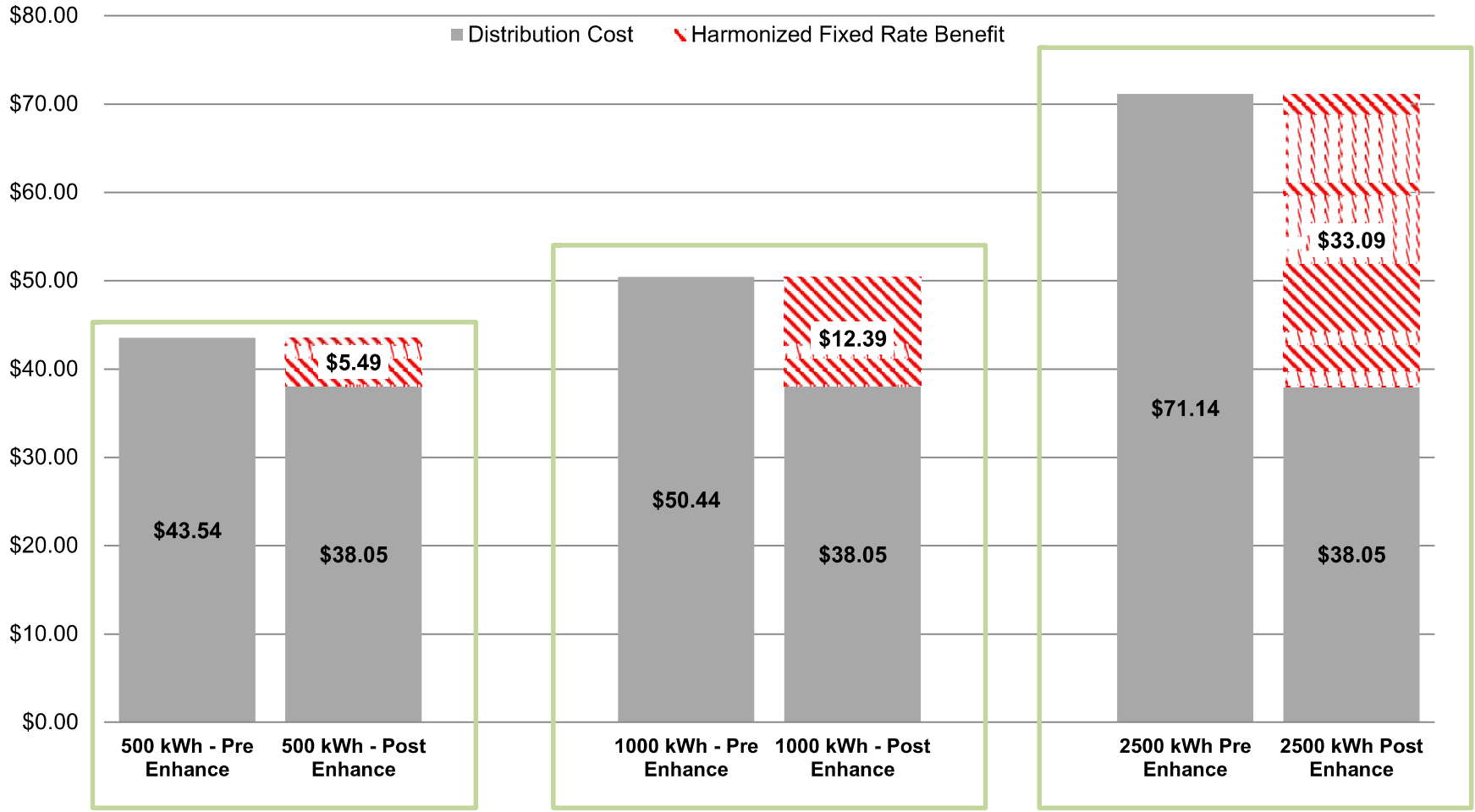
A. Harmonized Distribution Cost – Ratepayer Impact (InnPower)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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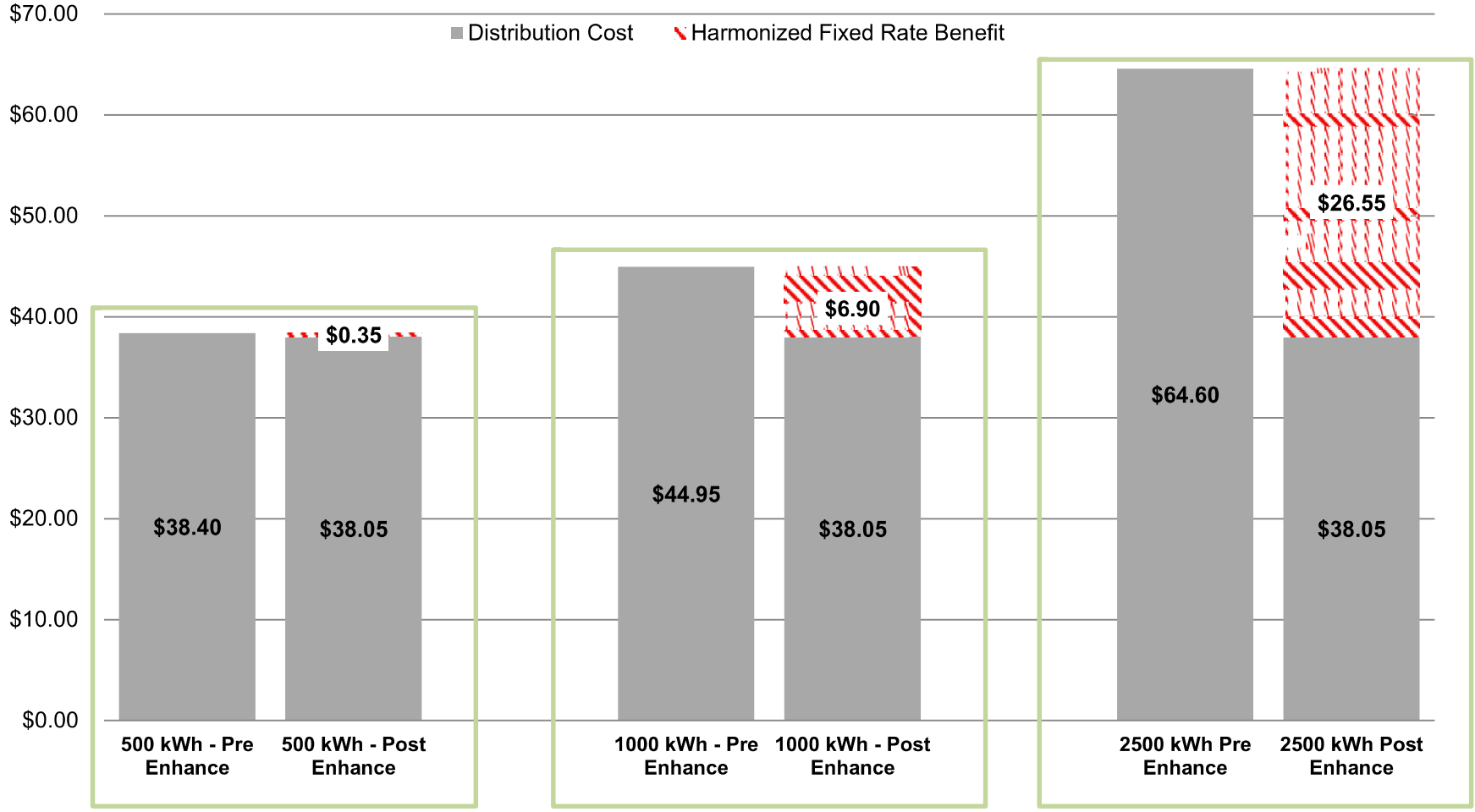
A. Harmonized Distribution Cost – Ratepayer Impact (Chapleau PUC)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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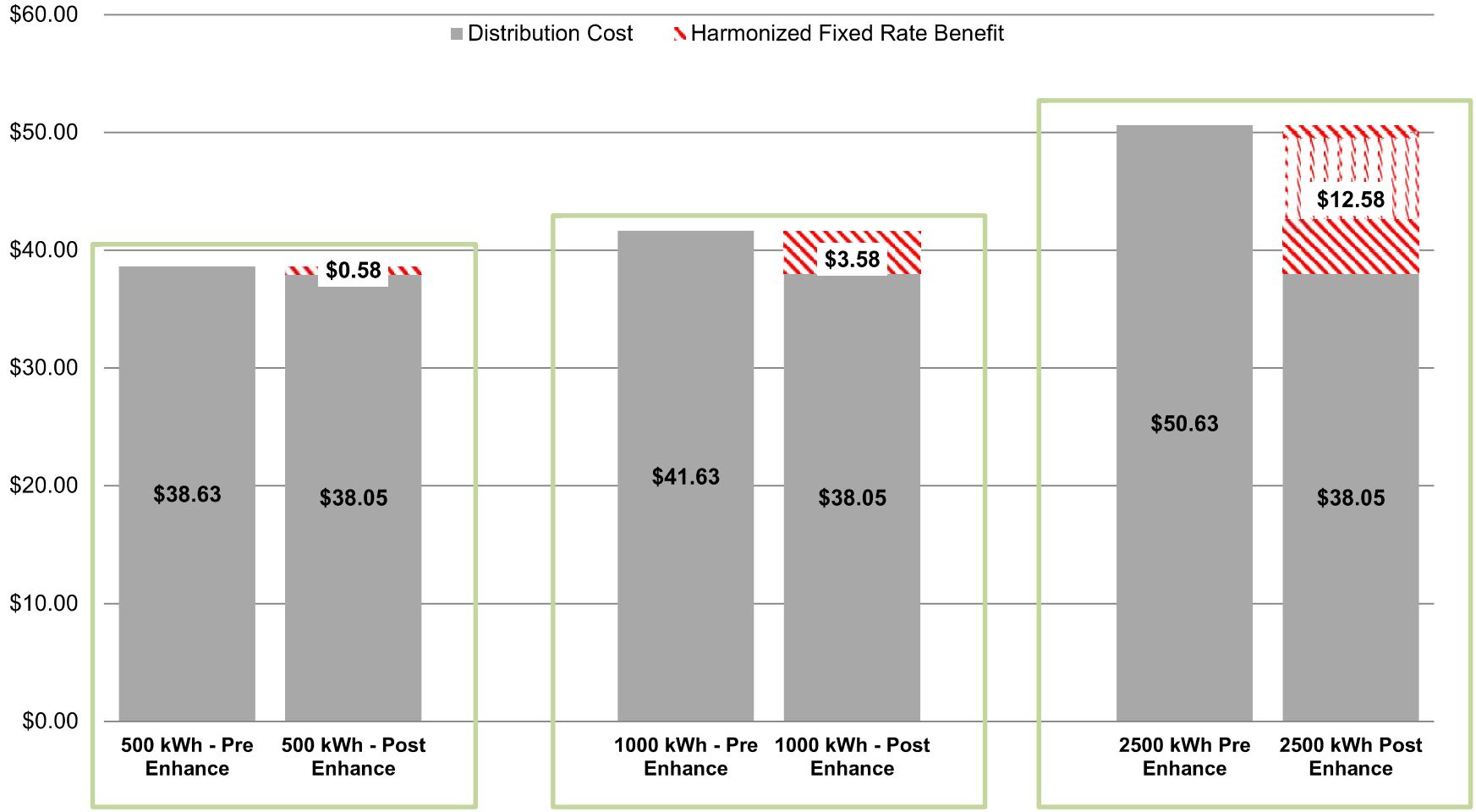
A. Harmonized Distribution Cost – Ratepayer Impact (Sioux Lookout Hydro)



Note: *Rates are for 2017 (either approved or proposed) Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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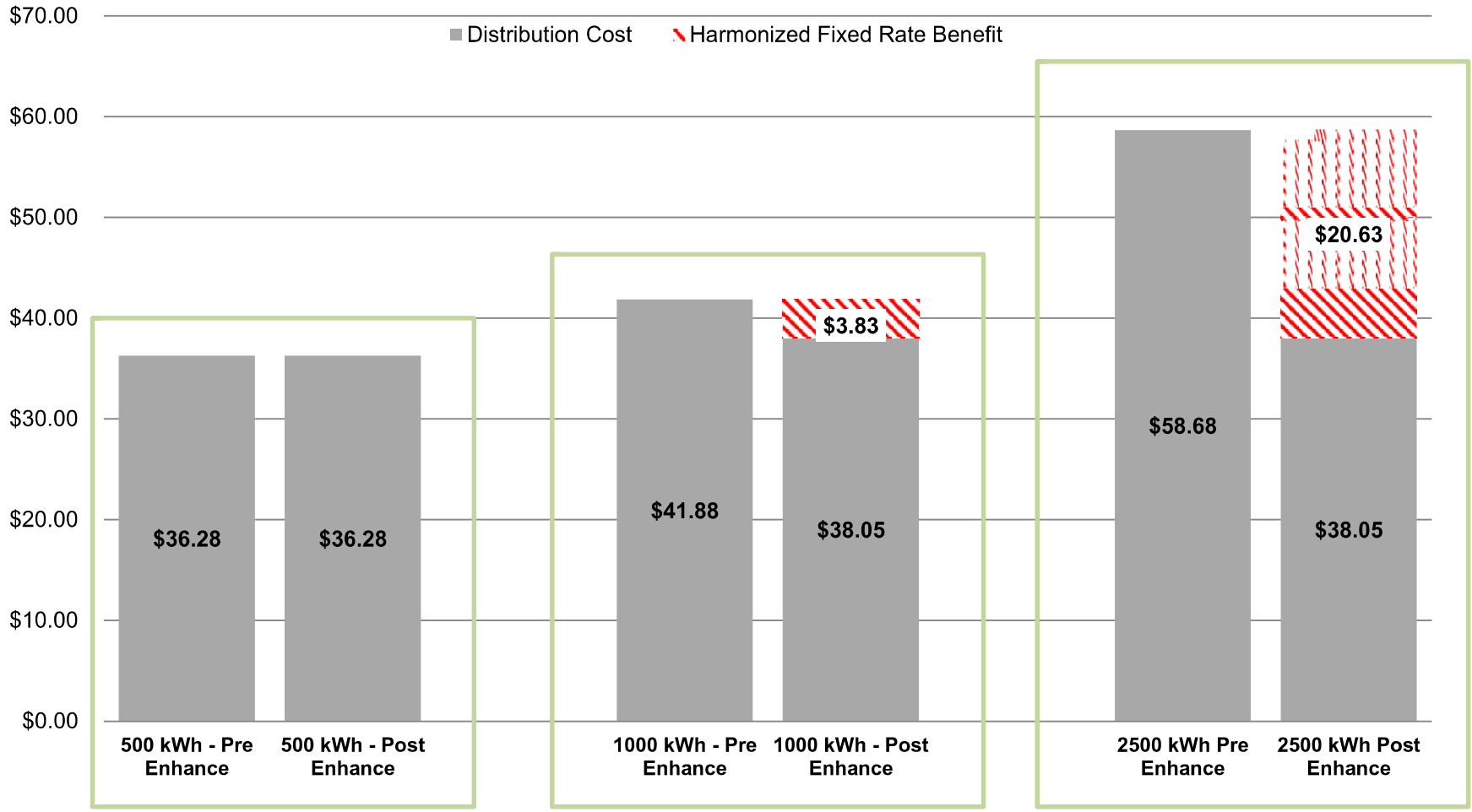
A. Harmonized Distribution Cost – Ratepayer Impact (Lakeland Power – Parry Sound)



Note: *Rates are for 2017 (either approved or proposed). Rates are for the Parry Sound territory within Lakeland Power. Other Lakeland Power customers (Huntsville area) not impacted. Distribution is one component of Delivery line charge. Transmission and line loss charges not shown.*

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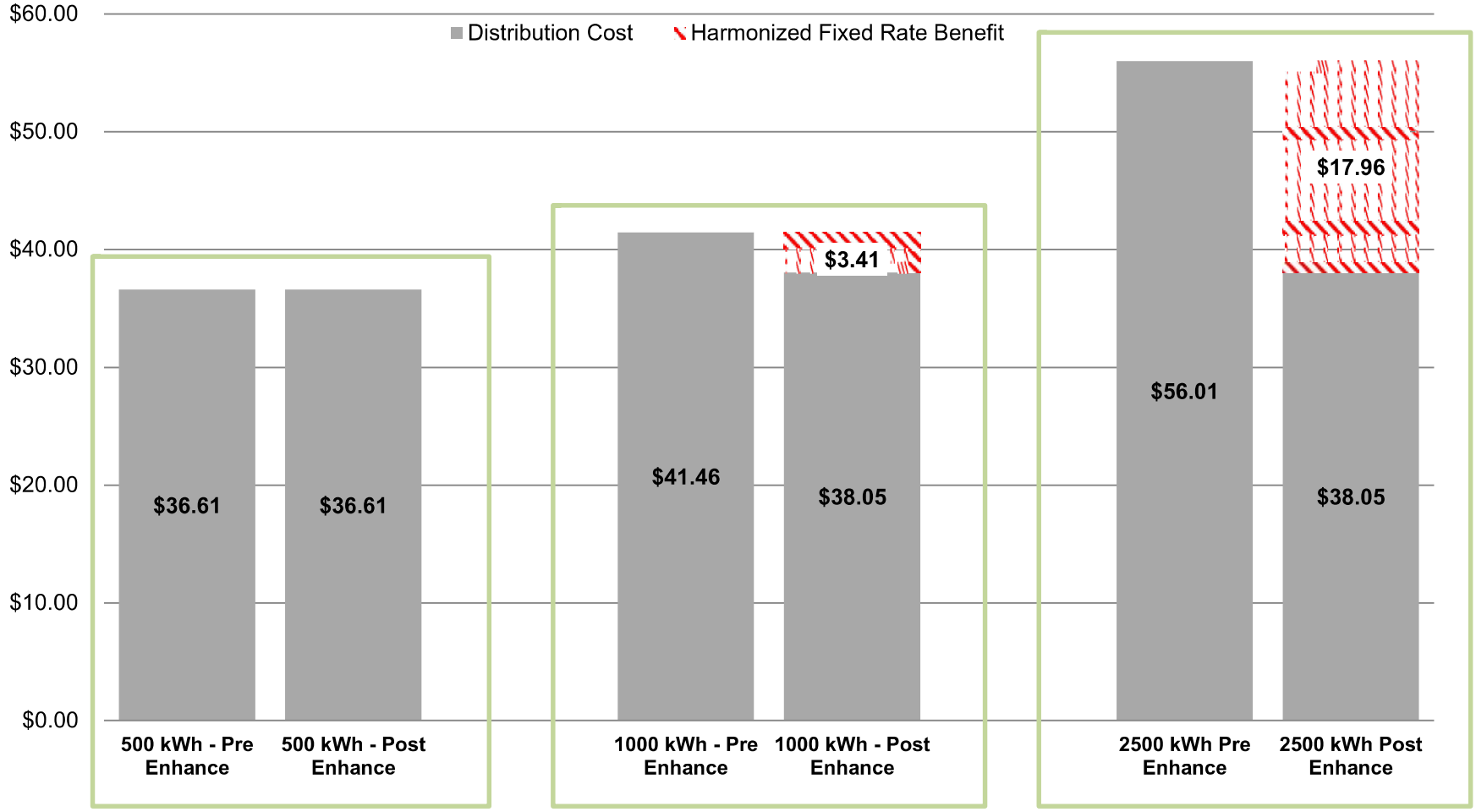
A. Harmonized Distribution Cost – Ratepayer Impact (Northern Ontario Wires Inc.)



Note: *Rates are for 2017 (either approved or proposed)*
Distribution is one component of Delivery line charge.
Transmission and line loss charges not shown.

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A. RRRP Enhancement – Considerations

Implementation

- The Ministry will need to ensure that only the high distribution cost LDCs are captured within the program framework
  - LDCs may need to be named explicitly in the legislation/regulation
  - A mechanism would also need to be created to ensure the level of benefit changes year to year
- LDCs will need to change their billing and customer information systems. OEB estimates that the implementation would take at least 6 months or more, following finalized regulations
- New legislation would be required to establish this program.
- Providing a tax-based subsidy outside of exiting rate setting mechanism reduces incentives for customers and distributors to engage on operating costs and capital planning.
- A mechanism will need to be created to ensure that LDCs/OEB/IESO/Province are aligned in the year-to-year forecasting and costing of the RRRP program and the enhancements.

A. RRRP Enhancement – Considerations (cont'd)

Fiscal

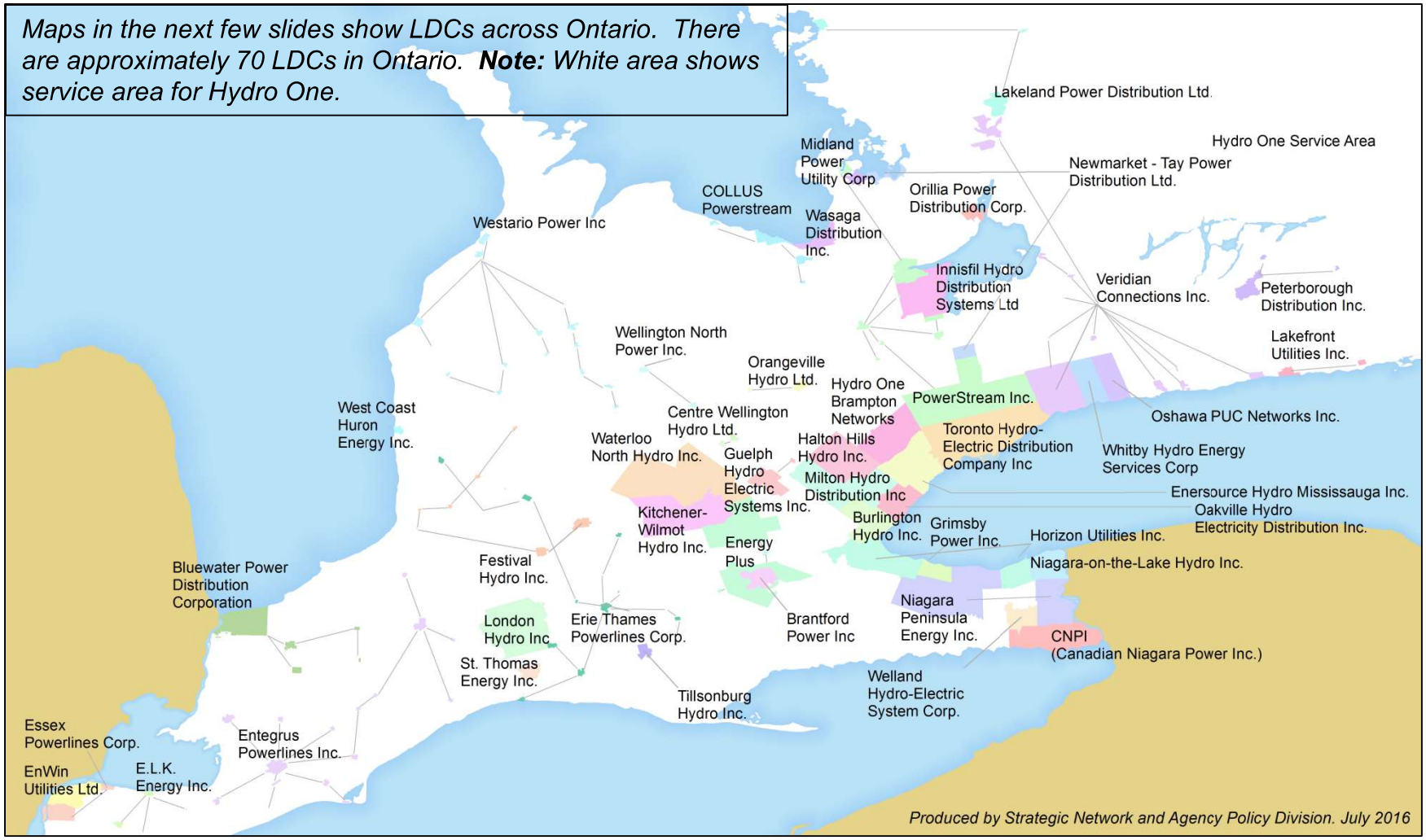
- As distribution costs vary year to year, forecasting fiscal impacts are challenging:
  - Hydro One is expected to submit its cost of service application for 2018 and beyond (3-5 years) in spring 2017. The rate increases requested in this application could potentially increase the proposed fixed rate which could have a significant impact on fiscal requirements and ratepayer impacts.
  - The other high distribution cost LDCs generally have lower distribution cost increases, however, it is difficult to forecast fiscally the impact of the program until LDCs submit their cost of service applications to the Ontario Energy Board (OEB).

Fiscal Impact ($M)	16-17	17-18	18-19	19-20	20-21
Legacy RRRP to Hydro One R2 Customers	-	126	130	133	136
2016 Speech from the Throne Enhancements to R2 Customers	-	117	120	123	127
Proposed Enhancements to Hydro One and Identified LDCs	-	216	222	228	234
TOTAL	-	**459**	**472**	**484**	**497**

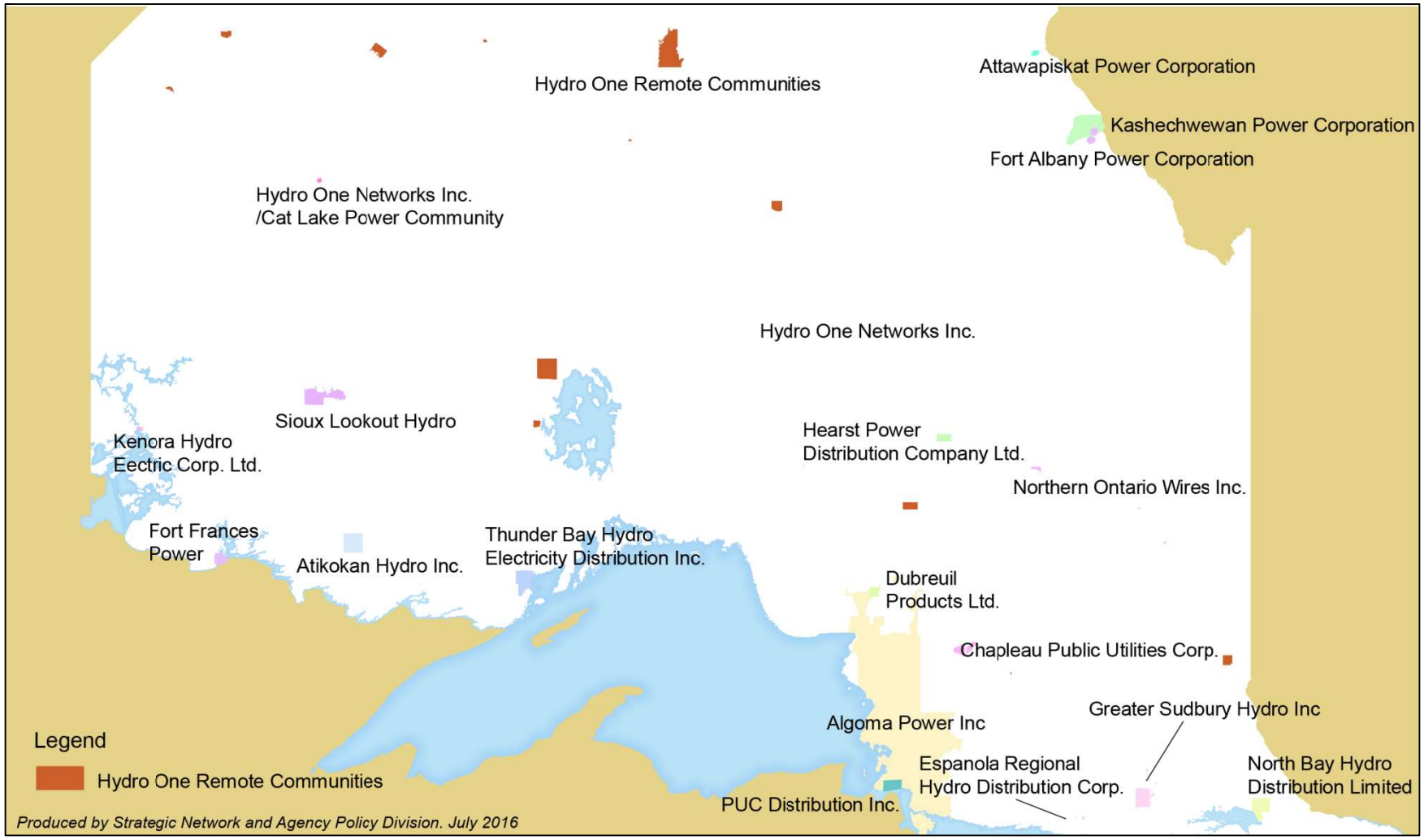
Note: Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate-base.

A. RRRP Enhancement – LDC Service Territory (Southwestern Ontario)

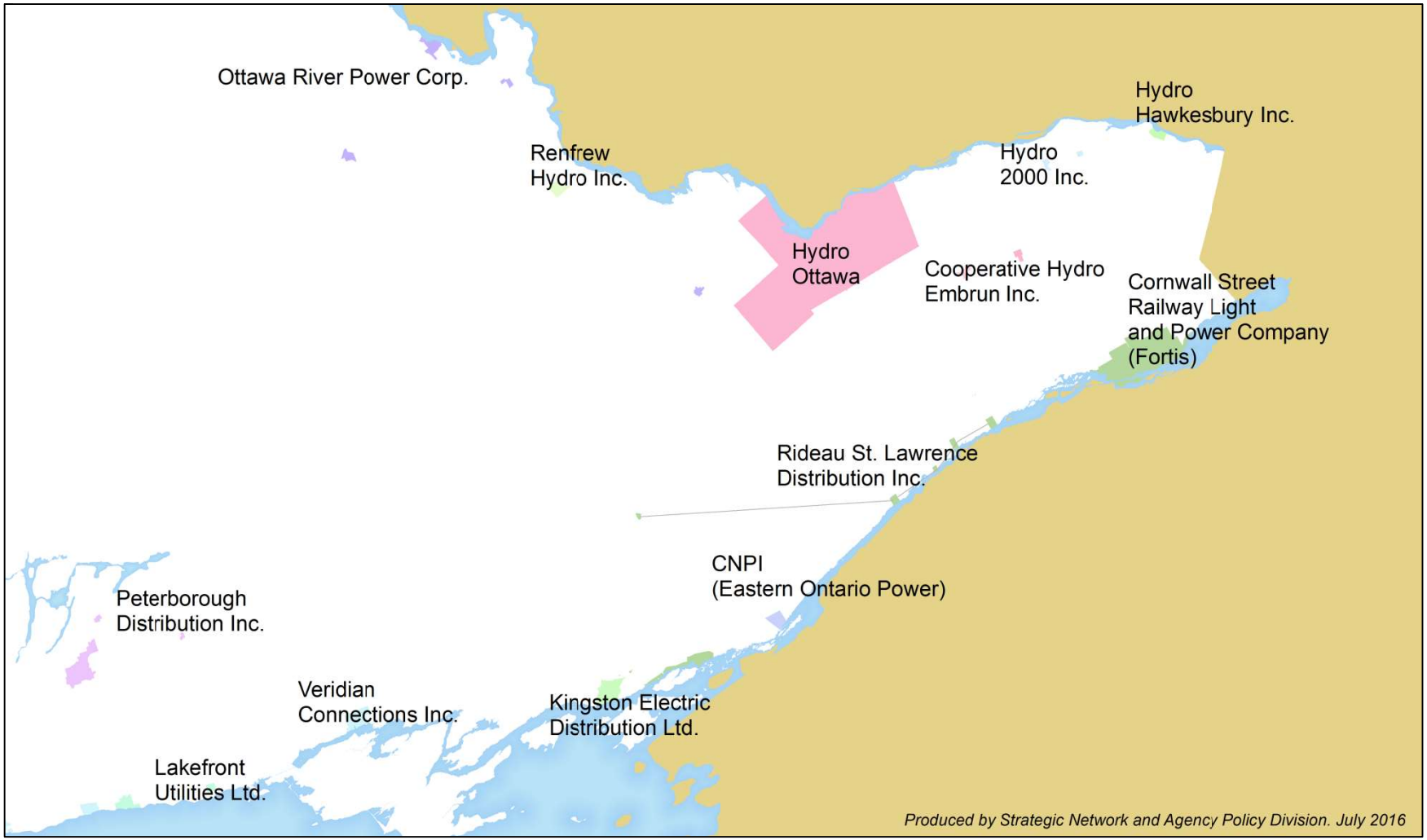
Maps in the next few slides show LDCs across Ontario. There are approximately 70 LDCs in Ontario. ***Note:*** *White area shows service area for Hydro One.*



A. RRRP Enhancement – LDC Service Territory (Northern Ontario)



A. RRRP Enhancement – LDC Service Territory (Eastern Ontario)



B. Ontario Electricity Support Program (OESP)

- The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by a rebate directly on bills. The OESP is currently funded by the rate base.
- OESP credits vary by income level and family size, and there are two credit scales that include:
  - The basic program credit ranges from $30/month to $50/month.
  - An enhanced credit that ranges from $45/month to $75/month for consumers that are either Indigenous, use electric heat or have certain medical devices.
- The OESP launched on January 1, 2016, and in just over a year:
  - Almost 180,000 have been enrolled in the program representing 30% of the total targeted low-income population and some 278,000 applications have been received.
  - Almost $50 million in credits have been provided to vulnerable consumers.
  - Some 172 intake agencies have been mobilized to assist low income consumers to apply for the OESP.
- To drive this uptake, the OEB has engaged in extensive outreach, including advertising in multiple languages, and continuing to work with partner agencies to develop a model for “application clinics” across the province to increase program awareness and uptake across the province.

B. Ontario Electricity Support Program (OESP) (cont'd)

- There are a numbers of ways that the OESP program can be enhanced:
  - Streamline the OESP process to drive participation toward 100%:
    - ENERGY and the Ministry of Community and Social Services (MCSS) have been working on automatic OESP qualification for Ontario Works (OW) and Ontario's Disability Support Program (ODSP) recipients who pay electricity bills.
      - MCSS estimates some 110,000 OW and ODSP recipients pay electricity bills;
      - This process could follow the "deemed eligibility" model used for the Healthy Smiles program. Using an existing model should simplify the implementation process.
      - The qualification process may have to be done manually at first, with a more automated IT solution in the longer-term.
    - Working with the CRA to make the application process easier / quicker to get through by finding an alternative to the requirement to mail-in signed consent forms;
    - Putting in place a more aggressive communications strategy and application intake clinics across the Province to increase awareness of/enrollment in the OESP.
  - Increasing the existing OESP credit scales by an additional 50%; and
  - Expanding the categories of OESP credits.

- It is also recommended that the OESP be supported from the tax-base as part of the rate mitigation package.

B. Ontario Electricity Support Program (OESP) (cont'd)

- The tables below outline the existing OESP credit scales and how the scales would be enhanced if increased by 50% and credits are extended to additional groups (represented in the circled boxes):

Existing OESP Credit Scales

Sliding Scale #1		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$30	$30	$34	$38	$42	$50	$50
	$28,001 - $39,000			$30	$34	$38	$42	$50
	$39,001 - $48,000					$30	$34	$38
	$48,001 - $52,000							$30

Sliding Scale #2		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$45	$45	$50	$55	$60	$75	$75
	$28,001 - $39,000			$45	$50	$55	$60	$75
	$39,001 - $48,000					$45	$50	$55
	$48,001 - $52,000							$45

Proposed +50% OESP Credit Increase*

Sliding Scale #1		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$45	$45	$51	$57	$63	$75	$75
	$28,001 - $39,000		$40	$45	$51	$57	$63	$75
	$39,001 - $48,000			$35	$40	$45	$51	$57
	$48,001 - $52,000					$35	$40	$45

Sliding Scale #2		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$68	$68	$75	$83	$90	$113	$113
	$28,001 - $39,000		$60	$68	$75	$83	$90	$113
	$39,001 - $48,000			$52	$60	$68	$75	$83
	$48,001 - $52,000					$52	$60	$68

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***Note:** The proposed higher scale, including the amounts in circles are proposed and will be refined in consultation with the OEB.

B. Ontario Electricity Support Program (OESP) – Considerations

Fiscal Impact

- Changes to legislation / regulation may be required to establish and define the parameters for OESP to receive funding from the tax-base. The scope of changes would depend on the implementation / delivery mechanisms.
- The OESP regulation will likely require changes to enable OW and ODSP recipients to be "deemed eligible" for the OESP.
- Financial flow-through mechanisms would need to be considered in consultation with IESO and LDCs. Likely to be modeled after processes used for the Ontario Rebate for Electricity Consumers (OREC).
- The OEB has been collecting program funding in excess of program costs and has accrued a positive balance. This balance must be addressed when moving to the tax base.
- If OESP amounts are increased, it will need to be confirmed that the credit is not treated as taxable income. This was addressed in the current iteration of the OESP.
- Adding additional categories to the OESP matrix will take time to implement as it will require changes to the central system as well as LDCs' billing systems. As well, the matrix will no longer follow the Low Income Measure (LIM), which could put additional pressure on the OESP and other provincial programs.

Fiscal Impact ($M)	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
Existing OESP credits	–	118	159	193	222
Incremental Enhance OESP credits by +50%	–	59	80	97	111
Incremental additional OESP categories	–	8	22	35	42
Total	–	**186**	**261**	**325**	**375**

C. Establishing a New Affordability Fund

- For eligible low-income customers, the Home Assistance Program (HAP), delivered by LDCs under the Conservation First Framework, provides efficiency upgrades and education, at no cost, to help improve the energy efficiency and comfort of their homes and help customers manage their electricity bills.

- HAP does not address the needs of those customers that do not qualify as “low-income” but could benefit from conservation programs.
  - At the end of 2015, there were over 560,000* residential electricity accounts in arrears; of these about 19,900** (~3.6%) accounts were eligible to participate in low-income conservation and support programs.
  - According to the Ontario Energy Board (OEB), in 2015 about 60,000 customers had their electricity service disconnected.

Proposal: Establish Affordability Fund to Provide Existing Low-Income Conservation Program to Other Electricity Customers

- The Ministry proposes establishing an Affordability Fund which would be available to LDCs to provide similar energy efficiency measures as provided under HAP to targeted customers.

* **Note:** Unverified numbers reported by LDCs to the OEB
** **Note:** Low-income customers identified through participation in LEAP

Ontario

C. Establishing a New Affordability Fund (cont'd)

Fund Details:

- An Affordability Fund would be accessible to LDCs only, and would target those customers who cannot qualify for low-income conservation programs and are in need, such as those who are facing disconnection.
  - By providing support for energy efficiency improvements, the Fund could help these customers reduce their future bills and avoid future disconnections.
  - The Fund would provide LDCs with an additional tool to provide assistance to their customers.

Eligibility Criteria/Fund Principles:

- Determination of eligibility could involve a number of factors and metrics:
  - Do not meet the definition of "low-income";
  - May have triggered action by an LDC collection department (e.g., are in arrears, have been placed on one or more payment plans, are due to be disconnected, etc.);
  - Priority could be given to eligible customers in electrically-heated homes, or other unique circumstances; and
  - Require financial assistance to pay for energy efficiency measures.

C. Establishing a New Affordability Fund (cont'd)

Implementation

- ENERGY is currently in discussions with several large LDCs to determine the principles of the Fund and is working with Hydro One to set up an independent Trust to serve as the Fund Administrator.
  - The Fund Administrator would manage the flow of funds to LDCs based on principles set by the province, and be responsible for establishing processes, administration, and criteria for funding applications, thereby ensuring the program is managed on a consistent basis across the province.
  - LDCs would apply for funding to the Fund administrator, to offer energy efficiency measures to those customers in their service territories that meet the targeted eligibility criteria.
  - LDCs have over 10 years of experience in delivering conservation programs, including experience specific to contracting for programs that target low-income customers.
  - LDCs are best positioned to identify and target their customers who are most in need.

- Given the scope of the Fund, an LDC would need a firm financial commitment up front before implementation. LDCs rely on rate-payer funding for most of their activities. The Affordability Fund would be a unique venture from an LDC perspective given that it is tax funded.

C. Establishing a New Affordability Fund (cont'd)

<u>Implementation</u> (cont'd)

- Recipients could receive measures ranging from an average of $3,000 to $5,000 per customer, at no or minimal cost. For example, measures available in the Home Assistance Program include:
  - Energy-saving light bulbs (LEDs); power bars; energy efficient window ACs, refrigerators, freezers, dehumidifiers; low-flow showerheads, hot water blankets, pipe wrap and faucet aerators (in homes with electric water heating); and
  - Programmable thermostats, weather stripping, insulation (in homes with electric heating).

- Cold climate air source heat pumps would also be an eligible measure under the Affordability Fund. Heat pumps range in cost from $7,000 to $13,000.

- As an illustration, with $200 million, the estimated reach of the fund could be 15,000 to 65,000 households, depending on measures and uptake.

C. Establishing a New Affordability Fund – Considerations

Considerations

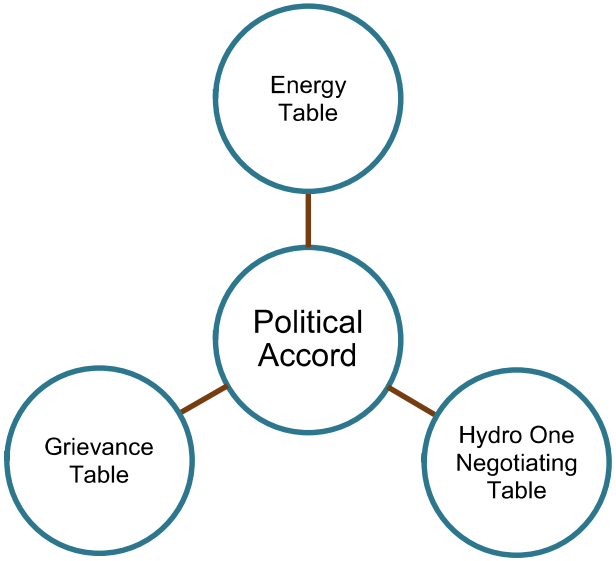
- The Affordability Fund addresses a real need.
  - LDCs have expressed the need for an additional tool to provide assistance to their customers.
- Determining allocation of funds to LDCs:
  - Some LDCs may have a disproportionate number of customers in need of assistance; and
  - ENERGY is proposing to seek input from the OEB, LDCs and potentially low income organizations to help develop funding allocation and eligibility principles for the Trust.
- While eligibility principles will be established, LDCs will need a degree of flexibility to target customers:
  - Not all customers who are in need will actively seek help;
  - Some customers in arrears may be "gaming the system" and not truly in need; and
  - LDCs recommend targeted outreach as opposed to broad marketing; a high volume of applications would limit the ability to deliver assistance to customers who need it most.

Fiscal Impact

- The Affordability Fund would represent a fiscal impact of $200 million in fiscal year (FY) 2016/17.
- To allow for funds to flow in FY 2016/17, ENERGY would sign a Transfer Payment Agreement (TPA) with Hydro One and transfer money before end of fiscal year to ensure Hydro One can establish the Trust and the Trust can begin operation as the Fund Administrator.
- There is a fiscal risk if monies used for the Fund do not flow before FY year-end 2016/17 and for monies that are sitting in Hydro One at year-end (because of consolidation with province), and a corresponding fiscal pressure in the following years when the funds are flowed from Hydro One (H1) to ratepayers.

D. Implementing On-Reserve First Nations Delivery Credit

- ENERGY has a number of Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.
- The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).
- The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.



- On June 27, 2016, following discussions on Hydro One shares and rates at COO's All Chiefs Conference, the Minister of Energy issued a letter directing the OEB to prepare a report providing "*advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers*".
  - OEB engaged with First Nations, including remote communities, the distributors serving them, and consumer groups such as the Low Income Energy Network. It also established an Advisory Committee with the Chiefs of Ontario's Grievance Committee.
- The Ontario Energy Board (OEB) has worked with COO to engage with First Nations to develop options for a First Nations electricity rate. The OEB provided a report to the Minister on December 29, 2016.

D. Implementing On-Reserve First Nations Delivery Credit (cont'd)

- On-reserve First Nations customers face unique challenges that impact electricity affordability, such as the poor quality of the housing stock on-reserve. These challenges result in significantly higher electricity consumption levels and costs.
- First Nations living on reserve are particularly vulnerable low-income consumers: the average income is considerably lower compared to First Nations living off reserve and compared to non-Indigenous populations:
  - Average income of First Nations on reserve in Ontario: $21,100;
  - Average income of First Nations off reserve in Ontario: $31,527;
  - Average income of Non-Indigenous people in Ontario: $42,506; and
  - Median incomes on smaller reserves can fall below $10,000 (e.g., Cat Lake FN).
- Employment rates also differ between on-reserve First Nations, off-reserve First Nations and Non-Indigenous individuals, as well as other indices of social vulnerability:
  - 54% of Indigenous people over 15 years old and living on-reserve in Ontario are unemployed or not in the labour force;
  - The on-reserve unemployment rate is 18.3% compared to 6.4% in Ontario generally; and
  - 67% of families residing on-reserve are single parent families, compared to the Canadian equivalent of 19%.
- First Nations are seeking redress for historic grievances related to lands affected by energy developments, such as transmission or distribution infrastructure built on reserve lands and traditional territories where, in some cases, they may not have been appropriately consulted.
- Further, in some circumstances, linear infrastructure corridors cut First Nation reserves in half, significantly disturbing the use and management of an already small land base; the First Nation communities disturbed by energy infrastructure report having experienced long wait times (e.g., 20 years) for their communities to get connected and receive the benefits of the energy derived from the local infrastructure.

D. Implementing On-Reserve First Nations Delivery Credit (cont'd)

- The OEB report to the Minister of Energy on a First Nation on-reserve rate recommended:
  - Eliminate the delivery charge for all on-reserve First Nations residential customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate;
    - The OEB estimates this would provide residential customers an average monthly benefit of $85 at a total annual cost of $13 to $20 million.
  - Automatically qualify on-reserve First Nations residential customers (~21,500 customers);
  - Enable greater information sharing between distributors and band councils to identify all on-reserve First Nations customers; and
  - Continue to provide assistance through OESP and LEAP to eligible on-reserve First Nations customers.
- The OEB suggested the program should be funded from the tax base as it is targeted to a particular segment of the provincial population, or, if rate based, to use a province-wide charge.
- ENERGY recommends moving forward with the implementation of the OEB's recommendations as part of the wider electricity rate relief package and as the Hydro One share agreement with COO continues to be implemented.

Distributor	Number of On-Reserve Residential Customers
Algoma Power Inc.	473
Attawapiskat Power Corporation	336
Bluewater Power Distribution Corporation	237
Cat Lake Power Utility Ltd.	80
Cornwall Electric Distribution	514
Hydro One Networks Inc.	16,679
Hydro One Remote Communities Inc.	2,579
PUC Distribution Inc. (Sault Ste. Marie)	264
Thunder Bay Hydro Electricity Distribution	332
Total Number of Customers	**21,494**

Source: OEB Report to Minister: Options for an Appropriate Rate Assistance Program for On-Reserve First Nations Electricity Consumers (Page 5).

D. Implementing On-Reserve First Nations Delivery Credit – Considerations

- Legislative and regulatory will be required to implement this program.
- The OEB will need to work with the LDCs to identify on-reserve consumers to administer the delivery rebate.
- Development of a communications plan containing the following elements:
  - Public release of the OEB report;
  - Commitment to working with LDCs on implementation details; and
  - Advanced notice to the OEB and COO regarding the ministry's decision to move forward on the OEB's recommendation and indicate a willingness to work collaboratively with COO on ways in improve community-LDC communication to ease implementation.
- The rebate will appear on customer's electricity bills, either as a specific line item or a communicated call-out.
- Recipients would continue to be eligible for programs such as the Ontario Electricity Support Program (OESP) and the Low-Income Electricity Assistance Program (LEAP).
- There is a risk that either non-status Indigenous communities without reserves or Métis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. A genuinely ameliorative program that targets some people but excludes others is shielded from a s. 15 challenge if it serves or advances the ameliorative goal. The proposal has an ameliorative purpose as it targets First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities, that affect electricity affordability.

Fiscal Impact ($M)	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
On-Reserve First Nation Delivery Credit	-	20	20	20	20

Fiscal Roll-Up

Fiscal Impact ($M)	16-17	17-18	18-19	19-20	20-21
RRRP Enhancements*	-	459	472	484	497
Ontario Electricity Support Program, including the 50% Enhancement & New Matrix Categories	-	186	261	325	375
On-Reserve First Nation Delivery Credit	-	20	20	20	20
Affordability Fund**	200	-	-	-	-
Total	200	665	753	829	892

***Note:** Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate-base.
****Note:** Funding for the Affordability Fund is one-time in 2016/17.

BENDING THE FUTURE COST CURVE OF ELECTRICITY

Existing Rate Mitigation Actions To Bend The Cost Curve

- Since 2013, the government has taken a number of actions to reduce electricity ratepayer costs, including:
  - Renegotiating the Green Energy Investment Agreement to reduce contract costs by $3.7 billion.
  - Reducing Feed-In Tariff (FIT) prices saving ratepayers at least $1.9 billion.
  - Introducing a competitive Large Renewable Procurement (LRP) process to drive down costs approximately $1.5 billion lower than the 2013 LTEP forecast.
  - Deferring the construction of two new nuclear reactors at Darlington, avoiding an estimated $15 billion in new construction costs.
  - Maximizing the value of our existing nuclear fleet by starting Bruce refurbishments in 2020 instead of 2016, thus helping to achieve $1.7 billion in savings and by continuing to operate Pickering up to 2024, pending regulatory approvals, which could save ratepayers about $600 million.
  - Suspending the second round of the LRP process and the Energy-from-Waste Standard Offer Program, which is expected to save up to $3.8 billion in costs.
  - Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – up to [$xx] cost savings.

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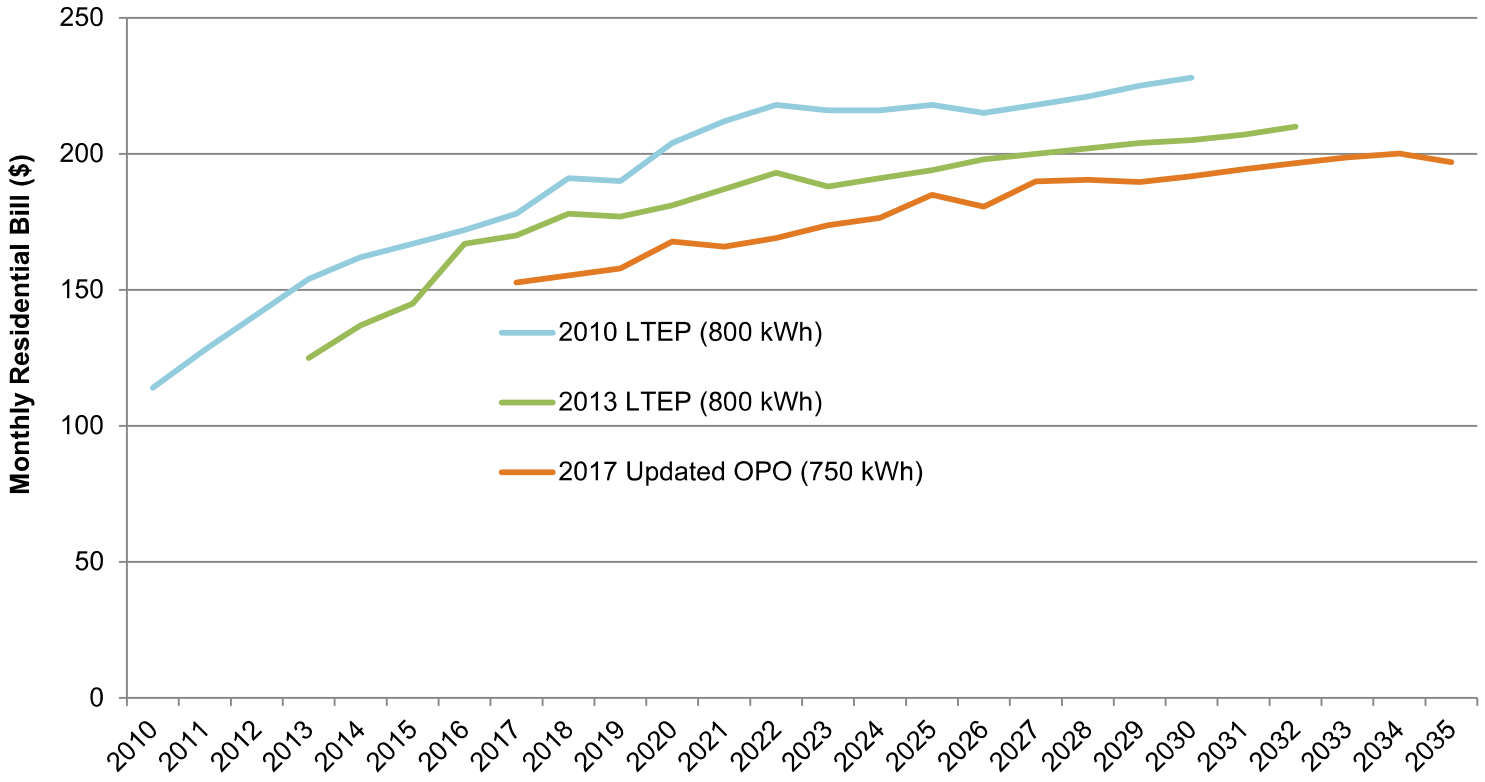
Existing Rate Mitigation Actions To Bend The Cost Curve (cont'd)

- The chart below shows how electricity rate forecasts have trended down over time.



Sources: *2010 LTEP (800 kWh/month); 2013 LTEP (800 kWh/month); Revised Ontario Planning Outlook (750 kWh/month as of February 2017) which includes: ICI expansion, RRRP update, 8% rebate, HQ agreement, suspension of LRP II and EFWSOP.*

A. OEB – LDC Efficiencies and Rates

Leveraging the OEB

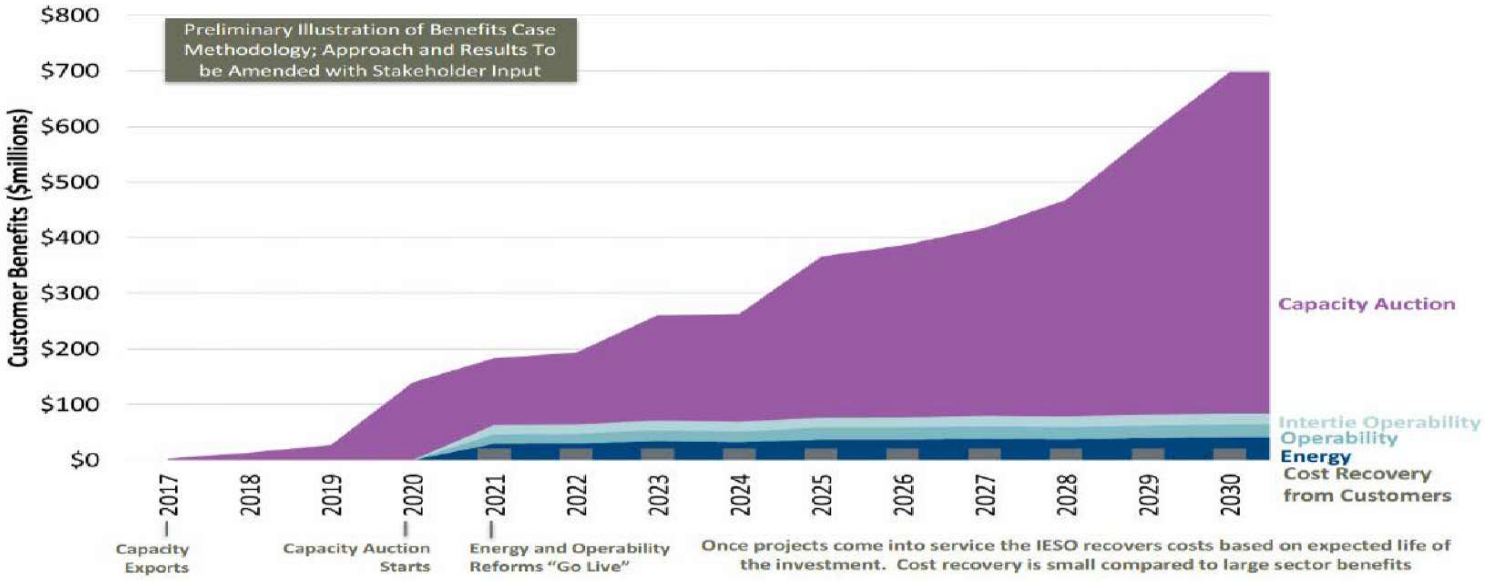
- The Ontario Energy Board (OEB) has a mandate to regulate the electricity distribution sector in the public interest, ensuring the financial viability of the sector while promoting reliable service to customers at just and reasonable rates.
- The OEB, through the Renewed Regulatory Framework for Energy (RRFE), has since 2012 attempted to move the distribution sector towards a performance/outcomes-based regulatory framework.
  - While new reporting requirements such as the LDC performance scorecard are positive developments, RRFE does not tie these system performance expectations to LDC financial performance.
- Encouraging shared partnerships on services between utilities will help reduce costs in the back end and encourage further innovation for small to medium sized utilities.
- In 2012, the government asked the Ontario Distribution Sector Review Panel to make recommendations about how the distribution sector could become more efficient. The Panel concluded that a $1.2 billion net present value in savings could be achieved by consolidating LDCs into 8-12 regional entities.

Opportunities

- ENERGY could help promote and accelerate these efforts by asking the OEB to look at opportunities to further drive LDC efficiencies and productivity. This may indirectly incent LDC consolidation.
- In parallel, the OEB could be instructed to review business cases behind its own regulatory requirements to reduce “red tape” and eliminate costs that LDCs indicate are creating pressures on operating expenses.
- This could be done through the Minister's letter, the LTEP Implementation Directive, s. 35 of the *Ontario Energy Board Act, 1998*, and/or the 2017 Mandate Letter and other agency business planning processes.

B. IESO – Market Renewal

- Continue to move forward with Independent Electricity System Operator's (IESO) Market Renewal initiatives:
  - Moving to "technology-agnostic" procurements will provide new opportunities for innovation and modernization and ensure ratepayers receive the best prices possible.
  - Market Renewal encompasses projects such as a single-schedule system (from the current two-schedule system), more frequent intertie scheduling to better align with other jurisdictions and a day-ahead market. There will be up front capital costs to enable the initiative. IESO is currently assessing these costs.
- Changes related to IESO's Market Renewal initiatives, reflected in HOEP and uplifts, are estimated to save up to $300 million per year, starting in 2021, leading to a reduction of:
  - About $1/month or less than 1% at current retail prices for a typical residential bill; and
  - About $1.30/MWh at current all-in prices for industrial and SME electricity consumers.



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SUPPORT FOR TENANTS

Support for Tenants – Context

- The government is considering measures to provide relief from high electricity prices, and is interested in ensuring that tenants also receive electricity cost reductions and/or relief.

- Currently, tenants generally either pay for their own electricity use through suite meters (i.e., sub-meters or direct arrangements with hydro providers) or pay for electricity indirectly as a service included in their rent:
  - Tenants who pay for their own electricity will receive electricity costs savings directly through their bills; and
  - Low-income tenants who pay own electricity bills can access energy support programs such as the Ontario Electricity Support Program administered by the Ontario Energy Board (OEB).

- Any potential initiatives could focus on the following options:

For tenants who pay own electricity bills

1. Expand OESP to increase relief or raise income thresholds.

For tenants whose electricity is included in rent

2. Require that landlords pass savings on to tenants (could be addressed by MHO through RTA amendments).
   - Options could include requiring landlords to automatically reduce rents, or allow tenants to apply the Landlord and Tenant Board for relief.
3. Provide energy rebates directly to tenants whose rent includes electricity.

Support for Tenants – Potential RTA Hydro Relief Measures / Considerations

- RTA amendments with respect to tenant relief, remedies, and enforcement would be complex, and unable to provide immediate, direct and transparent cost remedies to tenants:
  - Impact of hydro relief measures and electricity cost savings for landlords may vary depending on size of rental building and location (urban/rural):
    - One size fits all approaches would not match actual landlord savings to direct tenant relief; and
    - More targeted approaches would add extreme complexity, leading to greater confusion for landlords and tenants, and difficulty administering enforcement.
  - Passing on actual savings could likely only be done after landlords have experienced decreased costs for a period of time (i.e. one year).
  - Difficulty in informing landlords of their responsibilities and enforcing reductions; would likely have significant resource implications for the Landlord & Tenant Board/Ministry of Attorney General.
  - Difficult for tenants to understand, with the most vulnerable tenants potentially less able to pursue remedies through the LTB.
- The kinds of potential RTA remedies would depend on various specifics regarding the way in which relief was being provided to landlords including whether:
  - The actual electricity cost savings for landlords are transparent to facilitate easy calculation of rent reductions or relief;
  - Hydro relief measures are permanent or temporary; and
  - All relief should be passed on to tenants, or just a portion of the relief (e.g., global adjustment fund, 8% rebate, any other relief).

Support for Tenants – Potential RTA Hydro Relief Measures / Other Considerations (cont'd)

- As part of Climate Change Action Plan, MHO has been directed to mitigate the impact of carbon costs on tenants, and is proposing to prevent landlords from charging above-guideline rent increases for extraordinary utility costs increases.
  - May seem unfair that landlords are required to reduce rents or provide relief when utility costs decrease but cannot increase rents when utility costs increase.
- Relief would be limited to certain segments of tenant population:
  - Post-1991 buildings are exempt from the Rent Increase Guideline and landlords could negate any savings to tenants in these buildings through a higher subsequent rent increase.
    - Over 19% of tenant households are estimated to live in post-1991 private rental units including individually rented condos; a high proportion may already pay for electricity separately.
  - Relief may not be required for social housing tenants:
    - Most social housing tenants (80%) pay as per utility scales, which covers electricity usage other than electric heat; and
    - Utility scales were last updated in 2000 and are reflective electricity prices at that time.
- MHO, working with ENERGY and MAG will report back in Spring 2017 with options for electricity rate mitigation for tenants.

Legislative Authority – Considerations

GA Smoothing

- **Amendments to *Electricity Act, 1998* (EA) and *Ontario Energy Board Act, 1998* (OEBA)**
  - The OPG Trust will require authority to recover principle, interest and administrative costs through GA from customers.
  - Legislation would authorize IESO to collect amounts on behalf of the OPG's SPV/Trust and settle accounts with the OPG Trust as a service provider. Regulatory amendments to GA Regulations would require IESO to:
    - Separately settle and track amounts received from the SPV/Trust to lower GA (including maintaining variance accounts).
    - Separately settle and track amounts paid back to the SPV/Trust (including maintaining variance accounts).
    - Distributors would continue to collect from consumers and settle with IESO. Generators would continue to be paid by IESO.
  - OEBA-related amendments would allow for OEB oversight. Light touch would focus on the borrowing entity's recovery of administrative costs and its calculation of amounts owing in a period. Heavy touch would give OEB the discretion to determine repayment over time.
  - The certainty of the legislative mechanism to recover the debt and interest, and the extent of discretion of the OEB to alter either amount over time, will have impacts on the availability and cost of capital.
  - Further legal analysis is required as the GA option is developed.

Class B

- **Targeted Lowering ICI Threshold Below 1 MW (to 500kW):** Regulatory amendments (O.Reg. 429/04) will be required to address program details.

Legislative Authority – Considerations (cont'd)

Electricity Support Programs

- **RRRP, OESP and First Nations Rate:** Moving costs to the tax base and creating a First Nations rate will require amendments to OEBA. Regulatory amendments (442/01, 314/15, 275/04) will be required to address program details.

- **Affordability Fund:** In order to implement new affordability fund the Province would need to enter into Transfer Payment Agreements with qualified third parties to administer the fund.

Bending the Future Cost Curve of Electricity

- No specific legislative or regulatory amendments identified. IESO may need to amend market rules. Agency MOUs/MOAs may require amendment.

Communication Plan

Objective:

- Demonstrate Ontario's commitment to lower electricity costs for ratepayers through new rate relief initiatives.

Strategic Approach

- High-profile Premier's announcement and Technical Briefing
- News release, backgrounders, QA's are being prepared.
- A multimedia marketing and advertising campaign is being prepared on the topic of rate mitigation for electricity consumers.

APPENDIX: SEE MINISTRY OF ENERGY'S ELECTRICITY PRICE MITIGATION – APPENDIX

Q&A Response

Q. What is the revised cost forecast for the 8% rebate as result of the measures announced in Ontario's Fair Hydro Plan?

Key measures announced in Ontario's Fair Hydro Plan (OFHP) are expected to reduce the cost of the 8% rebate for the Province. The cost to the Province is expected to decrease as the total cost of electricity paid by eligible customers, upon which the rebate is based, will be reduced.

ENERGY has updated the cost forecast for the 8% rebate based upon the following:

- Independent Electricity System Operator updated its Ontario Planning Outlook (OPO) with respect to a typical bill for a residential consumer as outlined in the March 1, 2017 Cabinet Submission. This revised OPO price outlook is inclusive of all the recently announced measures including cancellation of LRP II and EFW and expansion of ICI.

- ENERGY's estimates of the reduction to a typical bill for a residential consumer as a result of the Global Adjustment (GA) refinancing and funding electricity support programs through provincial revenues as announced in the OFHP.

- ENERGY's estimates of the reduction in costs for consumers that benefit from electricity support programs as announced in the OFHP (i.e., expanded Rural or Remote Rate Protection, enhanced Ontario Electricity Support Program and the First Nations Delivery Rebate). For Fiscal Year 2017-2018 this includes a 50% adjustment to the cost given that implementation of the expanded programs is expected to be deferred to September 2017.

	2017-2018	**2018-2019**	**2019-2020**	**2020-2021**
ENERGY Estimate **(August 26, 2016)** ($ million)	1,006	1,004	944	n/a
ENERGY's Revised Cost Estimate **(September 8, 2016)** ($ million)	1,119	1,086	1,171	n/a
ENERGY Revised Estimate **(March 15, 2017)** ($ million)	939	882	882	895
Change: **March 15, 2017** vs **August 26, 2016**	-7%	-12%	-7%	n/a
Change: **March 15, 2017** vs **September 8, 2016**	-16%	-19%	-25%	n/a

NOTE: The above estimates are subject to variances as result of uncertainties in demand, natural gas prices and other factors. These uncertainties also impact the variance account for the Regulated Price Plan (RPP).

Estimate Assumptions:

	2017	2018	2019	2020
Annual Average Electricity Price, Pre-tax, after Mitigation Programs ($ per month)	127*	120	122	125

***Note:** Value adjusted from $117 to account for deferral of implementation to May 2017 (GA refinancing) and July 2017 (tax-basing electricity support programs).
Source: OPO February 2017 and ENERGY estimates / Cabinet Submission March 1, 2017

	2017-2018	2018-2019	2019-2020	2020-2021
Cost of Expanded Electricity Support Programs in OFHP** ($m)	499***	753	829	892
RRRP	344			
OESP	140			
ONFNDC	15			

****Note:** Includes the Rural and Remote Rate Protection (RRRP), Ontario Electricity Support Program (OESP) and On-Reserve First Nations Delivery Credit (ORFNDC)
***__Note__: Value adjusted from $665 million to account for deferral of implementation to July 2017.
Source: ENERGY estimates / Cabinet Submission March 1, 2017

	Base year
Total volume eligible for rebate (TWh)	71
Residential sector total eligible for rebate (TWh)	42
Portion of residential sector on retail contract (%)	10
Retail Premium: Residential ($/kWh)	0.03
Multi-unit sector total eligible for rebate (TWh)	7
Portion of multi-unit sector on retail contract (%)	10
Retail Premium: multi-unit ($/kWh)	0.02
Commercial sector total eligible for rebate (TWh)	20
Portion of commercial sector on retail contract (%)	26
Retail Premium: Commercial ($/kWh)	0.02
Agricultural sector total eligible for rebate (TWh)	1.9
Residential demand growth (2016-2023)	-0.6%
Commercial demand growth (2016-2023)	0.3%

Source: OCEB database, 2016 OPO and ENERGY analysis

From:	Ronald Kwan
To:	John Kim; Emily Kerr; Bruno Amara
Cc:	Deena Padamadan
Subject:	FW: OFHP Placemat/definitions
Date:	Wednesday, May 03, 2017 2:25:33 AM
Attachments:	Ontario Fair Hydro Plan - Key Definitions.docx 2017 05 02 OFHP Summary v03 1.pptx

Hi,

Please review.

Thanks.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-02-17 8:01 PM
To: Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Subject: OFHP Placemat/definitions

Hi Nancy, Ron, Gadi,

Attached is an early cut at products we thought may be helpful as guides for the Fair Hydro plan. We have developed a two page overview placemat that follows Brandon's format. We also have a 1-pager with definitions that help to decode language in the OFHP legislation.

These products still require some refinement particularly on next steps for the tax based social programs (2nd slide). I need to check back with Energy to get some dates and to ensure what we have is correct. Ron, it would also be very helpful if your group could take a look at the numbers to ensure they align with the Budget forecasts. If anyone has additional key issues they would suggest flagging, please let us know and I we will drop them in. Also happy to take suggestions on format as we crashed this together fairly quickly (note that some of the numbers show up small on the screen, but hopefully look better on 11x17 sheets). We will treat this as an iterative product over the next few days / week.

While not perfect, I realize fiscal prep and MMP meetings are occurring tomorrow. I wanted to get this into the system in case it is helpful to have a reasonably accurate summary of a very complex initiative.

Thanks,
Scott

Ontario Fair Hydro Plan – Key Definitions

- **Clean Energy Initiative** – This is the term used to describe the Government of Ontario's policies to foster growth and investment in and remove barriers and promote opportunities for clean and renewable energy sources and technologies and promoting conservation and demand management. The "clean energy costs" under the legislation arise from the "clean energy initiative". Its purpose is to establish the fundamental basis for the legislation. The definition is self-explanatory and is as follows:

  "clean energy initiative" means the policies of the Government of Ontario related to,

  a) *eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,,*
  b) *removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,*
  c) *promoting conservation, demand management and energy efficiency; and*
  d) *investing in energy infrastructure to ensure a clean, modern and reliable system;*

- **Clean Energy Costs** – These are costs (attributable to the "clean energy initiative") that are to be more fairly distributed among generations of consumers.
- **Clean Energy Benefits** – These are the value of the benefits derived by the "specified consumers" (including the clean energy costs).
- **Clean Energy Adjustments** – This is adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing.
- **Fair Adjustment** – This is the adjustment that gives the "relief" to certain specified consumers during the period from July 1, 2017 to June 30, 2021 (including this program's portion of the 25 per cent reduction).
- **Fair Allocation Amount** – This is the concept/mechanism by which the fair distribution of "clean energy costs" (including, for example, financing costs, the cost of the power contracts, and the costs of the fair adjustment) is calculated and implemented.
- **Specified Consumers** – This is the defined group of consumers to whom the legislative program applies. These consumers are persons who have an account with an electricity vendor for the supply of electricity in Ontario and,
  - have a demand for electricity of 50 kilowatts or less (or as otherwise prescribed);
  - annually use not more than 250,000 kilowatt hours of electricity (or as otherwise prescribed);
  - carry on a farming business (basically pursuant to the *Farm Registration and Farm Organizations Funding Act*);
  - have an account with an electricity vendor that is for a "dwelling", condominium property, residential complex or co-operative housing; or
  - are otherwise prescribed.
- **Regulatory Asset** – This is fundamentally IESO's right to recover the revenues that it has deferred collecting because the clean electricity costs are being allocated across generations of ratepayers.
- **Investment Asset** – This is the asset that results when the regulatory asset is transferred to the (OPG) financing entities.
- **The Financing Plan** is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.

Ontario's Fair Hydro Plan

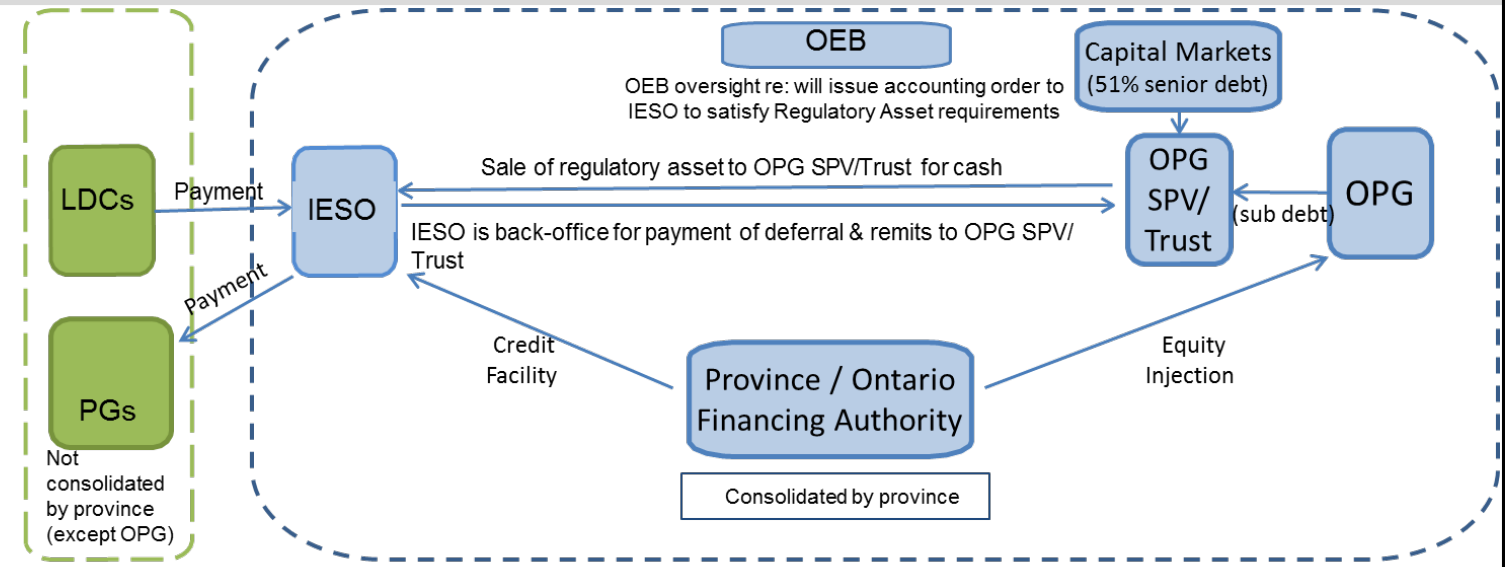
Context

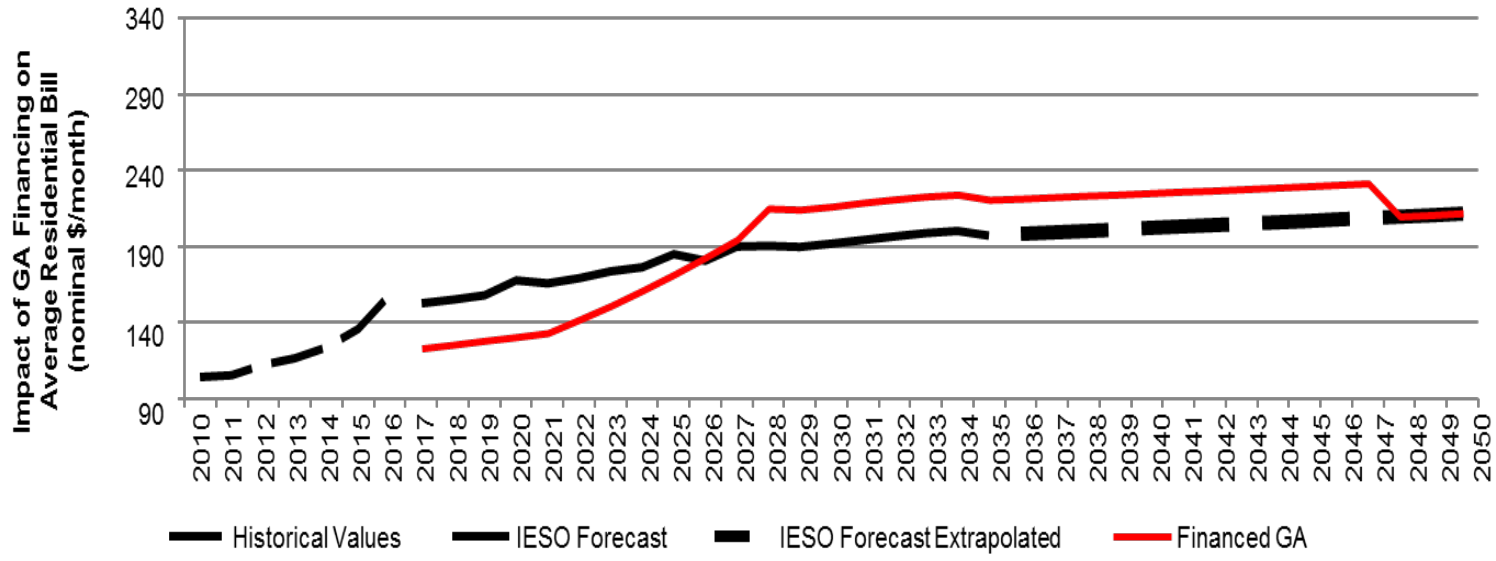
- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. Up to 500,000 small businesses and farms would also benefit.
- Any rate increases for typical residential consumers over the next four years would be held to inflation
- To implement the OFHP, ENERGY has prepared legislation (Ontario Fair Hydro Plan Act) in close collaboration with the OEB, Independent Electricity System Operator (IESO), Ontario Power Generation (OPG), partner ministries (TBS, MOF and MAG), external advisors.

OFHP Act Overview

- The Legislation balances ratepayer interests, accounting objectives, market expectations and legal considerations
- Built around core principle that costs incurred to move to a clean, reliable system creates benefits across generations, and costs that should be spread more fairly. Pre-defined terms (see definitions) form the building blocks for this structure
- Roles and responsibilities are established in legislation:
  - Minister of Energy: sets Fair Allocation Amounts for all periods, at the beginning of the plan
  - OPG: Financial Services Manager, sets the Financing Plan, establishes financing entities, purchases assets from IESO, and will drive invoice amounts to customers
  - IESO: creates funding shortfall / regulatory asset, sells to OPG, acts as agent to collect from ratepayers and fund initial interest costs
  - OEB: sets customer rates, establishes regulatory asset for IESO, reviews OPG's admin. costs
- Large part of legislation designed to ensure the financeability of the program
- Key considerations
  - Legislation sets the first Fair Allocation Adjustment and end date of 2047; amounts for intervening years set in regulation
  - Several Provincial guarantees to be negotiated to enable financing without imposing undue cost / risk on Province
  - Province's role constrained once the program underway (e.g. cannot remove OPG as financial services manager)
  - Modelling underway to ensure principle of cost / benefit alignment underlying the program is justifiable
  - Energy has received approval to provide monthly equity injections to OPG to fund sub-debt (see diagram)
  - OFA working with IESO to provide an additional credit facility (see diagram)

GA Financing Overview





	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly residential bill w GA financing impact and tax *($/month)*	104	105	112	116	124	136	158	123	126	128	131	133	142	151	161	172	183	195	215	214	216	219	221	223	224	221	222	222	223	224	225	226	227	228	229	230	230	231	210
Year-over-year change in bill *(%)*	-	1.0	6.7	3.9	6.1	9.8	16.7	-22.1	2.0	2.0	2.0	2.0	6.5	6.5	6.5	6.5	6.5	6.5	10.5	-0.4	0.9	1.2	1.0	0.8	0.6	-1.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-9.3
Impact of GA financing pre-tax *($/month)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-26.1	-26.1	-26.2	-32.8	-28.7	-23.9	-19.9	-13.5	-11.8	2.0	4.2	21.8	21.8	21.7	21.7	21.5	21.4	21.3	21.0	20.9	20.8	20.7	20.6	20.5	20.4	20.4	20.3	20.2	20.1	20.0	19.9	0.0
Total Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	5.1	7.9	11.4	14.6	17.8	20.8	23.2	25.6	26.7	27.7	26.8	26.0	25.1	24.1	23.1	22.0	20.9	19.7	18.5	17.2	15.9	14.4	12.9	11.3	9.7	7.9	6.1	4.2	2.1	0.0	0.0
Total Change in Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.6	2.8	3.5	3.2	3.2	2.9	2.4	2.4	1.1	0.9	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Ontario's Fair Hydro Plan (cont'd)

Electricity Support to Help the Most Vulnerable

Rural / Remote Electricity Rate Protection	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	0	454	450	446
Overview	Expand the existing program and harmonize distribution rates for customers in the top 1/8 of distribution rate classes, and shifting costs to the tax base			
Updates	Amend S. 79 of OEBA to provide through regulation classes of customer costs to be shifted to tax base, and create distribution rate protection program to complement RRRP			
Next Steps	Amend regulation to prescribe H1's R2 customers as receiving RRRP & prescribe by regulation program details/customers eligible for broadened distribution rate protection			

Ontario Electricity Support Program	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	0	178	239	290
Overview	Improve the existing program to enhance benefits and increase uptake through streamlined applications and expanded eligibility to include additional households			
Updates	Shift program funding to tax base and authority to allow data sharing between OEB/MCSS to support participation of Ontario Works/Ontario Disability and Support Program clients			
Next Steps	Move to tax base once variance account depleted (exp. fall 2017), with legislation to be proclaimed via OIC at that time to ensure OEB authorities while ratepayer funding is used			

On-Reserve First Nations Delivery Credit	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	0	20	20	20
Overview	Establish a credit to remove delivery charges for 21,500 on-reserve First Nations residential customers			
Updates	Establish authority to create delivery credit and provide for tax-based funding			
Next Steps	Regulatory amendments with details - class of customers eligible, determine what is considered on-reserve and determine the method of calculating the delivery credit			

Affordability Fund	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	100	Up to 100 additional		
Overview	Fund has been established through local distribution companies to help consumers in need to make energy efficiency improvements			
Updates	Advisory committee established and has recommended reps. from Hydro One, Alectra and Thunder Bay Hydro to act as trustees; 2 social services trustees to be selected soon			
Next Steps	Report back to TB/MBC in June 2017 with final program details and a performance management framework; LDCs begin to apply to the Trust for funds in summer 2017			

Other Elements / Considerations

- Industrial Conservation Initiative: Program expanded to include greenhouses. Energy working with CME and OCC on outreach campaigns on benefits of ICI and other conservation initiatives
- Bill Presentment: Targeting a re-design of the bill for Fall 2017. For the interim period the Ministry plans to include bill inserts describing the program
- Auditor General (AG) / Financial Accountability Officer (FAO): The Ministry has met with both offices and is circulating information in response to follow up requests. The AG also engaged with IESO through its IT value-for-money audit

From: John Kim
To: "Montgomery, Kaitlin (MOF)"
Cc: Bruno Amara
Subject: FW: OFHP Placemat/definitions
Date: Wednesday, May 03, 2017 6:16:29 PM
Attachments: 2017 05 03 OFHP Summary v05_Markup.pptx

Hi Kaitlin,

There you go.

John

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 03, 2017 12:50 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP Placemat/definitions

Here's the revised version with Rons edits…not sure if you'll get a chance to review or not this afternoon but if you do, just wanted to make sure you had the latest.

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 3, 2017 11:24 AM
To: Montgomery, Kaitlin (MOF)
Subject: RE: OFHP Placemat/definitions

That's the 8% equal to the provincial portion of the HST…

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 03, 2017 11:20 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP Placemat/definitions

Thanks john - No worries – but what does the acronym OREC stand for?

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 3, 2017 11:19 AM
To: Montgomery, Kaitlin (MOF)
Subject: RE: OFHP Placemat/definitions

Hi Kaitlin,

I've been so swamped so haven't gone through Ron's comments yet but I think he's referring to OREC estimates coming down due to FHP-related prorams.

Let me know if more is needed but I will be taking a look this afternoon…

John

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 03, 2017 11:01 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: OFHP Placemat/definitions

Hoping you can help me with something…any idea what Ron is referring to highlighted below? What is OREC?

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: May 3, 2017 2:38 AM
To: Nelms, Scott (MOF); Kennedy, Nancy (MOF); Mayman, Gadi (OFA)
Cc: Skoberne, Vivienne (MOF); Montgomery, Kaitlin (MOF)
Subject: RE: OFHP Placemat/definitions

Hi Scott,

On the numbers for the second slide, they do not appear to reflect the numbers from the March 1, 2017, Energy CabSub in each year (see attached). Also, the 17-18 numbers in the fiscal plan were adjusted to reflect ¾ of a year, per a July 1, 2017 implementation date (see attached Q&A file). With regard to the latter file, it might be useful to add to the second slide the revised OREC estimated cost numbers too.

On slide 1, I'd suggest separating out the Province and OFA bubble, to show the credit facility and equity injection separately.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-02-17 8:01 PM
To: Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Subject: OFHP Placemat/definitions

Hi Nancy, Ron, Gadi,

Attached is an early cut at products we thought may be helpful as guides for the Fair Hydro plan. We have developed a two page overview placemat that follows Brandon's format. We also have a 1-pager with definitions that help to decode language in the OFHP legislation.

These products still require some refinement particularly on next steps for the tax based social programs (2nd slide). I need to check back with Energy to get some dates and to ensure what we have is correct. Ron, it would also be very helpful if

your group could take a look at the numbers to ensure they align with the Budget forecasts. If anyone has additional key issues they would suggest flagging, please let us know and I we will drop them in. Also happy to take suggestions on format as we crashed this together fairly quickly (note that some of the numbers show up small on the screen, but hopefully look better on 11x17 sheets). We will treat this as an iterative product over the next few days / week.

While not perfect, I realize fiscal prep and MMP meetings are occurring tomorrow. I wanted to get this into the system in case it is helpful to have a reasonably accurate summary of a very complex initiative.

Thanks,
Scott

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

Ontario's Fair Hydro Plan

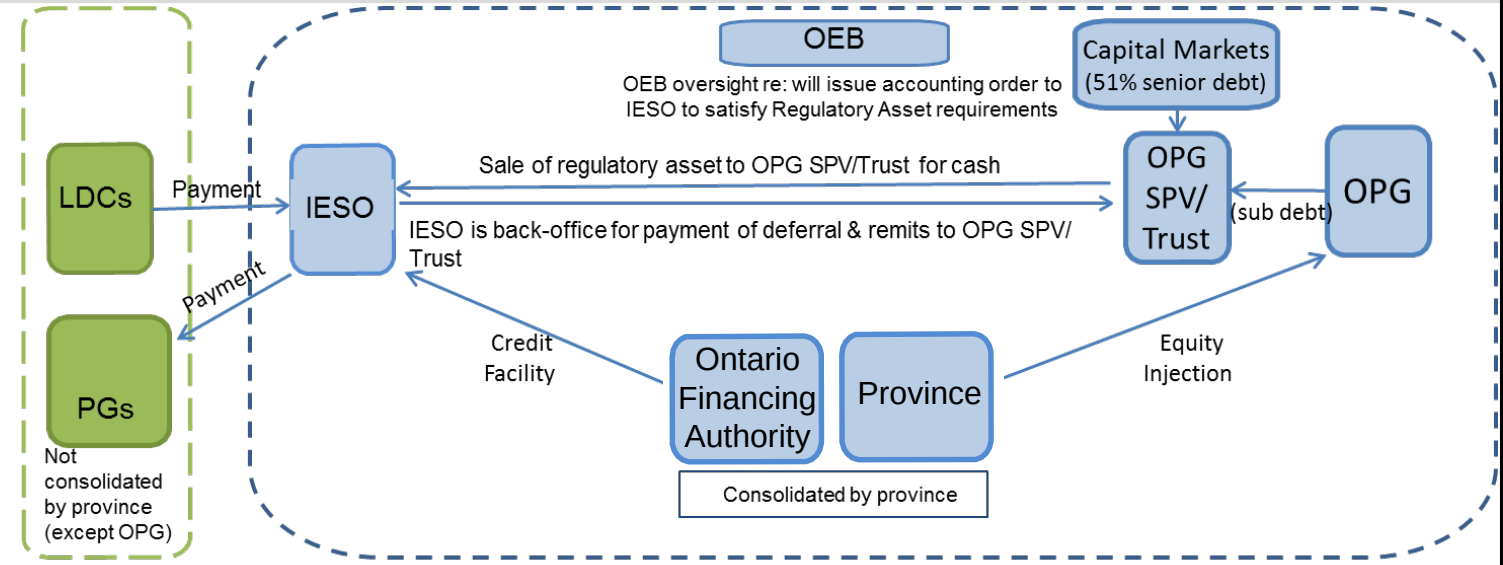
Context

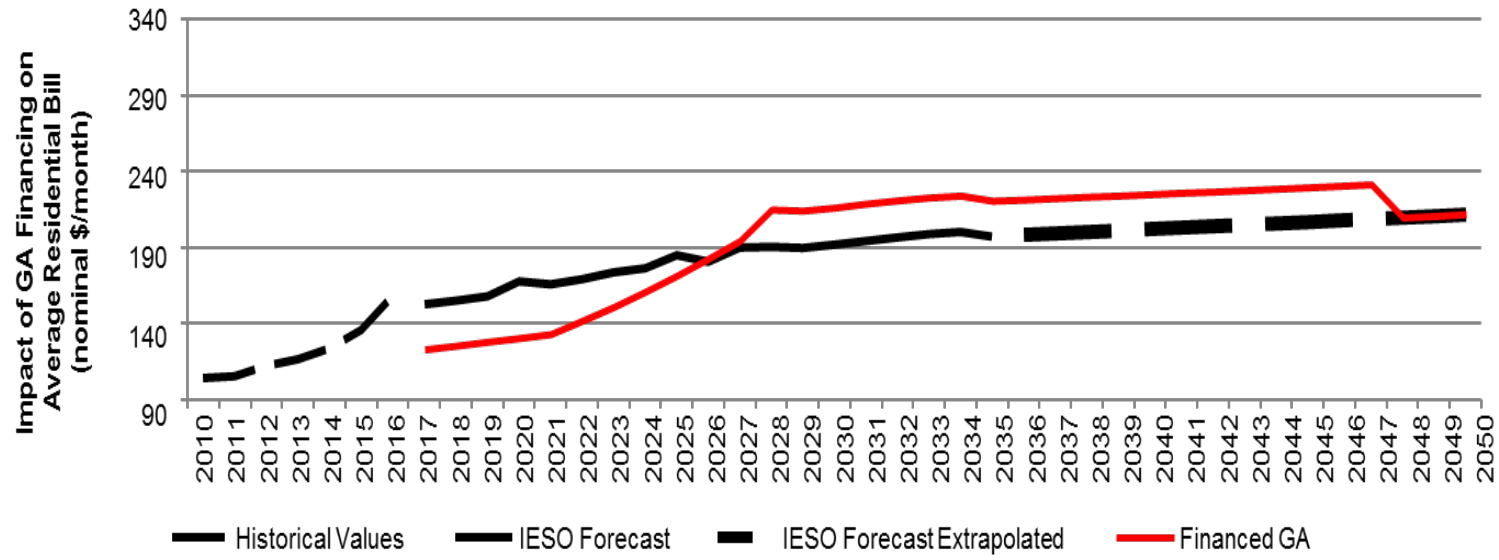
- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. Up to 500,000 small businesses and farms would also benefit.
- Any rate increases for typical residential consumers over the next four years would be held to inflation
- To implement the OFHP, ENERGY has prepared proposed legislation (Bill xx: Ontario Fair Hydro Plan Act) in close collaboration with the OEB, Independent Electricity System Operator (IESO), Ontario Power Generation (OPG), partner ministries (TBS, MOF and MAG), external advisors.

Bill xx: OFHP Act Overview

- The proposed Legislation balances ratepayer interests, accounting objectives, market expectations and legal considerations
- Built around core principle that costs incurred to move to a clean, reliable system creates benefits across generations, and costs that should be spread more fairly. Pre-defined terms (see definitions) form the building blocks for this structure
- Roles and responsibilities are established in legislation:
  - Minister of Energy: sets Fair Allocation Amounts for all periods, at the beginning of the plan
  - OPG: Financial Services Manager, sets the Financing Plan, establishes financing entities, purchases assets from IESO, and will drive invoice amounts to customers
  - IESO: creates funding shortfall / regulatory asset, sells to OPG, acts as agent to collect from ratepayers and fund initial interest costs
  - OEB: sets customer rates, establishes regulatory asset for IESO, reviews OPG's admin. costs
- Large part of legislation designed to ensure the financeability of the program
- Key considerations
  - Legislation sets the first Fair Allocation Adjustment and end date of 2047; amounts for intervening years set in regulation
  - Several Provincial guarantees to be negotiated to enable financing without imposing undue cost / risk on Province
  - Province's role constrained once the program underway (e.g. cannot remove OPG as financial services manager)
  - Modelling underway to ensure principle of cost / benefit alignment underlying the program is justifiable
  - Energy has received approval to provide monthly equity injections to OPG to fund sub-debt (see diagram)
  - OFA working with IESO to provide an additional credit facility -- requires approvals / Directive from Minister of Finance to OFA (see diagram)

GA Financing Overview





	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly residential bill w GA financing impact and tax *($/month)*	104	105	112	116	124	136	158	123	126	128	131	133	142	151	161	172	183	195	215	214	216	219	221	223	224	221	222	222	223	224	225	226	227	228	229	230	230	231	210
Year-over-year change in bill *(%)*	-	1.0	6.7	3.9	6.1	9.8	16.7	-22.1	2.0	2.0	2.0	2.0	6.5	6.5	6.5	6.5	6.5	6.5	10.5	-0.4	0.9	1.2	1.0	0.8	0.6	-1.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-9.3
Impact of GA financing pre-tax *($/month)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-26.1	-26.1	-26.2	-32.8	-28.7	-23.9	-19.9	-13.5	-11.8	2.0	4.2	21.8	21.8	21.7	21.7	21.5	21.4	21.3	21.0	20.9	20.8	20.7	20.6	20.5	20.4	20.4	20.3	20.2	20.1	20.0	19.9	0.0
Total Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	5.1	7.9	11.4	14.6	17.8	20.8	23.2	25.6	26.7	27.7	26.8	26.0	25.1	24.1	23.1	22.0	20.9	19.7	18.5	17.2	15.9	14.4	12.9	11.3	9.7	7.9	6.1	4.2	2.1	0.0	0.0
Total Change in Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.6	2.8	3.5	3.2	3.2	2.9	2.4	2.4	1.1	0.9	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Actual financing cost may differ from illustrative 5% assumed, which would affect annual interest cost and accumulated debt each year and over time

Ontario's Fair Hydro Plan (cont'd)

Electricity Support to Help the Most Vulnerable

Rural / Remote Electricity Rate Protection	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	344	472	484	497
Overview	Expand the existing program and harmonize distribution rates for customers in the top 1/8 of distribution rate classes, and shifting costs to the tax base				
Updates	Amend S. 79 of OEBA to provide through regulation classes of customer costs to be shifted to tax base, and create distribution rate protection program to complement RRRP				
Next Steps	Amend regulation to prescribe H1's R2 customers as receiving RRRP & prescribe by regulation program details/customers eligible for broadened distribution rate protection				

Ontario Electricity Support Program	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	140	261	325	375
Overview	Improve the existing program to enhance benefits and increase uptake through streamlined applications and expanded eligibility to include additional households				
Updates	Shift program funding to tax base and authority to allow data sharing between OEB/MCSS to support participation of Ontario Works/Ontario Disability and Support Program clients				
Next Steps	Move to tax base once variance account depleted (exp. fall 2017), with legislation to be proclaimed via OIC at that time to ensure OEB authorities while ratepayer funding is used				

On-Reserve First Nations Delivery Credit	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	15	20	20	20
Overview	Establish a credit to remove delivery charges for 21,500 on-reserve First Nations residential customers				
Updates	Establish authority to create delivery credit and provide for tax-based funding				
Next Steps	Regulatory amendments with details - class of customers eligible, determine what is considered on-reserve and determine the method of calculating the delivery credit				

Affordability Fund	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	100		Up to 100 additional		
Overview	Fund has been established through local distribution companies to help consumers in need to make energy efficiency improvements				
Updates	Advisory committee established and has recommended reps. from Hydro One, Alectra and Thunder Bay Hydro to act as trustees; 2 social services trustees to be selected soon				
Next Steps	Report back to TB/MBC in June 2017 with final program details and a performance management framework; LDCs begin to apply to the Trust for funds in summer 2017				

Other Elements / Considerations

- *Revised cost forecast for "Ontario Rebate for Electricity Consumers" for amount equivalent to 8% provincial portion of HST:* Key measures announced in OFHP are expected to reduce the cost of the rebate for the Province as the total cost of electricity paid by eligible customers, upon which the rebate is based, will be reduced. The revisions are as follows compared with estimates in September 8, 2016*:

	2017-2018	2018-2019	2019-2020	2020-2021
ENERGY Estimate (Sept 8, 2016) ($ million)	1,119	1,086	1,171	n/a
ENERGY Revised Estimate (March 15, 2017) ($ million)	939	882	882	895
Change: March 15, 2017 vs Sept 8, 2016	*-16%*	*-19%*	*-25%*	*n/a*

***NOTE:** The estimates are subject to variances as result of uncertainties in demand, natural gas prices and other factors. These uncertainties also impact the variance account for the Regulated Price Plan (RPP).

- *Industrial Conservation Initiative:* Under the FHP, the program was expanded for manufacturing sectors, plus greenhouses, to a lower threshold, down to 500 kilowatts (vs 1 MW for other consumers). Energy working with CME and OCC on outreach campaigns on benefits of ICI and other conservation initiatives
- *Bill Presentment:* Targeting a re-design of the bill for Fall 2017. For the interim period the Ministry plans to include bill inserts describing the program
- *Auditor General (AG) / Financial Accountability Officer (FAO):* The Ministry has met with both offices and is circulating information in response to follow up requests. The AG also engaged with IESO through its IT value-for-money audit

From:	John Kim
To:	John Kim
Subject:	FW: ONTLA: FHP
Date:	Friday, June 02, 2017 4:10:25 PM
Attachments:	Proposed Fair Hydro Act - b132_e - May 11 2017.pdf

---

From: Salman Qadir
Sent: Monday, May 29, 2017 10:12 AM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Subject: ONTLA: FHP

Hi Bruno,

I think Shajee may have sent this out already (just can't find his email) but here is Bill 132, Fair Hydro Plan Act on the ONTLA website.

http://www.ontla.on.ca/web/bills/bills_detail.do?locale=en&Intranet=&BillID=4875

Its already saved here:
Z:\Users\CEF\Hydro 2017\Electricity Prices\OFHP\Legislation

Regards,
Salman

Legislative Assembly of Ontario

Assemblée législative de l'Ontario

2ND SESSION, 41ST LEGISLATURE, ONTARIO
66 ELIZABETH II, 2017

Bill 132

An Act to enact the Ontario Fair Hydro Plan Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

The Hon. G. Thibeault
Minister of Energy

Government Bill

1st Reading May 11, 2017

2nd Reading

3rd Reading

Royal Assent

EXPLANATORY NOTE

The Bill enacts a new Act and makes amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*.

SCHEDULE 1
ONTARIO FAIR HYDRO PLAN ACT, 2017

The Schedule enacts the *Ontario Fair Hydro Plan Act, 2017*. The Act establishes a framework under which the costs and benefits associated with the "clean energy initiative" are to be allocated among present and future consumers of electricity. The "clean energy initiative" is defined in Part I as consisting of the policies of the Government of Ontario related to such matters as eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies.

Under Part II, the Ontario Energy Board is required to determine reduced electricity rates and to determine other adjustments to be made for certain classes of consumers in respect of specified periods of time. For example, for the class of consumers referred to as "regulated rate consumers", the electricity rates payable for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would achieve a 25 per cent reduction in certain costs for a hypothetical member of the class who meets prescribed criteria. Details regarding the determinations are prescribed by regulations.

Part III requires certain electricity consumers to pay an amount in respect of the "clean energy adjustment". The clean energy adjustment is determined by the Financial Services Manager in accordance with rules set out in the Act and the regulations. (Section 18 of the Act appoints Ontario Power Generation Inc. as the Financial Services Manager.) Part III also specifies the roles and responsibilities of electricity vendors and the Independent Electricity System Operator ("IESO") with respect to the collection and remittance of amounts in respect of the clean energy adjustment.

Part IV requires the Minister of Energy to calculate a "fair allocation amount" by taking specified steps in accordance with principles and assumptions set out in the Act. For example, the Act provides that the purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among certain consumers. Part IV also requires the Financial Services Manager to prepare a written plan entitled the "Financing Plan", which is to be used to evaluate whether potential funding obligations should be incurred. Principles and limitations regarding the preparation and implementation of the plan are provided.

Part V requires the IESO to determine the "IESO deferral" in accordance with the regulations and to establish and maintain a variance account in which it records the IESO deferral each month. A "regulatory asset" is created under section 25; the IESO has the right to recover the balance recorded in the variance account from certain consumers. The IESO is authorized to transfer a specified portion of the regulatory asset to a financing entity; this transfer results in the creation of the investment asset and the acquisition by the transferee of a corresponding "investment interest". Various rules respecting the validity and priority of a transfer of an investment asset are set out.

In Part VI, rules in respect of the "investment asset" are provided. Section 29 provides that the investment asset constitutes a current and irrevocable property right and interest, consisting collectively of various specified rights and interests of investment interest owners. Rules respecting the validity and priority of such a transfer and the granting of a security interest by an investment interest owner are included.

Part VII deals with various miscellaneous matters, including regulation-making authority of the Lieutenant Governor in Council.

The *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* are amended to address various matters relating to the enactment of the new Act. For example, the objects of the IESO and Ontario Power Generation Inc. are expanded to address powers and duties under the new Act.

SCHEDULE 2
AMENDMENTS TO THE ONTARIO ENERGY BOARD ACT, 1998

The *Ontario Energy Board Act, 1998* is amended. Among the amendments:

1. Section 79 of the Act is amended so that compensation for the rate protection provided to certain classes of rural or remote consumers may be funded out of money appropriated by the Legislature, rather than by consumers.
2. Section 79.2 of the Act, which governs the Ontario Electricity Support Program, is repealed and replaced. The program is continued, but will be funded out of money appropriated by the Legislature after the variance account maintained by the Independent Electricity System Operator, formerly established under the Plan, is exhausted, rather than by consumers. There are provisions relating to the sharing, use and disclosure of information relating to the administration of the Ontario Electricity Support Program.

3. Programs are established to aid certain distribution rate-protected residential consumers and on-reserve consumers.
4. Various amendments of a technical and administrative nature are made to support the implementation and oversight of these programs including provisions related to auditing, record-keeping, inspections and inquiries, offences and penalties.

Bill 132 **2017**

An Act to enact the Ontario Fair Hydro Plan Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998

Her Majesty, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows:

Contents of this Act

1 This Act consists of this section, sections 2 and 3 and the Schedules to this Act.

Commencement

2 (1) Subject to subsections (2) and (3), this Act comes into force on the day it receives Royal Assent.

(2) The Schedules to this Act come into force as provided in each Schedule.

(3) If a Schedule to this Act provides that any of its provisions are to come into force on a day to be named by proclamation of the Lieutenant Governor, a proclamation may apply to one or more of those provisions, and proclamations may be issued at different times with respect to any of those provisions.

Short title

3 The short title of this Act is the *Fair Hydro Act, 2017*.

SCHEDULE 1
ONTARIO FAIR HYDRO PLAN ACT, 2017

CONTENTS

Preamble

PART I
GENERAL

1. Interpretation
2. Effect of invalidity
3. Purposes
4. Crown bound
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Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects. These commitments can only be achieved if costs are shared fairly among consumers, today and in the future.

Electricity rates have risen for two key reasons. First, decades of under-investment in the electricity system resulted in the need to invest more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable. Second, the decision to eliminate Ontario's use of coal and produce clean, renewable power has created additional costs.

The actions taken to achieve a clean, modern and reliable electricity system have resulted in significant costs to residential consumers. The burden of financing these system improvements and funding key programs has unfairly fallen almost entirely on the shoulders of those consumers.

The Government of Ontario is committed to ensuring that the costs of financing these investments and the associated charges to consumers are allocated fairly among present and future generations.

Recognizing that the electricity infrastructure that has been built and the policy decisions that have been made will create benefits for years to come, costs should be allocated fairly over time, so that residential consumers in the future pay their fair share for the benefits that they receive from the investments already made.

PART I
GENERAL

Interpretation

Definitions

1 (1) In this Act,

"Board" means the Ontario Energy Board; ("Commission")

"clean energy adjustment" means the amount determined under section 15 and payable by specified consumers; ("ajustement pour l'énergie propre")

"clean energy benefits" means the value of the benefits determined to be derived by or accruing to specified consumers as a result of the clean energy initiative, including as a result of clean energy costs; ("avantages de l'énergie propre")

"clean energy costs" means the value of the costs allocated to specified consumers as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

(a) the amounts to be paid or reflected by the IESO in adjustments made under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts or amounts for,

(i) renewable energy generation or capacity,

(ii) conservation and demand management,

(iii) energy storage,

(iv) energy efficiency,

(v) natural gas generation and capacity, excluding contracts relating to amounts payable by the IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed,

(b) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(c) such other costs or estimated costs as may be prescribed; ("coûts de l'énergie propre")

"clean energy initiative" means the policies of the Government of Ontario related to,

(a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,

(b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

(c) promoting conservation, demand management and energy efficiency, and

(d) investing in energy infrastructure to ensure a clean, modern and reliable system; ("initiative pour l'énergie propre")

"electricity vendor" means,

(a) a licensed distributor,

(b) a licensed retailer,

(c) the IESO in circumstances where it directly invoices a specified consumer for electricity used in Ontario, or

(d) such other person as may be prescribed; ("vendeur d'électricité")

"fair allocation amount" means an amount calculated under section 20; ("montant de répartition équitable")

"finance amount" means the finance amount determined in accordance with the regulations; ("montant de financement")

"Financial Services Manager" means the Financial Services Manager appointed under section 18; ("gestionnaire des services financiers")

"financing entity" means an entity established or caused to be established by the Financial Services Manager as described in subsection 22 (2); ("entité de financement")

"Financing Plan" means the plan prepared under section 21; ("Plan de financement")

"funding obligation" means a payment obligation incurred by or on behalf of an investment interest owner to fund its ownership of an investment interest or a payment obligation that meets such other criteria as may be prescribed; ("obligation de financement")

"funding rebate" means a payment obligation incurred by the IESO as part of the transfer of the regulatory asset; ("remboursement de financement")

"IESO" means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; ("SIERE")

"IESO deferral" means the amount determined under section 23; ("report de la SIERE")

"investment asset" means the rights and interests described in section 29; ("actif d'investissement")

"investment interest" means,

(a) an ownership interest in the investment asset, and

(b) in circumstances where the ownership interest is transferred, the rights and benefits specified in the agreement under which the interest is transferred; ("participation d'investissement")

"investment interest owner" means a financing entity that has acquired and holds an investment interest; ("détenteur d'une participation d'investissement")

"licensed distributor" means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system within the meaning of that Act; ("distributeur titulaire d'un permis")

"licensed retailer" means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; ("détaillant titulaire d'un permis")

"Minister" means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; ("ministre")

"Ontario Power Generation Inc." means the corporation incorporated as Ontario Power Generation Inc. under the *Business Corporations Act* on December 1, 1998; ("Ontario Power Generation Inc.")

"prescribed" means prescribed by the regulations; ("prescrit")

"reference period" means,

(a) the period beginning on July 1, 2017 and ending on October 31, 2017, and

(b) during the period beginning on November 1, 2017 and ending on either April 30, 2047 or such later day as may be prescribed,

(i) every six-month period following the period mentioned in clause (a), or

(ii) any period shorter than six months, as may be prescribed; ("période de référence")

"refinancing" means, subject to the regulations, the incurrence of debt in connection with a redemption, repayment or repurchase of a funding obligation; ("refinancement")

"regulation" means a regulation made under this Act; ("règlement")

"regulatory asset" means the right established under section 25; ("actif réglementaire")

"specified consumer" means,

(a) a person who has an account with an electricity vendor for the supply of electricity in Ontario and meets the criteria set out in subsection (2), or

(b) such other person as may be prescribed; ("consommateur déterminé")

"transfer" includes, when used in relation to an investment interest, the assignment, conveyance, disposition or sale of the investment interest; ("transfert")

"true up amount" means a true up amount determined in accordance with the regulations; ("montant d'égalisation")

"unit sub-metering" has the same meaning as in the *Energy Consumer Protection Act, 2010;* ("activités liées aux compteurs divisionnaires d'unité")

"unit sub-meter provider" has the same meaning as in the *Energy Consumer Protection Act, 2010;* ("fournisseur de compteurs divisionnaires d'unité")

"variance account" means the variance account established by the IESO under subsection 24 (1). ("compte d'écart")

Specified consumer

(2) For the purposes of clause (a) of the definition of "specified consumer" in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of not more than 50 kilowatts, or such other amount as may be prescribed.
2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.
3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or has had the obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.
4. The person's account with the electricity vendor relates to,
    i. a dwelling,
    ii. a property within the meaning of the *Condominium Act, 1998*,
    iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or
    iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.
5. The person satisfies such criteria as may be prescribed.

Transfer of regulatory asset

(3) In this Act, a reference to the transfer of a specified portion of the regulatory asset is a reference to the following, as provided for in subsection 26 (3):

1. A reduction in the balance in the variance account.
2. The adjustment of the regulatory asset.
3. The acquisition by a financing entity of the investment interest corresponding to the specified portion of the regulatory asset.

Effect of invalidity

2 (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if one or more provisions are held to be invalid, the intention of the Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect the validity or enforceability of a funding obligation incurred before the day that the provision is held to be invalid or ceases to be in effect, or any rights or obligations associated with the funding obligation.

Purposes

3 The purposes of this Act are,

(a) to ensure that clean energy costs and clean energy benefits are fairly allocated among present and future specified consumers;

(b) to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province; and

(c) to align clean energy costs with clean energy benefits, in order to provide fairness for specified consumers over time.

Crown bound

4 This Act binds the Crown.

Protection and assurances

Prohibition

5 (1) No action or omission by the Board, the Minister or the Crown shall be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.

Agreements

(2) The Minister and the Minister of Finance may together, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding the performance of the IESO or electricity vendors under this Act or related transactions.

Guarantee, indemnification

(3) The Lieutenant Governor in Council may by order,

(a) authorize the Minister and the Minister of Finance, acting together on behalf of the Province,

(i) to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and

(ii) to determine terms and conditions of the guarantee or indemnity and the maximum liability for the guarantee or indemnity;

(b) specify terms and conditions that must be included in any guarantee or indemnity given by the Minister and the Minister of Finance; and

(c) specify a maximum liability for the guarantee or indemnity.

PART II
FAIR ADJUSTMENT

Definition

6 In this Part,

"regulated rate consumer" means a specified consumer who meets the following criteria:

1. The consumer is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1998* for the purposes of subsection 79.16 (1) of that Act.
2. The consumer would, if the consumer were not subject to this Act, be invoiced the rates determined by the Board under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*.

Regulated rate consumers, first adjustments

7 (1) Despite any order under subsection 78 (3.1) of the *Ontario Energy Board Act, 1998* and despite section 79.16 of that Act, the electricity rates payable by regulated rate consumers for the period beginning on July 1, 2017 and ending on April 30, 2018 are the rates, as determined by the Board, that would result in a hypothetical regulated rate consumer who meets the prescribed criteria being charged an invoice amount that is 25 per cent less than the invoice amount that would have been charged to that consumer under the comparison rates described in subsection (2).

Comparison rates

(2) The comparison rates are the rates that would have been effective May 1, 2017 if they had been determined by the Board solely using the method prescribed by the regulations made under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*, without taking into account any forecasted impact of any other provisions of this Act.

Invoice amounts

(3) The types of amounts to be included or excluded in each invoice amount mentioned in subsection (1) are the types of amounts specified in the regulations.

Other specified consumers, first adjustments

8 (1) For the period beginning on July 1, 2017 and ending on April 30, 2018, the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* shall, with respect to specified consumers who are not regulated rate consumers, be further adjusted by electricity vendors in accordance with the determinations of the Board under subsection (2).

Board to make determinations

(2) The Board shall, in accordance with the regulations, determine the adjustments to be made by electricity vendors.

Same, regulations

(3) The regulations may specify different adjustments to be made in respect of prescribed classes of specified consumers who are not regulated rate consumers.

Determinations by Board

9 The Board shall make the determinations mentioned in sections 7 and 8 no later than 15 business days after the day this section receives Royal Assent and, regardless of whether the Board makes the determinations before or after July 1, 2017, the determinations shall be effective as of July 1, 2017.

Implementation by electricity vendors

10 (1) As soon as possible after the Board makes determinations under section 9, each electricity vendor shall, in respect of electricity used on or after July 1, 2017, ensure that its invoices reflect the determinations of the Board.

Same

(2) The electricity vendor shall ensure that, if any of its customers who are specified consumers have been invoiced in a manner that does not reflect the determinations of the Board under section 9, the specified consumer receives the difference between the amounts shown on the invoice and the amounts reflecting the Board's determinations, provided as a lump sum credit on the first invoice issued after the electricity vendor has adapted its invoices or by such other means as may be prescribed.

Subsequent adjustments

11 (1) Despite clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998* and subject to subsection (2), the Lieutenant Governor in Council may prescribe the methodology to be applied by the Board after April 30, 2018 for the purpose of determining,

(a) electricity rates for regulated rate consumers; or

(b) adjustments to be applied by electricity vendors to the adjustments made by the IESO under section 25.33 of the *Electricity Act, 1998* in respect of prescribed classes of specified consumers who are not regulated rate consumers.

Limitation

(2) Any prescribed methodology shall have regard to the following:

1. The purposes of this Act.
2. The clean energy costs borne by specified consumers over time.
3. Such other matters as may be prescribed.

Sub-metering

12 (1) This section applies if a specified consumer provides to another person electricity in respect of which a determination of the Board referred to in section 9 or 11 applies.

Same

(2) If an invoice for the electricity is issued to the person by the specified consumer or a unit sub-meter provider providing unit sub-metering for the specified consumer, the amount payable for the electricity by the person who is liable to pay the invoice shall be determined in accordance with the regulations.

PART III
CLEAN ENERGY ADJUSTMENT

Specified consumers to pay

13 (1) Upon receipt of an invoice from an electricity vendor that includes an amount in respect of the clean energy adjustment, a specified consumer shall pay the amount to the electricity vendor as agent of the investment interest owners.

Same

(2) For greater certainty, subsection (1) applies regardless of,

(a) whether the clean energy adjustment was determined in a manner that was inconsistent with this Act; and

(b) whether the amount payable in respect of the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan, including in a manner that failed to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Terms

(3) The payment shall be made in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Indebtedness of specified consumer

(4) An unpaid amount that is required to be paid by a specified consumer under this section constitutes indebtedness of the specified consumer to each investment interest owner to the extent of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer.

Unit sub-metering

(6) A specified consumer who provides electricity through unit sub-metering may collect amounts in respect of the clean energy adjustment payable under this section in accordance with the regulations.

Irrevocability of amount

14 (1) An amount in respect of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness resulting from the clean energy adjustment and is irrevocable upon invoicing the consumer and may not be set off or bypassed.

Exception

(2) Subsection (1) does not apply to the extent that the invoice reflects a clerical, typographical or calculation-related error.

Determination of clean energy adjustment

Financial Services Manager to determine

15 (1) The Financial Services Manager shall determine the clean energy adjustment payable by all specified consumers in respect of each month in a reference period by taking the following steps:

1. Calculate the sum of the following:
    i. The estimated finance amount in respect of the reference period.
    ii. The true up amount in respect of the reference period.
2. Divide the sum calculated under paragraph 1 by the number of months in the reference period.

Regulations re true up amount

(2) The Lieutenant Governor in Council shall, in making regulations with respect to the determination of the true up amount, have regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the finance amount when it is due.
2. The method for determining the true up amount should take into account historical and reasonably foreseeable,
    i. differences between the estimated and actual finance amount for the applicable reference period,
    ii. differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and
    iii. variations in billings due to variations in electricity consumption.

Financial Services Manager to notify Board

(3) The Financial Services Manager shall, in accordance with the regulations, notify the Board of the clean energy adjustment in respect of a reference period and such other information related to the determination of the clean energy adjustment as may be prescribed.

Board to determine rates

(4) Without changing the clean energy adjustment, the Board shall, in accordance with the regulations, determine the rates at which specified consumers are invoiced to recover the clean energy adjustment in respect of the reference period.

IESO to receive amounts

16 (1) The IESO shall, as agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the market rules made under section 32 of the *Electricity Act, 1998* or the regulations.

Account

(2) All of the following amounts received by the IESO shall, until remitted to or for the benefit of the investment interest owners in accordance with subsection (4), be deposited promptly into an account established for the purposes of receiving those amounts:

1. Amounts described in subsection (1).
2. Payments made by specified consumers directly to the IESO as electricity vendor under subsection 13 (1).
3. Proceeds of amounts described in paragraphs 1 and 2.

Same, held in trust

(3) All amounts received by the IESO in respect of the clean energy adjustment shall, until remitted to or for the benefit of the investment interest owners, be held in trust by the IESO for the investment interest owners.

IESO to remit

(4) The IESO shall remit amounts received by it in respect of the clean energy adjustment, inclusive of interest earned on the amounts referred to in subsection (1), to or for the benefit of the investment interest owners in accordance with the regulations.

Electricity vendor to invoice specified consumers

17 (1) Each electricity vendor shall issue an invoice to each of its customers who is a specified consumer for the amount payable by the consumer in respect of the clean energy adjustment, as determined by applying the rate set by the Board under subsection 15 (4) and in accordance with the regulations.

Electricity vendor to report

(2) Each electricity vendor shall, in accordance with the regulations, promptly report to the IESO the total amount invoiced to its customers who are specified consumers in respect of the clean energy adjustment, the amount collected and such other information as may be prescribed.

Electricity vendor to collect

(3) Each electricity vendor shall, as agent of the investment interest owners, collect amounts in respect of the clean energy adjustment from specified consumers in accordance with the regulations.

Pro rating of payments

(4) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same invoice period.

Held in trust

(5) Payments received by an electricity vendor from or on behalf of specified consumers in respect of the clean energy adjustment and all proceeds of the payments shall, until remitted to the IESO for the benefit of the investment interest owners in accordance with subsection (6), be held by each electricity vendor in trust for the benefit of the investment interest owners.

Remittance to IESO

(6) Each electricity vendor shall remit amounts in respect of the clean energy adjustment to the IESO for the benefit of the investment interest owners in accordance with the regulations.

PART IV
IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

18 Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act.

Duties and powers

19 (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

Same

(2) The administration of the investment asset may include providing information to the IESO in respect of obligations under Part III and such other activities as may be prescribed.

Fees

(3) Subject to any prescribed limitations, the Financial Services Manager may establish and charge fees in relation to such matters as may be prescribed in accordance with the regulations, which regulations may provide for the ability to recover costs and expenditures and to earn a return.

Same, Board approval

(4) Before establishing fees under subsection (3), the Financial Services Manager shall submit them to the Board for approval in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Minister to calculate fair allocation amount

20 (1) Subject to subsections (2) and (3), before the first funding obligation is incurred the Minister shall calculate a fair allocation amount in respect of each reference period, applying such method as the Minister considers appropriate and in accordance with the following steps:

1. Determine the estimated clean energy costs and estimated clean energy benefits allocated to specified consumers in respect of the reference period.
2. Determine the estimated reduction in the amounts payable by specified consumers as a result of determinations of the Board under Part II in respect of all previous reference periods, including the estimated reduction in clean energy costs described in clause (a) of the definition of "clean energy costs" in subsection 1 (1) that would otherwise have been payable by specified consumers in the absence of this Act.
3. Determine the amount, if any, by which the determination under paragraph 1 exceeds the determination under paragraph 2.
4. Calculate the sum of the amount determined under paragraph 3 and such other amounts as may be prescribed.

Principles

(2) In calculating the fair allocation amount, the Minister shall have regard to the following principles:

1. The purpose of calculating the fair allocation amount is to measure and allocate the estimated clean energy costs and estimated clean energy benefits fairly among the specified consumers in respect of each reference period.
2. Calculations should be made having regard to the need to align each fair allocation amount with the estimated finance amount payable during the reference period.
3. Estimated clean energy costs allocated to specified consumers in respect of a reference period should be allocated in proportion to the estimated clean energy benefits attributed to the specified consumers in respect of the reference period.
4. Such other principles as may be prescribed.

Assumptions

(3) In calculating the fair allocation amount, the Minister shall make such assumptions as the Minister considers to be reasonable regarding the following:

1. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.
2. The expected number of specified consumers in respect of each reference period.
3. The expected electricity consumption rates in respect of each reference period.
4. Such other assumptions as may be prescribed.

Minister to provide amount to Financial Services Manager

(4) The Minister shall provide the fair allocation amount in respect of each reference period to the Financial Services Manager.

Recalculation

(5) A calculation of the fair allocation amount under this Part may be changed by such person as may be prescribed in accordance with such requirements as may be prescribed.

Same

(6) No change under subsection (5) shall affect any clean energy adjustment that has already been determined under section 15 or any funding obligations that have already been incurred before the change.

Information

(7) The Minister, the IESO, the Financial Services Manager, the Board and electricity vendors shall provide such information as may be prescribed in accordance with the regulations for the purposes of facilitating a change to a calculation of the fair allocation amount.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

21 (1) The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring and financing an investment asset in accordance with this Act or for the purposes of a refinancing.

Plan to be provided to Minister

(2) The Financial Services Manager shall provide the Financing Plan to the Minister.

Principles

(3) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Funding obligations should be incurred such that, along with any funding obligations already incurred, the estimated finance amount that would, subject to any refinancing, become due and payable during a reference period will reasonably align with the fair allocation amount determined in respect of the reference period, in each case after reducing the fair allocation amount to reflect determinations of the Board under Part II in respect of the reference period.
2. Incurrences should be implemented in a manner that, in the opinion of the Financial Services Manager, is reasonable, cost effective and that reflects prevailing market terms and conditions.
3. Reasonable assumptions should be made regarding such matters as may be prescribed.
4. Such other principles as may be prescribed.

Limitation

(4) In respect of each reference period from July 1, 2017 to April 30, 2021, no funding obligation shall be incurred that would result in amounts payable in respect of the clean energy adjustment in respect of the reference period unless,

(a) the amounts are payable in respect of a reference period in respect of which the Board has not made any determinations under Part II; or

(b) if the Board has made a determination under Part II in respect of the reference period, the funding obligations incurred would not result in amounts payable in respect of the clean energy adjustment during the reference period in an amount that exceeds the limit determined in accordance with the regulations.

Other reports

(5) The Financial Services Manager shall submit to the Minister such reports and information as the Minister may require from time to time and shall, if required by the Minister to do so, examine, report and advise on any question relating to the Financing Plan.

Amendments to plan

(6) The Financial Services Manager may amend the Financing Plan at any time.

Same

(7) In the event that the Financing Plan is amended, any reference in this Act to the Financing Plan is deemed to be a reference to the plan as amended.

Incurrence of funding obligations

22 (1) The Financial Services Manager shall ensure that funding obligations incurred for the purposes of this Act are incurred in a manner that is consistent with the applicable Financing Plan.

Financing entities

(2) In accordance with the Financing Plan, the Financial Services Manager may establish or cause to be established one or more financing entities that may incur funding obligations.

Prohibition

(3) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, Ontario Power Generation Inc., the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation or other agreement.

Effect of amendment to fair allocation amount

(4) Each funding obligation incurred and each transfer made by a financing entity is deemed to be consistent with the Financing Plan and to provide for the reasonable alignment of the estimated finance amount with the fair allocation amount.

Same

(5) For greater certainty, subsection (4) applies despite the failure of the Financial Services Manager to comply with subsection (1).

PART V
THE REGULATORY ASSET

IESO deferral

23 (1) The IESO deferral for each month, commencing May 1, 2017, shall be determined by the IESO in accordance with the regulations.

Same, retrospective amounts

(2) For greater certainty, the regulations may provide for the IESO deferral to include an amount that was incurred by the IESO on or after May 1, 2017 and before the day this section comes into force.

Electricity vendors to provide information

(3) Electricity vendors shall provide to the IESO such information as the IESO may reasonably request for the purposes of determining the IESO deferral under subsection (1) and such further information as may be prescribed.

Same

(4) The IESO may rely on information provided by electricity vendors for the purposes of the determination under subsection (1).

Variance account to be established, maintained

24 (1) The IESO shall establish and maintain a variance account in which it records the following:

1. The IESO deferral for each month.
2. All payments received by the IESO resulting from the exercise of the right of recovery under section 25 and any transfer under section 26.
3. Such other adjustments as may be prescribed, including adjustments in respect of the period that commences on or after May 1, 2017 and before the day this section comes into force.

Recording determinative

(2) Subject to the correction of any obvious error by the IESO, its recording of the balance in the variance account is determinative of the balance as of the time of the recording.

Rights of investment interest owner

(3) No change made by the IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 26, affect the rights acquired by the investment interest owner under the transfer.

Regulatory asset established

25 (1) Effective May 1, 2017, the IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

Board to set rates

(2) Subject to subsection (3), the Board shall, from time to time and in accordance with the regulations, determine and set rates payable by specified consumers to allow for the IESO to recover the balance recorded in the variance account.

Limitation

(3) The IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2021.

Transfer of regulatory asset

26 (1) The IESO may from time to time, in accordance with this Act and the regulations, transfer a specified portion of the regulatory asset to a financing entity in accordance with this section.

Agreement

(2) An agreement between the IESO and a financing entity in relation to the transfer of a specified portion of the regulatory asset shall provide for consideration of a payment by the financing entity to the IESO in an amount equal to the amount of the specified portion.

Effect of payment

(3) Upon receipt by the IESO of the payment by the financing entity,

(a) the balance in the variance account shall be reduced by the amount of the payment;

(b) the regulatory asset shall be adjusted accordingly;

(c) the financing entity shall acquire a corresponding investment interest; and

(d) the IESO shall retain no further right, title or interest in the corresponding investment interest.

Validity of transfer

27 (1) A transfer of a specified portion of the regulatory asset under section 26 constitutes a valid and enforceable absolute assignment, conveyance and sale of the corresponding investment interest to the transferee.

Same

(2) Without limiting subsection (1), any transfer agreement that states an intention of the parties for the IESO to dispose of a specified portion of the regulatory asset and to assign, convey or sell a corresponding investment interest shall be treated for all purposes as an absolute assignment, conveyance, disposition and sale of the IESO's right to recover the corresponding amount in the variance account and not merely as a security interest.

Deemed perfection, etc.

(3) At the time a transfer of the regulatory asset is made under section 26, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI
THE INVESTMENT ASSET

Investment asset established

28 (1) The transfer of a specified portion of the regulatory asset under section 26 creates an investment asset or, if it is not the first transfer, adds to the investment asset.

Same

(2) Upon transfer of a specified portion of the regulatory asset under section 26 to a financing entity, the investment asset resulting from the transfer is immediately vested in the financing entity, free and clear of any adverse claim.

Investment asset, irrevocable rights and interests

29 (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right and interest to impose, invoice, collect, receive and recover the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.
2. The right to receive, collect and recover the clean energy adjustment that is imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors, the IESO and other prescribed parties.
3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.

4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge and invoice for the clean energy adjustment.
5. The right to enforce the duties and obligations under this Act of each electricity vendor and the IESO to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by any electricity vendor to recover payment of the clean energy adjustment.
6. All rights of any kind related to any of the other property rights or interests that comprise the investment interest, including any rights to receive funding rebates.
7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether it is invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

Not affected by failure to impose etc. clean energy adjustment

(2) An investment interest is not affected by any failure to impose, attribute, invoice, accrue or collect amounts in respect of the clean energy adjustment.

No set off, etc.

(3) The investment asset shall not be set off,

(a) by a consumer, an electricity vendor, the IESO, an agent of the investment interest owners or an owner in the Province of a distribution system within the meaning of the *Electricity Act, 1998*;

(b) in connection with any default of a person mentioned in clause (a); or

(c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(4) The rights of the investment interest owners to collect the clean energy adjustment and enforce their rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with Part III of this Act.

Collective action required

(5) If one investment interest owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment interest owner collectively and in coordination with all other investment interest owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment interest owners as a collective in accordance with its terms.

Transfer of investment interest

30 An investment interest owner may transfer all or a portion of an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

31 (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the transferee a valid property right and interest in, to and under the applicable investment interest acquired in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment interest owner's right, title and interest in, to and under an investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected as described in the *Personal Property Security Act*, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer, and the property rights and interests acquired by the investment interest owner shall have priority over any liens in favour of such other persons.

Investment interest owner may grant security interest

32 (1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that the investment asset and each investment interest is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by an investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by registering a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the investment interest owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may subsequently attach to the property rights and interests in the investment interest subject to the security interest, unless the person to whom the security interest has been granted consents otherwise.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any account of any electricity vendor, an agent of an electricity vendor or other person who may have commingled such revenues or other proceeds with other funds.

Notice required

(7) The secured party shall be entitled to exercise the rights of an investment interest owner only after the secured party has given notice of the enforcement of its security interest to the IESO.

Interpretation

(8) For the purposes of this section, a security interest is perfected when it is perfected as described in the *Personal Property Security Act.*

PART VII
MISCELLANEOUS

Appointment of agent, invoicing or collection

33 (1) If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Same, not Crown agent

(2) For greater certainty, a person appointed under this section is not an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Board's authority

34 (1) Each electricity vendor, the IESO and the Financial Services Manager shall maintain such accounts and provide such information to the Board as the Board may require for the purposes of carrying out its responsibilities under this Act, in the form and manner and within the time required by the Board.

No hearing required

(2) Despite anything to the contrary in the *Ontario Energy Board Act, 1998*, the Board may exercise any of its responsibilities under this Act without a hearing.

Sequestration

35 (1) A court in the Province may, upon application by an investment interest owner or a secured party, order the sequestration and payment of amounts in respect of the clean energy adjustment, collections or remittances, as applicable, for the benefit of the investment interest owner or secured party by any person or entity authorized to collect amounts in respect of the clean energy adjustment.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Choice of law

36 The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to a transfer under this Act or the creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section 5 shall be the laws of the Province.

Conflict

37 The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

38 Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required under the Financing Plan or in relation to the determination of the fair allocation amount.

Liability

39 (1) No action or other civil proceeding shall be commenced against any employee of the Province or Ontario Power Generation Inc. for any act done in good faith in the exercise or performance or the intended exercise or performance of a power or duty under this Act, the regulations or for any alleged neglect or default in the exercise or performance in good faith of such a power or duty.

Same

(2) Nothing in subsection (1) shall be read as limiting the effect of subsection 19 (1) of the *Electricity Act, 1998* or subsection 11 (1) of the *Ontario Energy Board Act, 1998.*

Same

(3) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act,* subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.

References in marketing materials and offering documents

40 No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under section 5 unless the prescribed requirements, if any, are satisfied.

Regulations

41 (1) The Lieutenant Governor in Council may make regulations in respect of the following matters:

1. Governing anything that is required or permitted to be prescribed or that is required or permitted to be done by, or in accordance with, the regulations or as authorized, specified or provided in the regulations.
2. Defining, for the purposes of a regulation, words and expressions used in this Act that are not defined in the Act.
3. Governing the incurrence of debt for the purposes of the definition of "refinancing" in subsection 1 (1).
4. Governing the inclusion of information under this Act on or with invoices, which may include requiring notice to be provided by electricity vendors to specified consumers and other prescribed persons regarding the adjustments, including providing for different requirements in different circumstances and for different classes of specified consumers.
5. Governing the inclusion of information about the clean energy adjustment and any other matters provided for under this Act on or with invoices issued to specified consumers, including the form that the information must take and the form of the invoices and the form of any notice to be provided to the specified consumer under this Act.
6. Governing the manner by which invoices or notices provided for under this Act are to be provided to specified consumers and other prescribed persons.
7. Providing for a right of compensation for investment interest owners affected by a breach under section 29 and the manner in which such a right may be enforced under this Act.
8. Prescribing the time within which any action required by this Act may be required to be done.
9. Providing for such other matters as the Lieutenant Governor in Council considers advisable to carry out the purpose of this Act.

Limitation

(2) Despite subsection (1) or any other Act, no regulation under this Act shall have the effect of reducing, impairing, postponing or terminating the obligations of specified consumers to pay amounts in respect of the clean energy adjustment or impairing or postponing the invoicing, collection, remittance or recovery of the clean energy adjustment.

PART VIII
AMENDMENTS TO OTHER ACTS

Electricity Act, 1998

42 (1) Subsection 6 (1) of the *Electricity Act, 1998* is amended by adding the following clause:

(q.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,

(i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*,

(ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and related settlement activities,

(iii) engaging in activities related to the transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,

(A) incurring liabilities in relation to the regulatory asset,

(B) transferring the regulatory asset under section 26 of the *Ontario Fair Hydro Plan Act, 2017* for consideration, and

(C) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

(2) Subsection 25.33 (1) of the Act is amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by the IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*.

(3) Subsection 25.33 (2) of the Act is amended by striking out "and" at the end of clause (a), by adding "and" at the end of clause (b) and by adding the following clause:

(c) such amounts as may be prescribed that are paid or incurred by the IESO in relation to the *Ontario Fair Hydro Plan Act, 2017*.

(4) Clause 25.33 (4) (b) of the Act is amended by adding "or as may be required by a regulation made under this Act or the *Ontario Fair Hydro Plan Act, 2017*" at the end.

(5) Subsection 25.33 (5) of the Act is amended by adding "or under the *Ontario Fair Hydro Plan Act, 2017*" at the end.

(6) Section 53.1 of the Act is amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

(1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities and performing other services on behalf of financing entities, subject to the right to be paid by the financing entities for those services.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create or invest in one or more subsidiaries, trusts, partnerships, limited partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

Deemed assets, non-subsidiary

(1.3) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is not a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of the financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries shall not form part of the assets and liabilities of the financing entity.

Deemed assets, subsidiary

(1.4) Despite any other provision of this Act, the *Business Corporations Act* or any other Act, if a financing entity is a subsidiary of Ontario Power Generation Inc.,

(a) the assets and liabilities of that financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its other subsidiaries shall not form part of the assets and liabilities of that financing entity.

Definition, financing entity

(1.5) For the purposes of this section,

"financing entity" has the same meaning as in the *Ontario Fair Hydro Plan Act, 2017.*

Ontario Energy Board Act, 1998

43 (1) Subsection 70 (2.1) of the *Ontario Energy Board Act, 1998* is amended by adding the following paragraph:

4. The licensee is required to comply with the *Ontario Fair Hydro Plan Act, 2017.*

(2) Section 70 of the Act is amended by adding the following subsection:

Deemed condition of licences, unit sub-meter provider, *Ontario Fair Hydro Plan Act, 2017*

(2.4) Every licence issued to a unit sub-meter provider is deemed to contain the condition that the unit sub-meter provider is required to comply with the *Ontario Fair Hydro Plan Act, 2017* and the regulations made under it.

(3) Section 78.1 of the Act is amended by adding the following subsections:

Same, limitation re Ontario Power Generation Inc.

(3) The determination of a payment to Ontario Power Generation Inc. under this section shall not include any consideration of amounts related to activities of Ontario Power Generation Inc. carried out in relation to the *Ontario Fair Hydro Plan Act, 2017*.

Same

(3.1) The amounts referred to in subsection (3) include, without limitation, the following:

1. Amounts related to the appointment of Ontario Power Generation Inc. as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.
2. Amounts related to the charging of fees for performing duties as the Financial Services Manager.
3. Amounts related to exercising the powers and performing the duties of the Financial Services Manager.
4. Amounts related to the consolidation of the assets and liabilities for accounting purposes of any special purpose financing entities established under and for the purposes of that Act.

(4) Subsection 79.16 (3) of the Act is repealed.

PART IX
COMMENCEMENT AND SHORT TITLE

Commencement

44 This Schedule comes into force on the day the *Fair Hydro Act, 2017 receives* Royal Assent.

Short title

45 The short title of the Act set out in this Schedule is the *Ontario Fair Hydro Plan Act, 2017*.

SCHEDULE 2
AMENDMENTS TO THE ONTARIO ENERGY BOARD ACT, 1998

1 (1) Subsection 79 (4) of the *Ontario Energy Board Act, 1998* is repealed and the following substituted:

Liability

(4) All consumers are required, in accordance with the regulations, to contribute towards the amount of any compensation required under subsection (3) that is not otherwise provided under subsection (4.1).

Payments for certain classes

(4.1) Compensation required under subsection (3) may be provided with respect to one or more prescribed classes of consumers who receive rate protection under this section, in a manner provided for in the regulations.

Money appropriated by the Legislature

(4.2) The compensation provided for in subsection (4.1) shall be paid for out of the money appropriated for those purposes by the Legislature.

Information, etc.

(4.3) If provided for in the regulations, the Board, the IESO and distributors, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of the rate protection or of anything else provided for in this section.

(2) Clause 79 (5) (e) of the Act is repealed and the following substituted:

(e) prescribing rules respecting the amounts that must be collected to compensate distributors, taking into account any compensation provided under subsection (4.1), including rules,

(i) respecting the calculation of those amounts,

(ii) respecting the calculation of any off-set to the liability of consumers under subsection (3) having regard to those amounts,

(iii) establishing the time and manner of collection,

(iv) requiring the amounts to be paid in instalments and requiring the payment of interest or penalties on late payments,

(v) prescribing methods of ensuring that the amounts required cannot be bypassed, and

(vi) respecting the distribution of those amounts to consumers;

(e.1) prescribing classes of consumers for the purposes of subsection (4.1), and governing how and when the compensation is to be provided with respect to the rate protection provided to them, including, without restricting the generality of the foregoing, requiring the IESO to receive payments or amounts from the Minister of Energy and to make payments to licensed distributors or to prescribed persons and prescribing how and when payments are to be made;

2 Section 79.2 of the Act is repealed and the following substituted:

Rate assistance

79.2 (1) The Minister shall make provision for rate assistance for rate-assisted consumers having regard to their economic circumstances, and where the Minister makes such provision, shall do so out of the money provided for in subsection (4).

OESP

(2) The program known as the "Ontario Electricity Support Program" in English and "Programme ontarien d'aide relative aux frais d'électricité" in French is continued for the purpose of providing rate assistance to rate-assisted consumers having regard to their economic circumstances.

Administered by Board

(3) The Ontario Electricity Support Program shall be administered by the Board, or when the regulations so provide, by a Minister of the Crown or other entity provided for in the regulations.

Money appropriated by the Legislature

(4) The money required for the purposes of the Ontario Electricity Support Program shall be paid out of the money appropriated for those purposes by the Legislature, once the amounts recorded in the variance account referred to in subsection (5) are no longer sufficient to provide for the funding of the program when taken on their own.

Variance account

(5) The money required for the purposes of the Ontario Electricity Support Program shall be provided out of the credit balance in the variance account maintained by the IESO under the Program as it existed before the coming into force of

section 2 of Schedule 2 to the *Fair Hydro Act, 2017* until the amounts recorded in the account are no longer sufficient, when taken on their own, to fund the Program.

Variance account depleted

(6) The IESO shall provide the Ministry of Energy with advance notice, on a timely basis, of the time the IESO estimates that the amounts reflected in the variance account would be less than the amount required to meet its obligations related to funding the Ontario Electricity Support Program for the upcoming month.

How provided

(7) Rate assistance provided under this section shall be provided with respect to consumers prescribed in the regulations, and shall be provided at the times provided for in the regulations and in the amounts and in the manner provided for in the regulations.

Payments with respect to prior use

(8) The regulations may require provision of rate assistance to prescribed classes of rate-assisted consumers with respect to electricity consumed during a period prior to the date of the making of the regulation, but no such rate assistance shall be required under the regulations with respect to electricity consumed before January 1, 2016.

Transitional

(9) The regulations may require the provision of rate assistance for a rate-assisted consumer with respect to a period prior to the date on which the consumer became a rate-assisted consumer if the consumer meets all of the criteria prescribed by the regulations.

Distributors, etc.

(10) A distributor, a unit sub-meter provider and any other person or entity that may be prescribed is entitled to be compensated from the money referred to in subsection (4) or (5), as the case may be, for any lost revenue resulting from the provision of rate assistance under the Ontario Electricity Support Program.

Deemed licence conditions, IESO, settlements, payments, etc.

(11) Every licence issued to the IESO, a distributor or unit sub-meter provider or a retailer of electricity shall be deemed to contain conditions requiring the licensee to do anything necessary to implement and administer the provision of rate assistance under this section as may be required by the regulations or the Board, including requirements with respect to,

(a) making payments to the IESO, distributors, unit sub-meter providers and other persons and entities identified by the regulations;

(b) receiving payments or other amounts from the IESO, distributors, unit sub-meter providers and other persons and entities identified by the Minister;

(c) requiring licensees to pass any rate assistance provided for under this section through to rate-assisted consumers in the manner provided for in the regulations;

(d) engaging in settlement activities;

(e) providing information to and receiving information from the Ministry of Energy, the Board, the IESO, distributors, unit sub-meter providers, retailers of electricity and any other prescribed persons and entities in the time and in the manner provided for by the Board or as may be prescribed; and

(f) entering into agreements or arrangements with licensees and other persons.

Information, etc.

(12) If provided for in the regulations, the Board, the IESO, distributors, retailers of electricity and unit sub-meter providers, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of rate-assistance or of anything else required under this section.

Conflicts, etc.

(13) Where any conflict exists between an order of the Board, a code issued by the Board or a licence condition and this section or a regulation made under this section, this section or the regulation made under this section shall prevail to the extent of the conflict.

Regulations

(14**)** The Lieutenant Governor in Council may make regulations governing anything dealt with in this section and without limiting the generality of the foregoing, may make regulations,

(a) governing anything that is described in this section as being prescribed or as being provided for in the regulations or that is required to be done in accordance with the regulations;

(b) governing the time or times at which rate assistance shall be paid or become payable to rate-assisted consumers;

(c) governing the determination of classes of consumers who are rate-assisted consumers, including providing for different classes of rate-assisted consumers;

(d) requiring that certain costs and expenditures related to the Ontario Electricity Support Program be only incurred with the prior approval of the Minister, and governing those costs and expenditures;

(e) establishing rules for the calculation of the amount of the rate assistance to be provided;

(f) governing payments under this section, including determining the method or methods of calculating the amount of rate assistance to be provided;

(g) setting maximum amounts of the total annual value of rate assistance that may be provided;

(h) requiring a distributor, the IESO or a unit sub-meter provider or other prescribed person or entity to make or receive payments in respect of rate assistance, including requiring them to make or receive payments directly to or from the Ministry of Energy or to receive overpayments directly or indirectly from consumers or other persons entitled to receive the rate assistance and prescribing the circumstances in which such payments are to be made and received and such overpayments are to be received as well as methods for determining the amounts payable or to be received;

(i) requiring the IESO to receive payments from the Minister and requiring the IESO to make payments to the Board, to licensed distributors, to unit sub-meter providers or to prescribed persons, in respect of the rate assistance provided under this section and governing methods for determining the amounts payable;

(j) governing the Board's or other prescribed entity's administration and program-related costs in administering the Ontario Electricity Support Program;

(k) governing transitional matters arising from the changes made to the Ontario Electricity Support Program as a result of the enactment of the *Fair Hydro Act, 2017*.

Retroactivity

(15) A regulation made under this section is, if it so provides, effective with reference to a period before it is filed.

General or particular

(16) A regulation under this section may be general or particular in application, may provide for different classes of persons and entities and may prescribe different rules for different persons or entities or different classes of persons or entities.

Verification of eligibility

(17) Section 11 of the *Ministry of Revenue Act* applies with respect to the Ontario Electricity Support Program as a government assistance program administered by the Board.

Definitions

(18) In this section,

"Government assistance program" has the meaning provided for in subsection 11 (2) of the *Ministry of Revenue Act*; ("programme d'aide gouvernementale")

"rate-assisted consumer" means a consumer referred to in subsection (7). ("consommateur admissible à l'aide tarifaire")

3 The Act is amended by adding the following section:

Confidentiality, information sharing, etc.

79.2.1 (1) For the purposes of section 79.2, the Board or the Minister or entity having responsibility for administering the Ontario Electricity Support Program may enter into an agreement with the Minister of Community and Social Services to provide the services to the public listed in subsection (2) on behalf of the Board, Minister or the entity, as the case may be, in relation to the administration of the Ontario Electricity Support Program.

Agreement, etc.

(2) The services that may be included in an agreement referred to in subsection (1) are the following:

1. Providing documents and information about the Ontario Electricity Support Program.
2. Processing applications for the Ontario Electricity Support Program.

Arrangements with others

(3) The Minister of Community and Social Services may arrange with another person or entity to provide, on behalf of that Minister, services that that Minister is authorized to provide under an agreement referred to in subsection (1).

Personal information

(4) The Minister of Community and Social Services is authorized to collect, use, disclose and retain personal information necessary to provide the services authorized by an agreement referred to in subsection (1), but shall not collect, use, disclose or retain more personal information than is reasonably necessary to provide the services.

Limitation

(5) Except where otherwise authorized under subsection (7), the Minister of Community and Social Services shall not collect, use, disclose or retain personal information provided for in subsection (4) without the consent of the individual to whom the information relates.

Duty to transfer personal information

(6) The Minister of Community and Social Services shall transfer an individual's personal information provided for in subsection (4) into the control of the Board, Minister or entity responsible for administering the Ontario Electricity Support Program promptly after processing an application for the Ontario Electricity Support Program, but may retain such personal information as is reasonably necessary to confirm that an individual has been provided a service.

Use of personal information, etc.

(7) The Minister of Community and Social Services may use personal information maintained by that Minister in connection with the administration of the Ontario Disability Support Program and the program established pursuant to the *Ontario Works Act, 1997*, for the purpose of identifying and contacting individuals eligible for the rate assistance provided under the Ontario Electricity Support Program, and to provide services authorized under an agreement referred to in subsection (1).

Deemed compliance

(8) The use of personal information as allowed by subsection (7) is deemed to comply with section 41 of the *Freedom of Information and Protection of Privacy Act*.

Disclosure of list

(9) In order to assist the Minister of Community and Social Services to identify individuals eligible for rate assistance, the Board or the Minister or entity having responsibility for administering the Ontario Electricity Support Program shall, as soon as practicable after the coming into force of this section, disclose to the Minister of Community and Social Services a list of individuals who are enrolled in the Ontario Electricity Support Program, together with their mailing address and other contact information.

Use of list

(10) The Minister of Community and Social Services may use the information on the list provided under subsection (9) to determine whether an individual who is currently enrolled in the Ontario Disability Support Program or the program established under the *Ontario Works Act, 1997* is also enrolled in the Ontario Electricity Support Program.

Destruction of list

(11) The Minister of Community and Social Services shall destroy the list provided under subsection (9) no later than one year after receiving the list.

Notification about the management of personal information

(12) The Minister of Community and Social Services shall ensure that a notice is published on a website describing,

(a) the purpose for which that Minister collects, uses, discloses and retains personal information in connection with the Ontario Electricity Support Program;

(b) the types of personal information that may be collected, used, disclosed and retained in connection with the Ontario Electricity Support Program, and the circumstances in which the personal information may be collected, used, disclosed and retained in connection with that Program; and

(c) the title, and contact information, including an email address, of an employee who can answer an individual's questions about the use of the personal information under this section.

4 The Act is amended by adding the following sections:

Distribution rate-protected consumers

79.3 (1) The Minister shall provide for distribution rate protection to distribution rate-protected residential consumers having regard to the costs of the distribution of electricity to such consumers with respect to electricity consumed on or after the date prescribed by the regulations.

Money appropriated by the Legislature

(2) The money required for the purposes of the provision of distribution rate protection under this section shall be paid out of the money appropriated for those purposes by the Legislature.

Maximum charge

(3) Despite any order of the Board, or anything else under this Act, where the regulations so provide, a prescribed distributor who distributes electricity to distribution rate-protected residential consumers shall not charge those consumers, or a prescribed class of those consumers, any amount for monthly base distribution charges more than,

(a) the maximum amount for the charge that is provided for in the regulations; or

(b) the amount determined by the Board after applying any calculations, processes or methods provided for in the regulations.

Distributors

(4) A distributor who is prescribed under this section is entitled to be compensated from the money referred to in subsection (2) for lost revenue resulting from the provision of the distribution rate protection to distribution rate-protected residential consumers under this section.

Information, etc.

(5) If provided for in the regulations, the Board, the IESO and distributors, or any of them shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of distribution rate protection or of anything else required under this section.

Limitation periods for distribution rate protection, consumer

(6) Despite any past entitlement of a consumer who is eligible to distribution rate protection under this section, no distribution rate protection is payable to a consumer after a limitation period prescribed by the regulations in respect of the consumer, other than in such circumstances as may be prescribed by the regulations.

Limitation, reimbursement of distributor, etc.

(7) Despite any requirement under this Act to reimburse a prescribed distributor or other person for distribution rate protection provided by them to distribution rate-protected residential consumers under this section, no amounts for reimbursement are payable to the prescribed distributor or other person after a limitation period prescribed by the regulations in respect of the prescribed distributor or other person, where such reimbursement is based on a consumer's past entitlement under this section which has not yet been paid or reimbursed under this section, other than in such circumstances as may be prescribed by the regulations.

Transitional

(8) If, for technical or operational reasons, a distributor referred to in subsection (3) is unable to adapt its invoices to comply with this section and the regulations by the time it issues its first invoice for electricity consumed after the prescribed date in respect of an account of a consumer who is eligible for distribution rate protection under this section,

(a) the distributor shall adapt its invoices as soon as possible and, in any event, no later than a date prescribed in the regulations; and

(b) consumers continue to be entitled to receive the distribution rate protection to which they are entitled under this Act and may receive it as a lump sum credit on the invoice for the first billing period after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Regulations

(9) The Lieutenant Governor in Council may make regulations,

(a) prescribing consumers or classes of consumers as distribution rate-protected residential consumers for the purposes of this section;

(b) prescribing dates for the purposes of subsections (1) and (8);

(c) prescribing distributors for the purposes of this section;

(d) governing anything that is described in this section as being prescribed or as being provided for in the regulations or that is required to be done in accordance with the regulations;

(e) governing the provision of distribution rate protection by the Minister in respect of distribution rate-protected residential consumers under this section including determining the method or methods of calculating the amount of rate protection to be provided;

(f) requiring the IESO to receive payments from the Minister and to make payments to licensed distributors, or to persons prescribed by the regulations, in respect of the distribution rate protection provided for under this section and prescribing methods for determining the amounts payable to distributors or distribution rate-protected residential consumers in respect of that protection.

Interpretation

(10) In this section,

"distribution rate-protected residential consumer" has the meaning provided for in the regulations; ("consommateur résidentiel protégé contre les frais de distribution")

"monthly base distribution charges" has the meaning provided for in the regulations. ("frais de distribution mensuels de base")

Delivery credit for on-reserve consumers

79.4 (1) The Minister shall provide a delivery credit to on-reserve consumers who meet the criteria prescribed under this section with respect to electricity consumed on or after the date prescribed by the regulations.

Money appropriated by the Legislature

(2) The money required for the purposes of the provision of the credits required under this section shall be paid out of the money appropriated for those purposes by the Legislature.

Eligible costs

(3) The eligible costs for the delivery credit referred to in subsection (1) are,

(a) the sum of the following charges for which the consumer would otherwise be liable,

(i) all variable and fixed distribution charges,

(ii) all charges based on the retail transmission network service rate,

(iii) all charges based on the retail transmission connection service rate,

(iv) all charges related to losses incurred in the distribution of electricity, except for such amounts that are included in regulatory charges provided for in the regulations, and

(v) any other charges that may be prescribed in the regulations; or

(b) where no separate charges for delivery are provided for by the distributor or other person or entity that may be prescribed in the regulations, the monthly service charge or such other amount as may be prescribed for or in respect of a prescribed distributor.

Delivery credit

(4) A distributor, person or entity shall, unless the regulations provide otherwise, provide the delivery credit referred to in subsection (1) by crediting the account of an on-reserve consumer.

Same

(5) The regulations may require that distributors and any other persons or entities provide a delivery credit to an on-reserve consumer who is entitled to a delivery credit under subsection (1) in such manner or in accordance with such methods as may be prescribed.

Same

(6) A distributor or any person or entity as may be prescribed is entitled to be compensated from the money referred to in subsection (2) for any lost revenue resulting from the provision of the delivery credits under this section.

Information, etc.

(7) If provided for in the regulations, the Board, the IESO and distributors, and other persons or entities, or any of them, shall provide such information and reports to the Ministry of Energy and to one another as are necessary to facilitate the implementation, administration, funding and delivery of the delivery credits or of anything else required under this section.

Limitation periods for delivery credit, consumer

(8) Despite any past entitlement of an on-reserve consumer who is eligible for a delivery credit under this section, no delivery credit is payable to an on-reserve consumer after a limitation period prescribed by the regulations in respect of the on-reserve consumer, other than in such circumstances as may be prescribed by the regulations.

Limitation, reimbursement of distributor, etc.

(9) Despite any requirement under this Act to reimburse a distributor or other persons or entities for delivery credits provided by them to on-reserve consumers under this section, no amounts for reimbursement are payable to the distributor or other persons or entities after a limitation period prescribed by the regulations in respect of the distributor or other persons or entities, where such reimbursement is based on an on-reserve consumer's past entitlement under this section which has not yet been paid or reimbursed under this section, other than in such circumstances as may be prescribed by the regulations.

Transitional

(10) If, for technical or operational reasons, a distributor referred to in subsection (4) is unable to adapt its invoices to comply with this section and the regulations by the time it issues its first invoice for electricity consumed after the prescribed date in respect of an eligible account,

(a) the distributor shall adapt its invoices as soon as possible and, in any event, no later than a date prescribed in the regulations; and

(b) on-reserve consumers continue to be entitled to receive the delivery credit to which they are entitled under this Act and may receive it as a lump sum credit on the invoice for the first billing period after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Regulations

(11) The Lieutenant Governor in Council may make regulations,

(a) governing who is an on-reserve consumer for the purposes of this section and, without limiting the generality of the foregoing, may provide that consumers who occupy certain areas are on-reserve consumers, and may do so without regard to whether those areas constitute a "reserve" under any other Act or law;

(b) prescribing dates for the purposes of subsections (1) and (10);

(c) governing provision of the delivery credits provided to on-reserve consumers under this section and, without restricting the generality of the foregoing, governing anything that under this section is to be prescribed or provided for in the regulations, or that is to be done in accordance with the regulations;

(d) determining the method or methods of calculating the amount of the delivery credits to be provided by the Minister in respect of on-reserve consumers under this section;

(e) requiring the IESO to make and receive payments to and from the Minister and to make payments to licensed distributors, or to persons prescribed by the regulations, in respect of the delivery credits provided for under this section and prescribing methods for determining the amounts payable to distributors or on-reserve consumers in respect of the credits provided.

Interpretation

(12) In this section,

"on-reserve consumer" has the meaning provided for in the regulations.

Application

79.5 Sections 79.6 through 79.11 apply to the programs provided for under sections 79, 79.2, 79.3 and 79.4 to the extent that they are funded by money appropriated for those purposes by the Legislature.

Definition

79.6 In sections 79.7 to 79.11,

"Finance Minister" means the Minister of Finance or such other member of the Executive Council to whom the administration of those sections is assigned under the *Executive Council Act*.

Records

79.7 (1) Every distributor and every other person prescribed by regulation shall keep at a location in Ontario such records as are necessary to determine and verify compliance with sections 79, 79.2, 79.3 and 79.4 and the regulations associated with them and any records required by those regulations to be kept.

Electronic records

(2) If a person keeps records in an electronic form, the person shall ensure that, from the time the records are first made and for as long as they are required to be retained,

(a) they remain complete and unaltered, apart from any changes or additions made in the normal course of communication, storage or display; and

(b) they are capable of being printed and of being produced in electronically readable format for inspection, examination or audit.

Retention of records

(3) Records required to be kept under subsection (1) shall not be destroyed unless authorization has been given in writing by the Finance Minister.

Offence

(4) Every person who fails to keep records in accordance with this section is guilty of an offence and, on conviction, is liable to a fine of not less than $50 and not more than $5,000.

Inspections and inquiries

79.8 (1) The Finance Minister may appoint one or more inspectors who are authorized to exercise any of the powers and perform any of the duties of a person authorized by the Minister under subsection 31 (1) of the *Retail Sales Tax Act* for any purpose related to the administration and enforcement of sections 79, 79.2, 79.3 and 79.4 of this Act.

Same

(2) Subsections 31 (1), (2), (2.1) and (2.2) of the *Retail Sales Tax Act* apply, with necessary modifications, with respect to the administration and enforcement of sections 79, 79.2, 79.3 and 79.4 of this Act.

Admission of evidence

(3) The Finance Minister, or a person authorized by the Finance Minister, may, for any purpose related to the administration of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them, reproduce from original data stored electronically any information previously submitted as required under those sections or regulations in any form by any person, and the electronically reproduced document shall be admissible in evidence and shall have the same probative force as the original document would have had if it had been proved in the ordinary way.

Inquiry

(4) The Finance Minister may, for any purpose related to the administration of sections 79, 79.2, 79.3 and 79.4 of this Act or the regulations made in association with them, authorize any person, whether or not the person is an employee in the Ministry of the Finance Minister, to make such inquiry as the Finance Minister considers necessary with reference to anything relating to the administration of this Act or the regulations.

Copies

(5) If a book, record or other document is examined or produced under this section, the person by whom it is examined or to whom it is produced or any officer of the Ministry may make, or cause to be made, one or more copies of it, and a document purporting to be certified by the person to be a copy made pursuant to this section is admissible in evidence and has the same probative force as the original document would have if proved in the ordinary way.

Compliance

(6) No person shall hinder or molest or interfere with any person doing anything that the person is authorized by this section to do or prevent or attempt to prevent any person doing any such thing.

Same

(7) Despite any other law to the contrary, every person shall, unless the person is unable to do so, do everything the person is required by this section to do.

Administration of oaths

(8) Declarations or affidavits in connection with statements of information submitted pursuant to this section may be taken before any person having authority to administer an oath or before any person specially authorized for that purpose by the Lieutenant Governor in Council, but any person so specially authorized shall not charge any fee for doing so.

Application of *Public Inquiries Act, 2009*

(9) Section 33 of the *Public Inquiries Act, 2009* applies to an inquiry under subsection (4).

Recovery of overpayments

Definitions

79.9 (1) In this section,

"inspector" means an inspector referred to in section 79.8; ("inspecteur")

"overpayment" means an amount received by a person in excess of that to which the person is entitled under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them. ("trop-perçu")

Notice of overpayment

(2) If it appears to an inspector that a person has received an overpayment, the Finance Minister may send a written notice to the person advising the person of the following:

1. That the person has received an overpayment.
2. The amount of the overpayment and how it was calculated.
3. The required steps to be taken by the person with respect to the overpayment.

4. The date, not more than six months after the date of the notice, by which these steps must be completed.
5. That the Finance Minister has the authority to assess the person for the amount of the overpayment, plus interest, if the person fails to complete the required steps by the specified date.

Calculation of amount of overpayment

(3) For the purposes of this section, an inspector shall calculate an overpayment or the outstanding balance of an overpayment in the manner and form and using such procedures as the Finance Minister considers adequate and expedient.

Assessment

(4) If a person fails to complete the steps required in a notice under subsection (2) within the time specified in the notice, and any additional time requested by the person and permitted by the Finance Minister, the Finance Minister may assess or reassess the amount of the overpayment, or the outstanding balance of the overpayment, based on the inspector's calculation described in subsection (3).

Penalty

(5) If the Finance Minister makes an assessment or reassessment under subsection (4) and is satisfied that the person's non-compliance with the required steps in the notice was attributable to neglect, carelessness, wilful default or fraud, the Finance Minister may assess a penalty against the person equal to the outstanding balance of the overpayment when the penalty is assessed.

Time limit

(6) The Finance Minister shall not assess or reassess under subsection (4) more than 48 months after the end of the month in which the person received the overpayment.

Exception, where misrepresentation, etc.

(7) Subsection (6) does not apply if the Finance Minister establishes that the person has made a misrepresentation that is attributable to neglect, carelessness or wilful default or has committed any fraud in supplying information under this Act or the regulations or in omitting to disclose information.

Deeming

(8) An amount assessed or reassessed by the Finance Minister under this section is deemed, for the purposes of the administration and enforcement of this Act, to be a debt retirement charge owing and payable, as defined in subsection 85 (1) of the *Electricity Act, 1998*, that has been collected, on the last day of the month in which the person received the overpayment, by the person as a collector appointed under subsection 85.3 (1) of the *Electricity Act, 1998* and, for those purposes,

(a) sections 85.11, 85.12, 85.14, 85.17 and 85.30 of that Act apply with necessary modifications;

(b) in the application of sections 85.11 and 85.14 of that Act and without limiting the generality of clause (a) of this subsection, references to the Financial Corporation are read as references to the Minister of Finance and references to the Minister of Finance are read as references to the Finance Minister as defined in section 79.6 of this Act;

(c) the regulations made under that Act for the purposes of calculating the rate or rates of interest payable under section 85.11 of that Act and the manner of calculating the amount of interest apply with necessary modifications; and

(d) sections 23 and 36, subsections 37 (1), (1.1) and (2) and sections 37.1, 38 and 39 of the *Retail Sales Tax Act* apply with necessary modifications.

Disposition of repaid amounts

(9) If all or part of an overpayment is repaid to the Finance Minister, the Minister of Energy shall make such financial arrangements and payments as may be necessary to ensure that any person entitled to all or part of the overpayment receives the appropriate amount.

Confidentiality

79.10 (1) Except as authorized by this section, no person employed by the Government of Ontario shall,

(a) knowingly communicate or knowingly allow to be communicated to any person any information obtained by or on behalf of the Minister of Energy or the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; or

(b) knowingly allow any person to inspect or to have access to any record or thing obtained by or on behalf of either Minister for the purposes of this Act.

Testimony

(2) No person employed by the Government of Ontario shall be required, in connection with any legal proceedings,

(a) to give evidence relating to any information obtained by or on behalf of the Minister of Energy or Finance Minister for the purposes of this Act; or

(b) to produce any record or thing obtained by or on behalf of either Minister for the purposes of this Act.

Exception

(3) Subsections (1) and (2) do not apply in respect of,

(a) criminal proceedings under any Act of the Parliament of Canada;

(b) proceedings in respect of the trial of any person for an offence under an Act of the Legislature; or

(c) proceedings relating to the administration or enforcement of this Act or Part V.1 or VI of the *Electricity Act, 1998*.

Communication

(4) A person employed by the Government of Ontario may, in the course of duties in connection with the administration or enforcement of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them,

(a) communicate or allow to be communicated to another person employed by the Government of Ontario in the administration or enforcement of any law or to an employee of the Board information obtained by or on behalf of either Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; and

(b) allow another person employed by the Government of Ontario in the administration or enforcement of any law or an employee of the Board to inspect or have access to any record or thing obtained by or on behalf of either Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

Reciprocal communication

(5) A person who receives information or obtains access to any record or thing under subsection (4) has a duty to communicate or furnish to that Minister on a reciprocal basis any information, record or thing obtained by the person that affects the administration or enforcement of this Act.

Use of information

(6) Any information, record or thing communicated or furnished under this section may be used only for the administration or enforcement of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them or an Act that is administered or enforced by the person receiving the information, record or thing.

Same

(7) The Finance Minister may permit information or a copy of any record or thing obtained by or on behalf of the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them to be given to,

(a) the person from whom the information, record or thing was obtained;

(b) any person by whom an amount is payable or has been paid under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them; or

(c) the legal representative of a person mentioned in clause (a) or (b) or the agent of the person authorized in writing in that behalf.

Information

(8) The Finance Minister may permit information or a copy of any record or thing obtained by or on behalf of the Finance Minister for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them to be given to any person employed by any government if,

(a) the information, record or thing obtained by that government for the purpose of any Act that imposes a tax or duty are communicated or furnished on a reciprocal basis to the Minister; and

(b) the information, record or thing will not be used for any purpose other than the administration or enforcement of a law that provides for the imposition of a tax or duty.

Offence

(9) Every person who contravenes any provision of this section is guilty of an offence and on conviction is liable to a fine of not more than $2,000.

Offences

False statements, etc., and fraud

79.11 (1) Every person who engages in any of the following acts or omissions is guilty of an offence:

1. Making, participating in, assenting to or acquiescing in the making of a false or deceptive statement in any document or answer required or submitted under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.
2. Destroying, altering, mutilating, hiding or otherwise disposing of information or records of any person, for the purpose of evading compliance with sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.
3. Making, assenting to or acquiescing in the making of a false or deceptive entry of a material particular in a record of any person required to maintain records for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.
4. Omitting to make or assenting to or acquiescing in the omission of an entry of a material particular in a record of any person required to maintain records for the purposes of sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.
5. Wilfully evading or attempting to evade, in any manner, compliance with an obligation under sections 79, 79.2, 79.3 and 79.4 or the regulations made in association with them.

Penalty upon conviction

(2) A person convicted of an offence under subsection (1) is liable to either or both of the following penalties in addition to any other penalty assessed under this Act:

1. A fine in an amount that is not less than $1,000 and not more than $10,000.
2. Imprisonment for a term of not more than two years.

General offence

(3) Every person who contravenes, by any act or omission, any other requirement imposed under sections 79, 79.2, 79.3 and 79.4 is guilty of an offence and, on conviction, is liable, where no other penalty is provided for the offence, to a fine of not less than $50 and not more than $5,000.

Limitation period

(4) A proceeding to prosecute an offence provided for in this section must be commenced within six years after the date on which the matter of the offence arose.

Payment of fines

(5) Fines imposed on conviction of an offence provided for in this section are payable to the Finance Minister on behalf of the Crown in right of Ontario.

Commencement

5 (1) Subject to subsection (2), this Schedule comes into force on the day the *Fair Hydro Act, 2017* receives Royal Assent.

(2) Section 2 comes into force on a day to be named by proclamation of the Lieutenant Governor.

From: John Kim
To: Ronald Kwan
Cc: Deena Padamadan; Bruno Amara
Subject: FW: OPG Business Plan BN - Review and Input Needed
Date: Monday, May 01, 2017 6:35:46 PM
Attachments: OPG Business Plan - Signed Submission.msg
5 2017-05-09 RAN OPG Business Plan v2.doc

Hi Ron,

Pls. see attached. They are requesting the updated info by tomorrow.

Thanks,

John

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Monday, May 01, 2017 4:24 PM
To: John Kim <John.Kim@ofina.on.ca>; Judy George-Harris (MGS) <Judy.George-Harris@ontario.ca>
Cc: Chris Skubel (MGS) <Chris.Skubel@ontario.ca>; Laurie Morin (MGS) <Laurie.Morin@ontario.ca>
Subject: OPG Business Plan BN - Review and Input Needed

John,

Attached is the note for the OPG Business Plan item going to TB/MBC same time as OFHP May 9, 2017. Please review and provide comments, and clarification regarding what's in the OPG #s in the 2017 Budget numbers (There are references in the note and the tables on the last two pages need updating to be complete).

Sec Briefing is tomorrow afternoon, would it be possible to get the updated tables in the morning tomorrow? Fair Hydro Plan is also scheduled, but not sure if it or both will be bumped to a separate briefing cycle in advance of May 9, 2017.

Laurie (for Judy) – I've included a description of the international travel aspect (around slide 11, deck in the attached email) and a placeholder for a minute (Judy was aware of the item).

James

From: Gounden, Pratima (ENERGY) [Pratima.Gounden@ontario.ca]
To: James Strang (MOF) [James.Strang@ontario.ca]
CC: Felix Fung (MOF) [Felix.Fung@ontario.ca]; Judy George-Harris (MGS) [Judy.George-Harris@ontario.ca]; Chris Skubel (MGS) [Chris.Skubel@ontario.ca]
Subject: OPG Business Plan - Signed Submission
Date: Monday, May 01, 2017 11:47:56
Attachment 1: image001.jpg
Attachment 2: OPG Business Plan_signed submission.pdf

Hi James,

Attached is a copy of the signed submission for the OPG Business Plan.

We'll walk the original over to the Agenda Office this afternoon.

Thanks,

Pratima Gounden, Team Lead (A)

56 Wellesley Street West, 4th Floor, Toronto ON M7A 2E7

Blackberry: 647-289-4932

Ministry of Economic Development & Growth

Ministry of Energy

Ministry of Infrastructure
Ministry of Research, Innovation & Science

CSD
Corporate
Services
Division
Expertise | Collaboration | Respect | Service Excellence | Integrity

Ontario

Application and Report to Treasury Board/Management Board of Cabinet

(Refer to instructions on next page)

1. MINISTRY: Energy	2. MINISTRY LOG #	3. TB/MBC LOG #
4. TYPE OF REQUEST: Treasury Board General		

5. PURPOSE OF REQUEST: The Ministry of Energy is requesting TB/MBC 1. NOTE the receipt of OPG's 2017-2019 Business Plan. 2. NOTE that the Minister of Energy will provide concurrence with OPG's Business Plan 3. APPROVE OPG's application for Special Status to Approve International Travel under Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive dated January 1, 2017.

6. FINANCIAL DETAILS		($ Millions)							
		Current Year		Year 2		Year 3		Matures In	
		2016/17		2017/18		2018/19		2019/20	
		Operating	Capital	Operating	Capital	Operating	Capital	Operating	Capital
A. Program Current Base	Expense								
	Asset								
B. Program Request (change from existing base)	Expense								
	Asset								
C. Available for Offset	Expense								
	Asset								
D. Net Impact On Program Allocation (B-C)	Expense								
	Asset								
E. Revenue Implications									

7. IMPACT ON FTE LIMIT	Current Year 2016/2017	Year 2 2017/2018	Year 3 2018/2019	Mature in 2019/2020
A. Program Current Base FTE Limit				
B. Program FTEs Request				
C. Available FTE Offset				
D. Net Impact on FTE Limit (B-C)				
E. Change to Ministry Salaries & Wages Allocation (included in the Program Request ($ Millions)				

8. OTHER DECISION FACTORS	Y/N	EXPLANATION
A. Consistent with Government Priorities and Results (If Yes identify key Results) - include details in submission)	Y	MOA between Minister of Energy and OPG
B. Policy approval (if yes identify policy committee and date approved)	N	
C. Key Performance Risks (If yes provide details in submission)	N	
D. Impact on other Ministries (if yes - include sign-off date. Include resources impact in submission)	N	Ministries: N/A
E. Impact on the Fiscal Plan (if yes provide details in submission)	Y	Impact of OPG results

9. AUTHORIZATION /DATE

Signature of Minister — Date:

Glenn Thibeault

Signature of Deputy Minister — Date:

Serge Imbrogno

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO POWER GENERATION (OPG) 2017-19 BUSINESS PLAN AND SPECIAL STATUS APPLICATION

May 2017

CONFIDENTIAL

MINISTRY OF ENERGY

ONTARIO POWER GENERATION (OPG)
2017-19 BUSINESS PLAN AND SPECIAL STATUS APPLICATION

MINISTRY REQUEST

The Ministry of ENERGY is requesting that Treasury Board/Management Board of Cabinet (TB/MBC):

1. NOTE the receipt of OPG's 2017-2019 Business Plan.
2. NOTE that the Minister of Energy will provide concurrence with OPG's Business Plan.
3. APPROVE OPG's application for Special Status to Approve International Travel under Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive dated January 1, 2017.

CONTEXT

- As required by the Memorandum of Agreement (MOA) between Ontario Power Generation and the Minister of Energy, OPG provided its Business Plan for 2017-2019 to the Ministry of Energy on November 29, 2016 for concurrence
    - Note that while OPG is seeking concurrence for its three year 2017-19 business plan, the plan also includes financial projections for 2020 and 2021
- With this Business Plan OPG is also making an application for Special Status under the Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive, which allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business
- The Minister's concurrence requires presentation of OPG's business plan before TB/MBC
- The Ministry of Energy review and analysis of OPG's business plan is supported by the Electricity Investment and Governance Secretariat, a unit within the Ministry of Finance and the Corporate and Electricity Finance Division of the Ontario Financing Authority (OFA)
- The following provides an overview of OPG's business plan, including:
    1. Business Plan Overview
    2. Other Considerations
- Proceeding with Provincial concurrence now will demonstrate that OPG has support from its shareholder as it implements the plan and provides clarity to

the Ontario Energy Board (OEB) as it reviews OPG's current rate application covering the 2017-2021 period

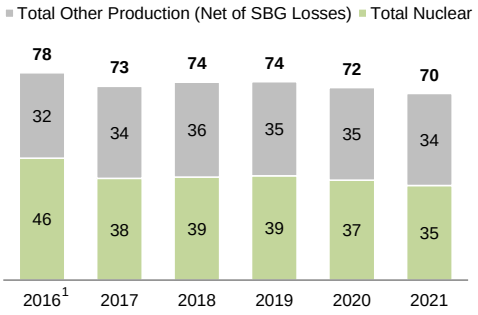
- Business plan forecasts may be affected by Ontario's Fair Hydro Plan (OFHP). Given the stage of implementation of OFHP and the timing of the receipt of the business plan in November 2016, these changes are not reflected in OPG's plan
    - The Ministry anticipates that as part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed partly by capital infusions from the Province, and majority by third-party lending
    - These changes are generally expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
    - In addition, the Province's net debt position would remain unchanged

1. BUSINESS PLAN OVERVIEW

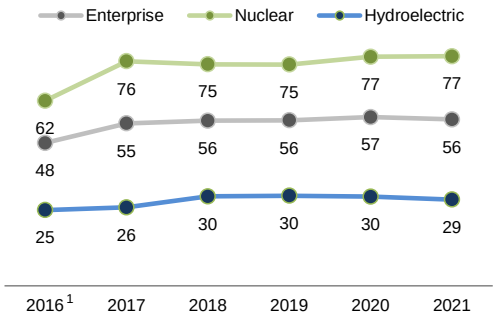
a) Production & Total Cost of Generation

- OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016
    - Reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016
    - Includes a partial overlap starting in 2021 between second and third unit refurbishments, and
    - Includes the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage
- While OM&A remains relatively stable over the planning period (see next slide), total generating cost (TGC)* shows an increasing trend over the planning period relative to 2016, reflecting:
    - Lower nuclear production due to Darlington refurbishment outages, and
    - Increased sustaining capital spending (included in TGC) on two large hydroelectric projects, the Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation

Production (TWh)



Total Generating Cost ($/MWh)



1. Actuals

*TGC = operations, maintenance and administration (OM&A) expenses from ongoing operations + fuel and Gross Revenue Charge expenses for OPG-operated stations + sustaining capital expenditures) divided by OPG generation adjusted for surplus baseload generation losses

b) Operations, Maintenance and Administration (OM&A) Expenses

- Annual OM&A expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year
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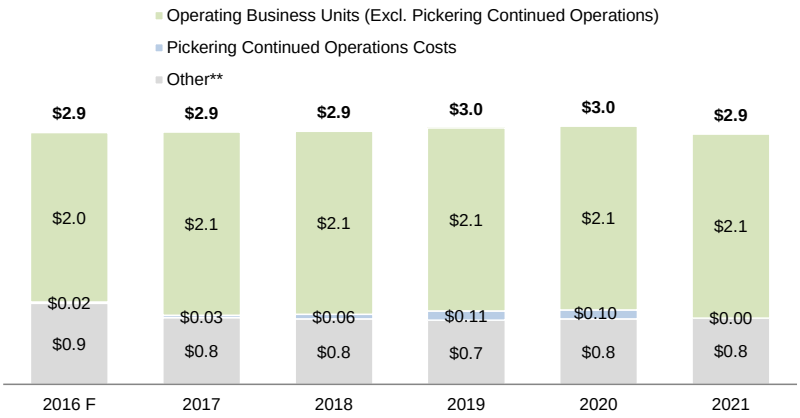
OM&A from Ongoing Operations* ($B)



*Excludes Darlington refurbishment OM&A expenses and all OEB variance and deferral account offsets

** Includes centrally held pension /OPEB costs and support services

c) Financials

- OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $436M in 2016
    - 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations
    - Net income in 2018 and 2019 is planned to increase, primarily due to higher forecast production, and earnings from Peter Sutherland Sr. GS starting in 2017 and Nanticoke solar facility starting in 2019
- As a result, return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021
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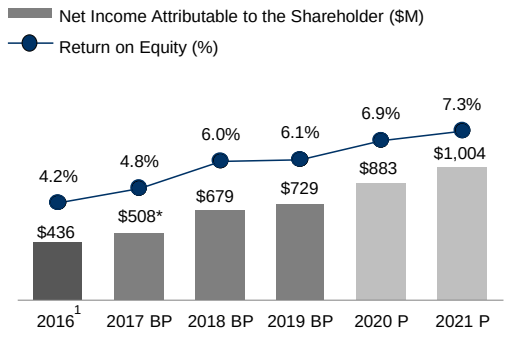
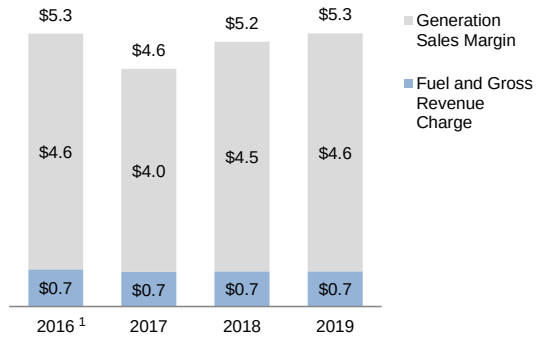
Net Income ($M) and ROE (%)



Revenue Margin ($B)



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d) Provincial Fiscal Impacts: Shareholder Return and Payments-in-Lieu of Taxes

- Total fiscal revenue impacts to the Province, including net income return to the shareholder and payments-in-lieu of taxes, averages ~$1B over the period
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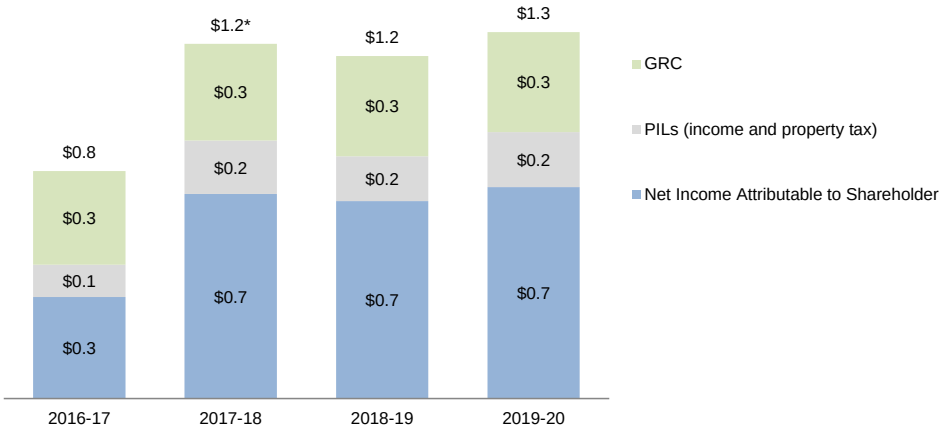
Total Fiscal Revenues ($B)



1. Aside from the water power rental portion of the GRC, paid to the CRF.

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- As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016
    - Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3
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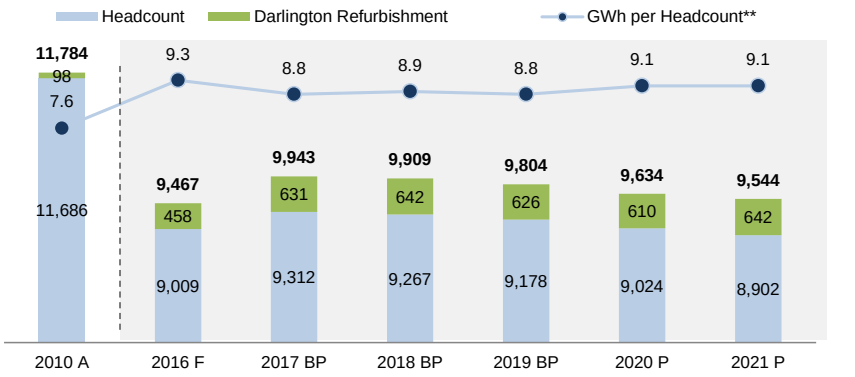
Ongoing Operations Regular Headcount and Productivity



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- OPG continues to focus on delivery of its major projects over the plan period, including:
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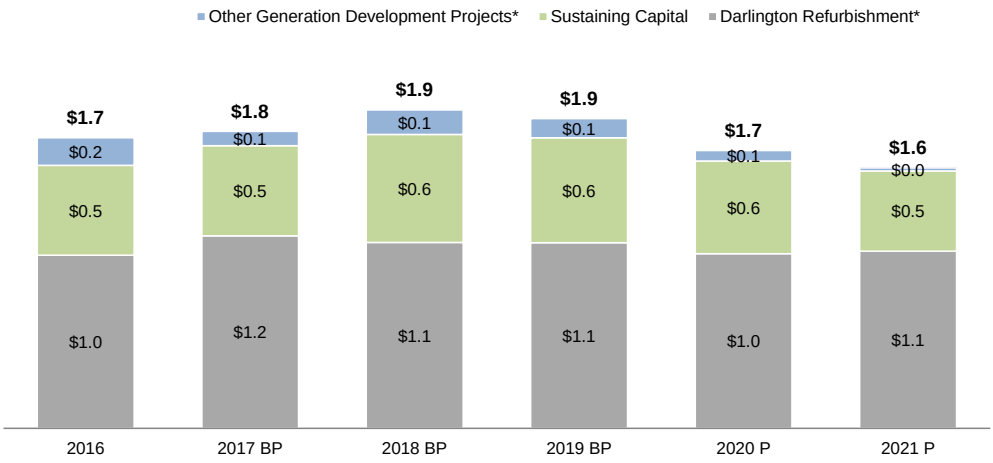
Capital Expenditure Estimates ($B)



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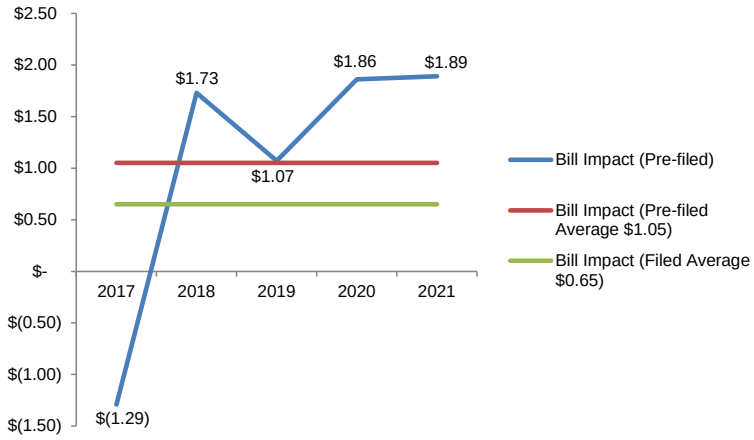
Comparison of Annual Bill Impact ($/Month per year)



*Forecasted in May 2016

Sales

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

Special Status for OPG to Approve International Travel

- On January 24, 2017, OPG's President and CEO wrote to the Deputy Minister to provide a business case and request authority for OPG to approve international travel for its employees. In summary:
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business

- OPG believes that international travel is integral to the safe and prudent operation of its business and having OPG's CEO approve international travel will enable more efficient decision-making while significantly lowering travel costs
- OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for over $30 billion in pension fund and nuclear funds
- OPG requires a high level of international business travel at approximately 90-100 trips annually, while the Darlington Refurbishment Project accounts for 45% of OPG's international travel and is expected see increases over the 10 year life of the project
- OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date
- OPG believes the inability to make timely commitments on events and meetings impacts employee engagement as well as its international relationships and reputation

- OPG is seeking Special Status as part of concurrence with its business plan. OPG has committed to providing semi-annual reports to the Ministry on international travel taken, and continue to be accountable for compliance with all applicable OPS directives, policies and procedures

RECOMMENDATION

The Ministry of ENERGY is requesting that Treasury Board/Management Board of Cabinet (TB/MBC):

1. NOTE the receipt of OPG's 2017-2019 Business Plan.
2. NOTE that the Minister of Energy will provide concurrence with OPG's Business Plan.
3. APPROVE OPG's application for Special Status to Approve International Travel under Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive dated January 1, 2017.

APPENDIX

OPG 2016 Year-End Financials

OPG Balance Sheet as at Dec 31 $B	2016
Assets	
Cash and cash equivalents	0.2
Available-for-sale securities	0.2
Receivables from related parties	0.4
Nuclear fixed asset removal and nuclear waste management funds	0.02
Other current assets	0.9
Total current assets	**$1.7**
Net property, plant and equipment	**$20.0**
Net intangible assets	**$0.1**
Nuclear fixed asset removal and nuclear waste management funds	16.0
Regulatory assets	5.9
Other long-term assets	0.7
Other assets	**$22.5**
Total assets	**$44.4**
Liabilities	
Accounts payable and accrued charges	1.2
Short-term debt and long-term debt due within one year	1.1
Income taxes payable and other current liabilities	0.1
Total current liabilities	**$2.4**
Long-term debt	4.4
Fixed asset removal and nuclear waste management liabilities	19.5
Pension liabilities	3.0
Other post-employment benefit liabilities	2.9
Other liabilities	1.7
	$31.5
Total liabilities	**$33.9**
Equity	
Equity attributable to the Shareholder	10.4
Equity attributable to non-controlling interest	0.1
Total equity	**$10.5**
Total liabilities and equity	**$44.4**

OPG Income Statement Year Ended Dec 31 $B	2016
Revenue	$5.7
Fuel expense	0.7
Gross margin	**$4.9**
Operations, maintenance and administration	2.7
Depreciation and amortization	1.3
Accretion on fixed asset removal and nuclear waste management liabilities	0.9
Earnings on nuclear fixed asset removal and nuclear waste management funds	-0.7
Other expenses	0.02
Total expenses	**$4.2**
Income before other (gains) losses, interest and income taxes	**$0.7**
Other (gains) losses	-0.02
Income before interest and income taxes	**$0.7**
Net interest expense	0.1
Income before income taxes	**$0.6**
Income tax expense	0.2
Net income	**$0.5**
Net income attributable to the Shareholder	**$0.4**
Net income attributable to non-controlling interest	**$0.02**

Ontario

MINISTRY OF
ENERGY

Ontario Power Generation (OPG) 2017-19 Business Plan and Special Status Application

May 2017

Context

- As required by the Memorandum of Agreement (MOA) between Ontario Power Generation and the Minister of Energy, OPG provided its Business Plan for 2017-2019 to the Ministry of Energy on November 29, 2016 for concurrence
  - Note that while OPG is seeking concurrence for its three year 2017-19 business plan, the plan also includes financial projections for 2020 and 2021
- With this Business Plan OPG is also making an application for Special Status under the Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive, which allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business
- The Minister's concurrence requires presentation of OPG's business plan before TB/MBC
- The Ministry of Energy review and analysis of OPG's business plan is supported by the Electricity Investment and Governance Secretariat, a unit within the Ministry of Finance and the Corporate and Electricity Finance Division of the Ontario Financing Authority (OFA)
- The following presentation provides an overview of OPG's business plan, including:
  1. Business Plan Overview
  2. Other Considerations

Context *(cont'd)*

- Proceeding with Provincial concurrence now will demonstrate that OPG has support from its shareholder as it implements the plan and provides clarity to the Ontario Energy Board (OEB) as it reviews OPG's current rate application covering the 2017-2021 period

- Business plan forecasts may be affected by Ontario's Fair Hydro Plan (OFHP). Given the stage of implementation of OFHP and the timing of the receipt of the business plan in November 2016, these changes are not reflected in OPG's plan

  - The Ministry anticipates that as part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed partly by capital infusions from the Province, and majority by third-party lending

  - These changes are generally expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income

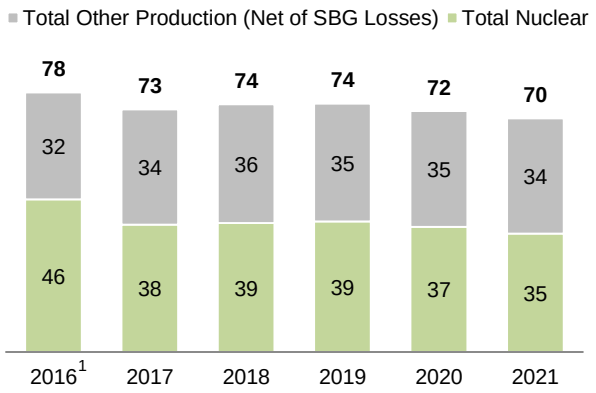
  - In addition, the Province's net debt position would remain unchanged

1. Business Plan Overview

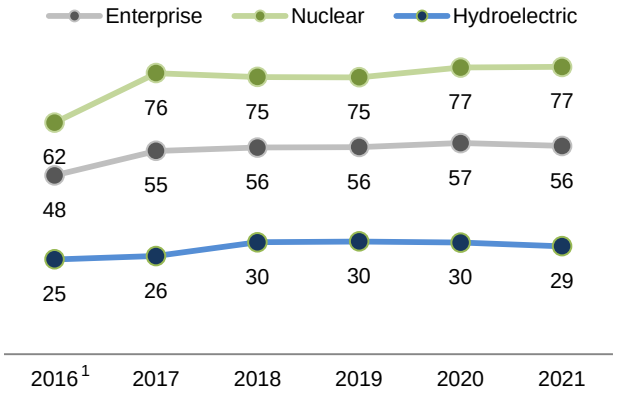
a) Production & Total Cost of Generation

- OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016
  - Reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016
  - Includes a partial overlap starting in 2021 between second and third unit refurbishments, and
  - Includes the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage
- While Operations, Maintenance and Administration (OM&A) remains relatively stable over the planning period (see next slide), total generating cost (TGC)* shows an increasing trend over the planning period relative to 2016, reflecting:
  - Lower nuclear production due to Darlington refurbishment outages, and
  - Increased sustaining capital spending (included in TGC) on two large hydroelectric projects, the Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation

Production (TWh)



Total Generating Cost ($/MWh)



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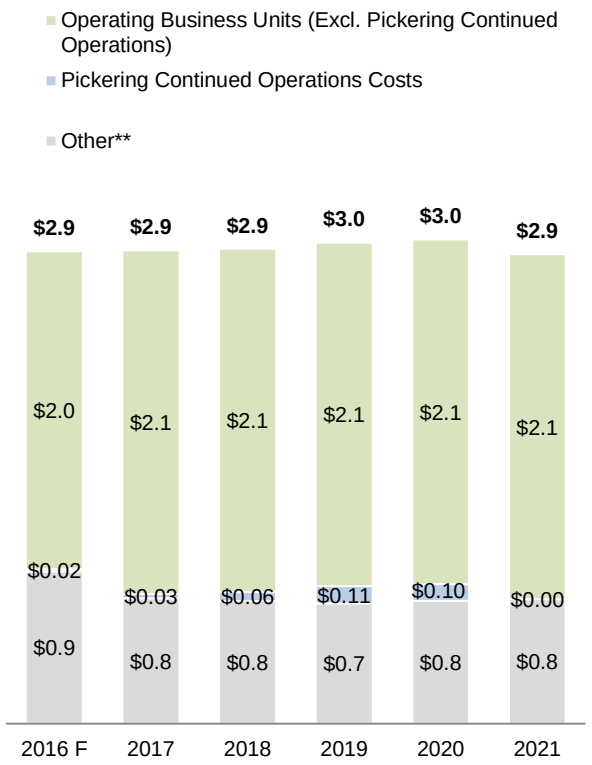

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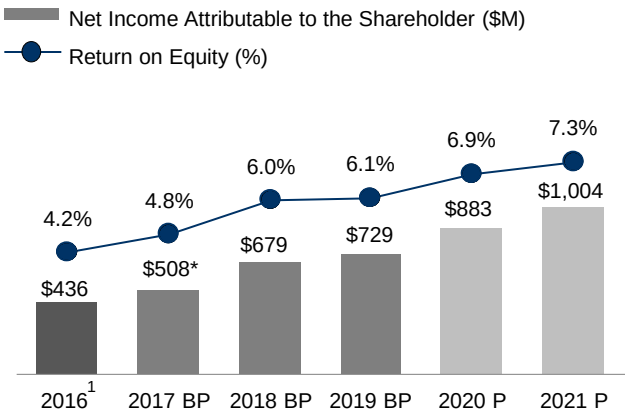
Net Income ($M) and ROE (%)



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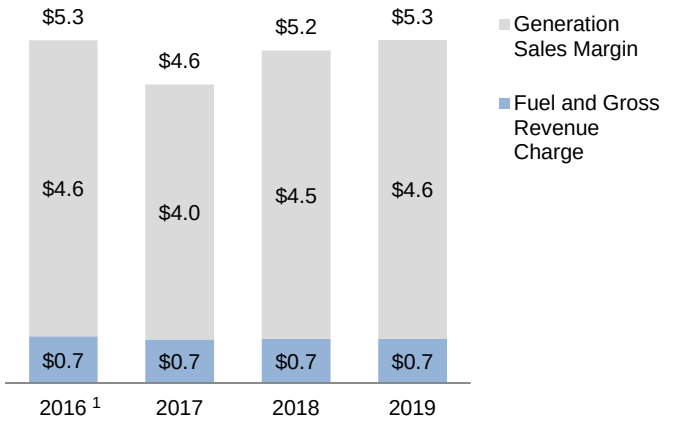

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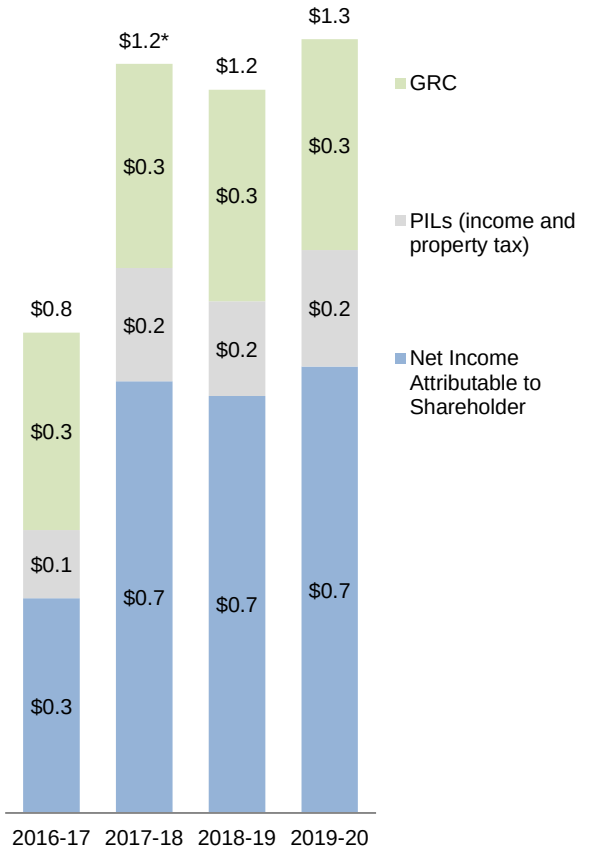

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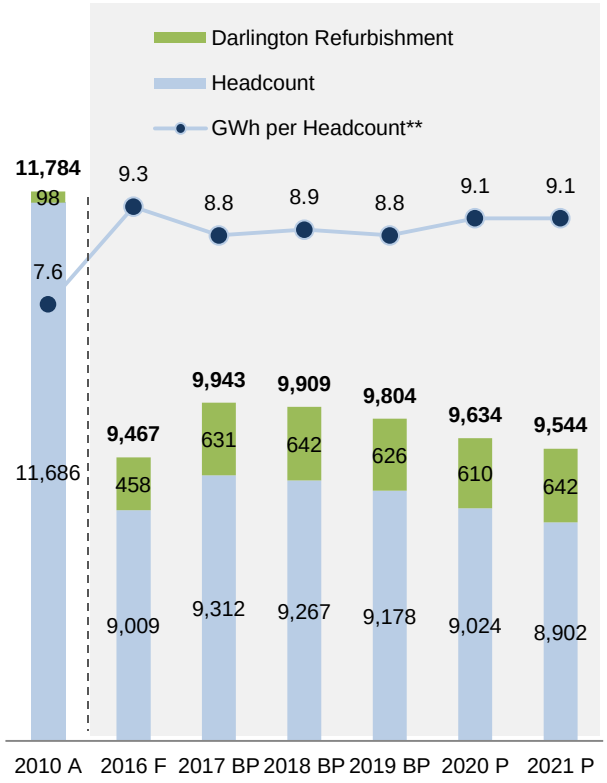

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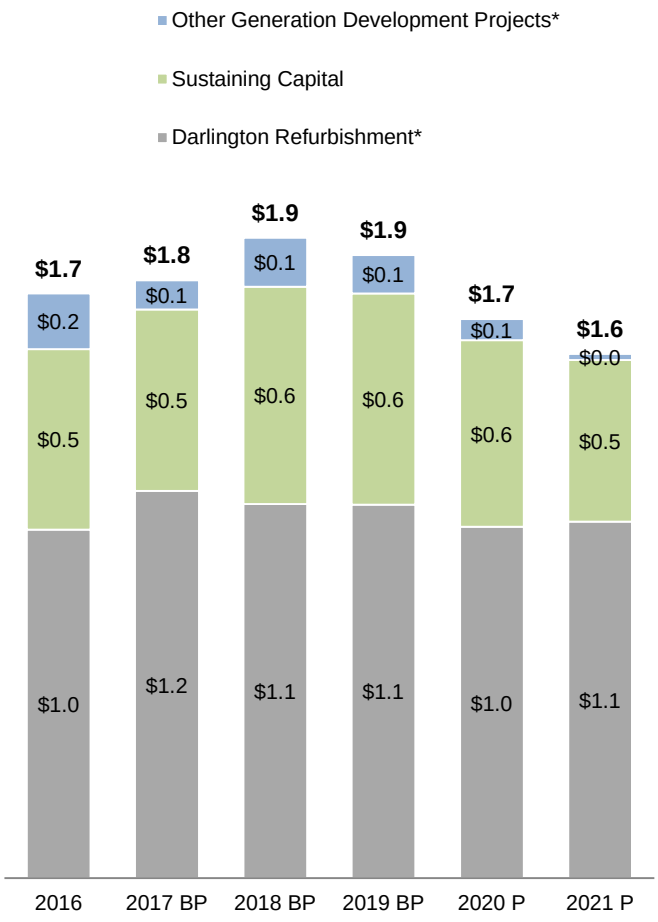

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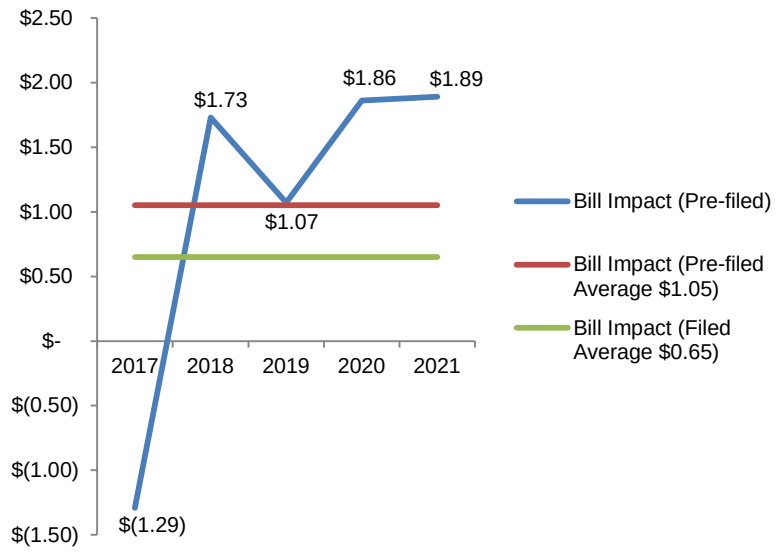
Comparison of Annual Bill Impact ($/Month per year)



*Forecasted in May 2016

2. Other Considerations

Sales

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

2. Other Considerations

Special Status for OPG to Approve International Travel

- On January 24, 2017, OPG's President and CEO wrote to the Deputy Minister to provide a business case and request authority for OPG to approve international travel for its employees. In summary:
  - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business
  - OPG believes that international travel is integral to the safe and prudent operation of its business and having OPG's CEO approve international travel will enable more efficient decision-making while significantly lowering travel costs
  - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for over $30 billion in pension fund and nuclear funds
  - OPG requires a high level of international business travel at approximately 90-100 trips annually, while the Darlington Refurbishment Project accounts for 45% of OPG's international travel and is expected see increases over the 10 year life of the project
  - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date
  - OPG believes the inability to make timely commitments on events and meetings impacts employee engagement as well as its international relationships and reputation
- OPG is seeking Special Status as part of concurrence with its business plan. OPG has committed to providing semi-annual reports to the Ministry on international travel taken, and continue to be accountable for compliance with all applicable OPS directives, policies and procedures

Appendix

2016 Year-End Financials

OPG Balance Sheet as at Dec 31 $B	2016
Assets	
Cash and cash equivalents	0.2
Available-for-sale securities	0.2
Receivables from related parties	0.4
Nuclear fixed asset removal and nuclear waste management funds	0.02
Other current assets	0.9
Total current assets	**$1.7**
Net property, plant and equipment	**$20.0**
Net intangible assets	**$0.1**
Nuclear fixed asset removal and nuclear waste management funds	16.0
Regulatory assets	5.9
Other long-term assets	0.7
Other assets	**$22.5**
Total assets	**$44.4**
Liabilities	
Accounts payable and accrued charges	1.2
Short-term debt and long-term debt due within one year	1.1
Income taxes payable and other current liabilities	0.1
Total current liabilities	**$2.4**
Long-term debt	4.4
Fixed asset removal and nuclear waste management liabilities	19.5
Pension liabilities	3.0
Other post-employment benefit liabilities	2.9
Other liabilities	1.7
	$31.5
Total liabilities	**$33.9**
Equity	
Equity attributable to the Shareholder	10.4
Equity attributable to non-controlling interest	0.1
Total equity	**$10.5**
Total liabilities and equity	**$44.4**

OPG Income Statement Year Ended Dec 31 $B	2016
Revenue	$5.7
Fuel expense	0.7
Gross margin	**$4.9**
Operations, maintenance and administration	2.7
Depreciation and amortization	1.3
Accretion on fixed asset removal and nuclear waste management liabilities	0.9
Earnings on nuclear fixed asset removal and nuclear waste management funds	-0.7
Other expenses	0.02
Total expenses	**$4.2**
Income before other (gains) losses, interest and income taxes	**$0.7**
Other (gains) losses	-0.02
Income before interest and income taxes	**$0.7**
Net interest expense	0.1
Income before income taxes	**$0.6**
Income tax expense	0.2
Net income	**$0.5**
Net income attributable to the Shareholder	**$0.4**
Net income attributable to non-controlling interest	**$0.02**

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

Prepared based on draft submission

I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence. The concurrence letter from the Minister to the company will note key elements of the business plan,

how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its 2017-2019 Business Plan (Board-approved?) to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO.~~,~~ It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province with OPG raising the remaining 5% from capital markets. ~~financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending~~ (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged (Check is OFA)

Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province may make upon consolidation of OPG's financials (e.g., unrealized gains or losses). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2017.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - The figures in the OPG Board approved 2017-2019 Business Plan~~, along with OFA forecast updates for OFHP (TBC),~~ show a decrease in earnings before tax of $~~84M~~ 299M in 201~~6-17~~ ~~-18~~ and $~~89M~~ 556M in 2017-18, primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by increases of $~~59M~~ 12M in 2018-19 and $~~120M~~ 182M in 2019-20 over the estimates in the 2016 Budget.~~.~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $436M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019 is planned to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity

(ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
- The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
- Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

  OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

  OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year

net income by ~$50-60M per month of delay.

- On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
- On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year

- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: Potential disallowance of recovery of OPG's current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.

Accounting risks: Any change in the basis of accounting used for consolidation of OPG on the Province's financial statements could result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

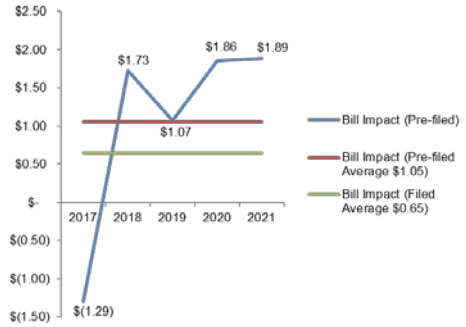
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

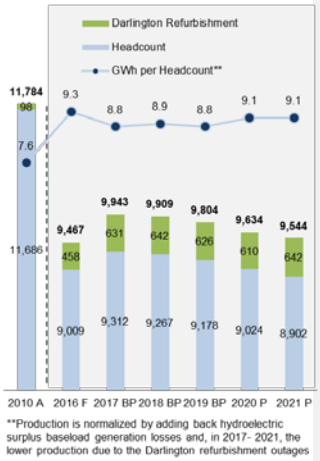
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



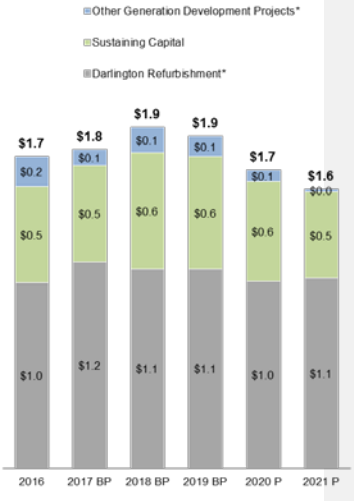
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	~~111~~96	~~184~~166	~~154~~135	~~189~~170
2017 Ontario Budget				
Ontario Power Generation				
Net Income (before IFRS Risk)	379	480	678	726
ONFA-related IFRS Risk	(75)	(400)		
GA – OPG Trust Interest Revenue	17	54	99	153
OPG Head Office*		222		
Net Income	~~387~~304	~~497~~97	732	825
Income Tax	?92	?92	?135	?170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	~~(84)~~(167)	~~(89)~~(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?(132)	?(67)	?(47)	?6
TOTAL OF OPG CHANGES	?(299)	?(556)	?12	?182

- Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Table below to be updated – OFA

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2017~~6~~-1~~9~~8 OPG Business Plan				
Combined Other PILs & Other GRC[2]	~~353~~329	350~~8~~	363~~6~~	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218~~5~~	232~~20~~	243~~20~~	241
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	~~135~~110	118~~40~~	124~~0~~	121
~~OPG Monthly Update (August 2016)~~				
Net Income (including OPG Head Office sale)	~~361~~379	702~~-~~	678~~-~~	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	-75	-400	-	-
Income Tax PILs to OEFC	~~98~~92	166~~-~~	135~~-~~	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017~~1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.~~

~~2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.~~

~~3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)~~

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From:	John Kim
To:	Salman Qadir
Cc:	Bruno Amara; Shajee Kathirgamanathan; Gavin He
Subject:	FW: OPG Performance fees
Date:	Monday, May 15, 2017 9:59:24 AM

Salman,

Could you take a look and figure the discussion points out?

John

From: Ronald Kwan
Sent: Monday, May 15, 2017 9:41 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: OPG Performance fees

Hi John,

Comments?

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-15-17 09:17
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: OPG Performance fees

I talked to OPG on this. Here are some other considerations:

- Risk / reward goes both ways. Unlike most management fee structures where the performance fee provides an at risk upside to the manager, but no downside, the distribution of potential benefits and losses is symmetric between ratepayers and OPG.
- OPG's current thinking is that it would work with OFA to set a benchmark for borrowing costs at the start of the year based on GOC yields + a premium. If OPG over-performs (under-performs) the benefit (downside) would be shared between the company and ratepayers 50/50 up to +/- $1M. Above or below $1M, all of the benefit (downside) would flow to ratepayers.
- OPG does not particularly like this symmetry but this is apparently required to meet accounting requirements.
- From my perspective, $1M is a small number, so I am not too concerned about overall impacts on ratepayers.

Thanks,

Scott

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: May 13, 2017 7:32 PM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Manning, Mike (OFA); Yep, Carlos (OFA); Veinot, Cindy (TBS)
Subject: RE: OPG Performance fees

Hi Scott

Yes the MOF does like OPG to make money since on a PSAB basis it benefits the Province's fiscal position. In this instance however, the marginal increase to the fiscal bottom line comes at the expense of the ratepayers in terms of additional debt, hence our push back.

Pls see below my responses on the two issues that you have raised. I am cc'ing Cindy as well since she may have her own thoughts and a discussion maybe value added in terms of arriving at a common understanding.

Thanks

Ken K

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: Friday, May 12, 2017 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
Subject: RE: OPG Performance fees

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I will chat with OPG to dig in to the rationale. I take your point that OPG will benefit from the loans to the trust. However, I see two weaknesses with the argument:

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2) Earning interest income on equity is going to take down the company's ROE (one of the key metrics that we are tracking on overall company performance). Therefore I wouldn't see this as a particularly compelling allocation of funds from a commercial perspective. This is a good point however, OPG considers the 44% it lends to the Trust as sub-debt most likely priced higher than the debt borrowed by the Trust from the markets. In the event the

interest on the 44% is less than OPG's current ROE of the company, your point holds however, if the interest is higher it actually adds to OPG's ROE.

Scott

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Sent: May 12, 2017 11:24 AM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Manning, Mike (OFA); Yep, Carlos (OFA)
Subject: OPG Performance fees

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Mike and I will be happy to provide any further technical assistance that you may require as you raise this issue.

Thanks

Ken k

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From:	Ronald Kwan
To:	John Kim
Subject:	FW: OPG Performance fees
Date:	Monday, May 15, 2017 9:40:44 AM

Hi John,

Comments?

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-15-17 09:17
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
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To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Manning, Mike (OFA); Yep, Carlos (OFA)
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From:	John Kim
To:	Francisco Chinchon
Subject:	FW: OPG Performance fees
Date:	Monday, May 15, 2017 11:02:19 AM

From: John Kim
Sent: Monday, May 15, 2017 10:23 AM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: RE: OPG Performance fees

Hi Ron,

Some early comments. OPG has been coming up with these ideas, we had one earlier that seems to have changed to the 1M one. If the idea is to meet accounting requirements and the impact is fairly small, it looks OK to me.

Might be a good idea to not get all fussed over some of these ideas as could end up looking like over-reacting and I'm not even sure at what level of OPG these ideas are being originated.

I take power and profit to mean OPG having the ability to make commercial decisions and profit to mean for conducting business for commercial/profit-making reasons.

John

From: Ronald Kwan
Sent: Monday, May 15, 2017 9:41 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: OPG Performance fees

Hi John,

Comments?

Ron

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Sent: May-15-17 09:17
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From: Ronald Kwan
To: John Kim
Subject: FW: OPG
Date: Monday, June 12, 2017 6:11:29 PM

Hi John,

Do you think you could draft something high-level, consulting with CMD and Legal?

Thanks,
Ron

-----Original Message-----
From: Subrahmanyan, Sriram (MOF) [mailto:Sriram.Subrahmanyan@ontario.ca]
Sent: June-12-17 18:10
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>
Subject: RE: OPG

Thanks. Can you provide some language on this to Rob and Daniela? We're writing a summary of our position for the MO in case OPG approaches them.

From: Ronald Kwan <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
Date: Monday, Jun 12, 2017, 5:25 PM
To: Subrahmanyan, Sriram (MOF)
<Sriram.Subrahmanyan@ontario.ca<mailto:Sriram.Subrahmanyan@ontario.ca>>
Cc: Lewis, Robin (MOF) <Robin.Lewis@ontario.ca<mailto:Robin.Lewis@ontario.ca>>
Subject: RE: OPG

Hi Sriram,

A Provincial support agreement (or agreements) is being worked on, and there are services or performance guarantee portions discussed but a tax or PILs component does not sound familiar to me. I'll enquire.

It's more about a Provincial payment guarantee to bondholders of the financing entity under certain circumstances.

Ron

From: Subrahmanyan, Sriram (MOF) [mailto:Sriram.Subrahmanyan@ontario.ca]
Sent: June-12-17 12:58
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>
Subject: OPG

Ron, no sure if you were on the call this morning. OPG mentioned a provincial guarantee to negate tax or (I think) other liabilities, and that they're working on the wording. Do you have a copy of this, or any detail?

thanks

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From: John Kim
To: Bruno Amara
Subject: FW: OPG
Date: Monday, June 12, 2017 8:59:23 PM

Where the discussion was left.

-----Original Message-----
From: Ronald Kwan
Sent: June-12-17 7:11 PM
To: Sriram Subrahmanyan (MOF) <Sriram.Subrahmanyan@ontario.ca>
Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>; Scott Nelms (ENERGY) <Scott.Nelms@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: RE: OPG

Hi Sriram,

Perhaps I missed the reference on the call, as I was drawn away for part.

I think the potential impact on the proposed provincial support agreement is arguably tenuous.

The payment guarantee (drafting is on-going) could be potentially triggered under certain circumstances (basically if there is an impact on bondholder) such as the Act is repealed; or if it is amended, or a regulation is amended, in a way that adversely impacts the ability of a Financing Entity to fully pay all funding obligations.

Given that the financing entity can recover, under the Act, taxes or PILs, if payable, from ratepayers (as I understand it), should mean that there should be no such impact on the financing entity's ability to pay bondholders -- there would just be a ratepayer impact if PILs or taxes are paid, which is why the PILs exemption is being asked for.

That said, if OPG is making such an argument, I'd want to hear the strength of their case too, of course, but it seems a stretch.

Perhaps Scott or John would have more to add on this.

Ron

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From: Subrahmanyan, Sriram (MOF) [mailto:Sriram.Subrahmanyan@ontario.ca]
Sent: June-12-17 18:41
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: RE: OPG

OPG is claiming it includes PILs or taxes. It would be useful to clarify. Thanks

From: Ronald Kwan <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
Date: Monday, Jun 12, 2017, 6:21 PM
To: Subrahmanyan, Sriram (MOF)

<Sriram.Subrahmanyan@ontario.ca<mailto:Sriram.Subrahmanyan@ontario.ca>>
Cc: Lewis, Robin (MOF) <Robin.Lewis@ontario.ca<mailto:Robin.Lewis@ontario.ca>>, Langleben, Ann (MOF) <Ann.Langleben@ontario.ca<mailto:Ann.Langleben@ontario.ca>>, Patel, Lesley (MOF) <Lesley.Patel@ontario.ca<mailto:Lesley.Patel@ontario.ca>>, Klassen, Daniela (MOF) <Daniela.Klassen@ontario.ca<mailto:Daniela.Klassen@ontario.ca>>, Kim, John (OFA) <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
Subject: RE: OPG

Hi Sriram,

I believe the MO is aware of the proposal for a provincial support agreement / guarantees.

We can try drafting a short summary on what that is about. Not sure how it would fit into a tax-related note. Perhaps John could discuss with Ann and Rob.

Ron

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From: Bruno Amara
To: John Kim
Cc: Salman Qadir
Subject: FW: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx
Date: Tuesday, May 30, 2017 3:08:36 PM
Attachments: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx

---

Hi John

Salman added a bullet with respect to the indemnity request. S.22. We can discuss the S.22 vs. S.28. I note that James Strang's BN on this changed it to s.22 although his Qs and As still refer to S.28.

Bruno

Outstanding Business Issues – Ontario Fair Hydro Plan
Briefing Note

PURPOSE
Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Service and Performance Guarantees**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA and working towards the development of a term sheet
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - The Province would like to minimize to the extent possible , the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers
   - The Province is considering regulation changes to exempt the income arising as a consequence of the Fair Hydro Plan from PILs
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity
   - **Next Steps:**
     - The Ministries of Finance, OFA and OPG are working together to determine required regulation changes
     - Timing: [Next steps for a decision / when is a decision required / when would these regulation changes occur]

3. **Equity Injection Process**
   - OPG will require equity injections on a monthly basis in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province

- The Ministry of Energy received appropriation for $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT
- **Next Steps:**
    - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
    - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June

4. Management Fees

- OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
- The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations which are currently in development
- OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements
- **Next Steps:**
    - OPG and OEB will bring forward a recommended framework for developing management fees
    - Timing: For incorporation into regulations being brought forward in June

5. OPG Indemnity

- OPG (and IESO) are asking for the Province to indemnify the IESO, OPG (the entities) and their respective directors, officers and employee in order to allow them to carry out their roles in implementing the Ontario Fair Hydro Plan and primarily the Global Adjustment refinancing.
- If approved, indemnity would be provided under section 22(1) of the *Financial Administration Act.*
- Consideration will need to be given as to how providing an indemnity will be perceived given that the GA refinancing structure is meant to be independent of the Province.
- **Next Steps:**
    - Staff in Ministry of Finance and Treasury Board Secretariat have received initial documents and are currently reviewing.
    - If the Province is to provide the indemnity, section 22(1) of the FAA specifies that an OIC will be required to authorize the Minister of Finance.
    - Upcoming Cabinet date is June 27, 2017, for which documents are past due. Next possible LRC/Cabinet date is scheduled for July 26, 2017.

From:	Ronald Kwan
To:	John Kim; Bruno Amara
Cc:	Gavin He
Subject:	FW: Outstanding Business Issues Ontario Fair Hydro Plan
Date:	Tuesday, May 30, 2017 7:43:54 PM
Attachments:	Outstanding Business Issues Ontario Fair Hydro Plan.docx

Hi,

Please review.

Thanks,
ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-30-17 6:13 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: Outstanding Business Issues Ontario Fair Hydro Plan

Fyi – here is a document that we have pulled together for Thursday's discussion. I think Kaitlin has also shared with colleagues at OFA for review. I shared with John at OPG and he asked that we include a few bullets on the sub debt term sheet in development between OPG and OFA. We plan to add that in.

Outstanding Business Issues – Ontario Fair Hydro Plan
Briefing Note

PURPOSE
Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Service and Performance Guarantees**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA and working towards the development of a term sheet
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - The Province would like to minimize to the extent possible , the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers
   - The Province is considering regulation changes to exempt the income arising as a consequence of the Fair Hydro Plan from PILs
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity
   - **Next Steps:**
     - The Ministries of Finance, OFA and OPG are working together to determine required regulation changes
     - Timing: [TBD]

3. **Equity Injection Process**
   - OPG will require equity injections on a monthly basis in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province

- The Ministry of Energy received appropriation for $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT
- **Next Steps:**
    - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
    - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June

4. Management Fees

- OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
- The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations which are currently in development
- OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements
- There are two components to the model proposed by OPG:
    - Cost recovery: the structure will also allow for recovery of costs, subject to OEB's prudence review. OEB and OPG are in discussions in order to develop a model that is consistent with OEB's processes.
    - Performance management fee: OPG has the ability to over-earn or lose depending on its cost of funds for sr. debt relative to a benchmark. Any savings / costs would be shared equally between ratepayers and OPG to +/-$1M. Above or below $1M, all savings / costs flow to ratepayers.
- **Next Steps:**
    - OPG and OEB will bring forward a recommended framework for developing management fees
    - Timing: For incorporation into regulations being brought forward in June

From: John Kim
To: Gavin He
Cc: Bruno Amara
Subject: FW: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions
Date: Tuesday, June 06, 2017 8:58:32 PM

Hi Gavin,

Could you take a look?

Thanks,

John

From: Ronald Kwan
Sent: June-06-17 6:10 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Hi,

Please review.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: June-06-17 18:03
To: Sriram Subrahmanyan (MOF) <Sriram.Subrahmanyan@ontario.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>
Subject: RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Hi Sriram,

I received the following responses to your question on structure and types of potential income:

1) OPG is planning for the initial financing entity to be a trust. However, the Fair Hydro Plan Act allows for flexibility on the types of structures that can be used (trusts, corporations, partnerships, limited partnerships, other special purpose entities). Because the Fair Hydro Plan envisions a 30 year program, it is important that the PILs exemptions be broad enough to cover all of the various types of entities in the event that a different form is used for one or more future financing entities.

2) The memo we sent addressed types of income that might arise in a trust. As you'll have seen from the memo, it is strongly recommended that a PILs exemption be promulgated

which would exempt from PILs any income distributed by a trust financing entity to OPG as beneficiary. This would allow the trust to flush its income to OPG as beneficiary. If a corporation is used as a financing entity, it is important that any income earned in that corporation be exempt from PILs. If a partnership or limited partnership is used as a financing entity, it is important that any income distributed to OPG (or any of its subsidiaries) as a partner or limited partner be exempt from PILs.

OPG is keen to move forward on these regulations. Without the regulations and the PILs exemptions, any taxes payable by a financing entity (whether it's a trust, corporation or otherwise), will be collected from ratepayers which will eat up part of the fair allocation amounts. In addition, the costs of the Fair Hydro Plan will increase as the rating may be affected and the capacity available from the debt markets will decrease as the lenders add a contingency for future taxes that may be collectible at some point in the future from ratepayers.

I would suggest we set up a call to further discuss, perhaps next week.

Please let me know if that makes sense,
Scott

From: Subrahmanyan, Sriram (MOF)
Sent: June 2, 2017 3:39 PM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF)
Subject: RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Scott,

Thank you for sharing the Torys Memorandum, dated May 17, 2017, with us.

The structure was not finalized at the time we first reviewed the proposal. Based on the Memorandum, it appears that the type of structure is still being determined. If there has been progress in this regard, we would be happy to conference with Torys and OPG to discuss the appropriate next steps.

As the PILs relief sought appears to be appropriate given the policy objective, we would probably recommend amendments to ensure the structure is not subject to PILs. However, we would suggest that a ruling from the tax administration division may be appropriate in this case, provided the final structure is not subject to regular federal tax and if authority can be found in the existing legislation and regulations.

Our recommendation would depend on the type of structure that is ultimately selected and on other particulars such as the types of income that would be earned in the special purpose vehicle.

Regards,

Sriram

From: Nelms, Scott (MOF)
Sent: May 31, 2017 1:10 PM
To: Subrahmanyan, Sriram (MOF); Kwan, Ronald (OFA); Lewis, Robin (MOF); Kim, John (OFA)
Subject: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Hi Sriram, Ron,

Further to our conversations from earlier this spring, we received the following from OPG on its request for PILs exemptions relating to Ontario's Fair Hydro Plan. Please let me know if you have questions or comments. Torys and OPG have also asked whether we would like to set up a call in the next few days to discuss.

Thanks,
Scott

Scott Nelms
Electricity Investment and Governance Secretariat | Ministry of Finance
7th Floor | 375 University ave. | Toronto, ON
w: (416) 212-6469 | c: (647) 330-2681
scott.nelms@ontario.ca

From:	Ronald Kwan
To:	John Kim; Bruno Amara
Subject:	FW: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions
Date:	Tuesday, June 06, 2017 6:10:12 PM

Hi,

Please review.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: June-06-17 18:03
To: Sriram Subrahmanyan (MOF) <Sriram.Subrahmanyan@ontario.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>
Subject: RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

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2) The memo we sent addressed types of income that might arise in a trust. As you'll have seen from the memo, it is strongly recommended that a PILs exemption be promulgated which would exempt from PILs any income distributed by a trust financing entity to OPG as beneficiary. This would allow the trust to flush its income to OPG as beneficiary. If a corporation is used as a financing entity, it is important that any income earned in that corporation be exempt from PILs. If a partnership or limited partnership is used as a financing entity, it is important that any income distributed to OPG (or any of its subsidiaries) as a partner or limited partner be exempt from PILs.

OPG is keen to move forward on these regulations. Without the regulations and the PILs exemptions, any taxes payable by a financing entity (whether it's a trust, corporation or otherwise), will be collected from ratepayers which will eat up part of the fair allocation amounts. In addition, the costs of the Fair Hydro Plan will increase as the rating may be affected and the capacity available from the debt markets will decrease as the lenders add a contingency for future taxes that may be collectible at some point in the future from ratepayers.

I would suggest we set up a call to further discuss, perhaps next week.

Please let me know if that makes sense,
Scott

From: Subrahmanyan, Sriram (MOF)
Sent: June 2, 2017 3:39 PM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF)
Subject: RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

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The structure was not finalized at the time we first reviewed the proposal. Based on the Memorandum, it appears that the type of structure is still being determined. If there has been progress in this regard, we would be happy to conference with Torys and OPG to discuss the appropriate next steps.

As the PILs relief sought appears to be appropriate given the policy objective, we would probably recommend amendments to ensure the structure is not subject to PILs. However, we would suggest that a ruling from the tax administration division may be appropriate in this case, provided the final structure is not subject to regular federal tax and if authority can be found in the existing legislation and regulations.

Our recommendation would depend on the type of structure that is ultimately selected and on other particulars such as the types of income that would be earned in the special purpose vehicle.

Regards,

Sriram

From: Nelms, Scott (MOF)
Sent: May 31, 2017 1:10 PM
To: Subrahmanyan, Sriram (MOF); Kwan, Ronald (OFA); Lewis, Robin (MOF); Kim, John (OFA)
Subject: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Hi Sriram, Ron,

Further to our conversations from earlier this spring, we received the following from OPG on its request for PILs exemptions relating to Ontario's Fair Hydro Plan. Please let me know if you have

questions or comments. Torys and OPG have also asked whether we would like to set up a call in the next few days to discuss.

Thanks,
Scott

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w: (416) 212-6469 | c: (647) 330-2681
scott.nelms@ontario.ca

From: Ronald Kwan
To: John Kim; Bruno Amara
Cc: Gavin He
Subject: FW: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions
Date: Friday, June 02, 2017 5:54:05 PM

FYI.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: June-02-17 17:49
To: Sriram Subrahmanyan (MOF) <Sriram.Subrahmanyan@ontario.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>
Subject: RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Thanks Sriram. I have reached back to OPG to determine whether a structure has been or is close to final. I will circle back with those details along with some of the other points you raise below.

From: Subrahmanyan, Sriram (MOF)
Sent: June 2, 2017 3:39 PM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF)
Subject: RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Scott,

Thank you for sharing the Torys Memorandum, dated May 17, 2017, with us.

The structure was not finalized at the time we first reviewed the proposal. Based on the Memorandum, it appears that the type of structure is still being determined. If there has been progress in this regard, we would be happy to conference with Torys and OPG to discuss the appropriate next steps.

As the PILs relief sought appears to be appropriate given the policy objective, we would probably recommend amendments to ensure the structure is not subject to PILs. However, we would suggest that a ruling from the tax administration division may be appropriate in this case, provided the final structure is not subject to regular federal tax and if authority can be found in the existing legislation and regulations.

Our recommendation would depend on the type of structure that is ultimately selected and on other particulars such as the types of income that would be earned in the special purpose vehicle.

Regards,

Sriram

From: Nelms, Scott (MOF)
Sent: May 31, 2017 1:10 PM
To: Subrahmanyan, Sriram (MOF); Kwan, Ronald (OFA); Lewis, Robin (MOF); Kim, John (OFA)
Subject: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Hi Sriram, Ron,

Further to our conversations from earlier this spring, we received the following from OPG on its request for PILs exemptions relating to Ontario's Fair Hydro Plan. Please let me know if you have questions or comments. Torys and OPG have also asked whether we would like to set up a call in the next few days to discuss.

Thanks,
Scott

Scott Nelms
Electricity Investment and Governance Secretariat | Ministry of Finance
7th Floor | 375 University ave. | Toronto, ON
w: (416) 212-6469 | c: (647) 330-2681
scott.nelms@ontario.ca

From:	John Kim
To:	Gavin He
Subject:	FW: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions
Date:	Tuesday, June 06, 2017 8:59:00 PM
Attachments:	Memo re_ PILs Exemption.DOCX

Fyi, and pls. save the file.

From: Ronald Kwan
Sent: May-31-17 1:15 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Hi,

Just saw this.

Please review.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-31-17 13:10
To: Sriram Subrahmanyan (MOF) <Sriram.Subrahmanyan@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Hi Sriram, Ron,

Further to our conversations from earlier this spring, we received the following from OPG on its request for PILs exemptions relating to Ontario's Fair Hydro Plan. Please let me know if you have questions or comments. Torys and OPG have also asked whether we would like to set up a call in the next few days to discuss.

Thanks,
Scott

Scott Nelms
Electricity Investment and Governance Secretariat | Ministry of Finance
7th Floor | 375 University ave. | Toronto, ON
w: (416) 212-6469 | c: (647) 330-2681
scott.nelms@ontario.ca

TORYS LLP

MEMORANDUM

PRIVILEGED AND CONFIDENTIAL

To	Ontario Power Generation Inc.	**Date**	May 17, 2017
From	Torys LLP, Toronto Tax		
Re	Fair Hydro Plan – PILs Exemption		

As part of the Fair Hydro Plan (the "Plan"), it is expected that Ontario Power Generation Inc. will act as the financial services manager and that Ontario Power Generation Inc., or a wholly-owned corporate subsidiary of Ontario Power Generation Inc. (in either case, "OPG"), will establish one or more new financing entities that will raise debt to acquire "investment assets" from the IESO. A Bill to implement the Plan has been introduced to the Provincial Legislature [1] and there is flexibility under the Bill for the new financing entity to be a corporation, a trust, a limited partnership or a partnership.

We understand that the Province would like to minimize, to the extent possible, Federal and Provincial taxes and "payments in lieu of taxes" ("PILs") under the *Electricity Act, 1998* (Ontario) (the "OEA") payable by a financing entity as the costs of any of those taxes payable by a financing entity will be passed on to ratepayers through the collection of the clean energy adjustment under the Bill and the associated regulations. Accordingly, we understand that the Province is considering the possibility of making regulation changes to exempt the income arising as a consequence of the Plan from PILs. In order to assist the Province in their consideration of this regulation change, including the scope of any such amendment, we have set out below a summary of: (i) the tax treatment of the income of the financing entity under the *Income Tax Act* (Canada) (the "ITA"), the *Taxation Act, 2007* (Ontario) (the "OTA"), and the OEA, (ii) certain matters relating to the computation of the financing entity's income for tax purposes, and (iii) our recommendations with respect to how the Province can ensure that PILs arising from the Plan are minimized.

It is also important to note that Ontario Power Generation Inc. will not bear any of the tax costs arising as a consequence of participating in the Plan. If there are any tax costs, they will be borne by ratepayers through the clean energy adjustment.

---

[1] Bill 132, *An Act to enact the Ontario Fair Hydro Plan Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998*, 2nd Sess, 41st Leg, Ontario, 2017 (first reading May 11, 2017).

Tax Treatment of Income of Financing Entity

As noted above, there is flexibility in the draft legislation to implement the Plan relating to the form of a financing entity. What follows is a summary of the tax treatment of the income of the financing entity if it is a corporation, a trust or a limited partnership/partnership, as well as the tax treatment of amounts paid or allocated to OPG as a shareholder, beneficiary or a partner, respectively, of the financing entity:

Form of Financing Entity / OPG	Treatment of Income under ITA/OTA	Income Subject to PILs
Corporation	-Income of the corporation should be exempt from tax	Yes
OPG as shareholder of corporation[2]	-Dividends paid to OPG should be exempt from tax	Yes
Trust	-Income should be subject to tax, although the trust can reduce its income by the amount of its income which is paid or made payable to its beneficiaries	No
OPG as beneficiary of trust	-Trust income paid or made payable to OPG as a beneficiary should be exempt from tax	Yes
Limited Partnership/Partnership	-Limited Partnership/Partnership is not generally a "taxpayer" although income is computed at the partnership level and allocated to partners for tax purposes	No
OPG as partner of limited partnership/partnership	-Partnership income allocated to OPG as a partner should be exempt from tax	Yes

As summarized, if the financing entity is a corporation, the income of this corporation would be subject to PILs, and further, any amounts paid or allocated by the financing entity to OPG, as a shareholder, beneficiary or limited partner/partner of the financing entity, would similarly be subject to PILs. Consequently, any regulation change to exempt the income of the financing entity from PILs under the OEA should be broad enough to accommodate the three possible forms of financing entity and address PILs at both the financing entity level (in the case of a corporation) and the shareholder, beneficiary and limited partner/partner level.

[2] We note that corporations are generally entitled to claim a deduction under section 112 of the ITA (and any OTA equivalent) equal to the amount of taxable dividends received from another Canadian corporation, with the result that taxable dividends are generally not subject to tax under Part I of the ITA (and any OTA equivalent). To illustrate the scope of the PILs exemption under consideration by the Province, we have ignored this deduction in preparing this chart.

Income Computation Matters

As part of the Plan, it is expected that the financing entity will raise debt and acquire "investment assets" from the IESO. The investment assets do not appear to be debt instruments from a commercial perspective on the date they are acquired, but rather seem to be intangible assets. Given the unique nature of the investment assets, the tax analysis that is generally relied on by a financing entity in a typical securitization transaction (which involves interest-bearing debt obligations) is not applicable. There are no specific rules in the ITA or OTA which govern the manner which the investments assets should be treated for tax purposes, such that further analysis will need to be conducted in order to determine whether the investment assets are on income or capital account to the financing entity, and that the "cost" of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity.

In addition to the tax implications relating to the investments assets, the following additional matters, among others, are relevant in computing the income of the financing entity:

- In order to be deductible, an expense must satisfy the requisite income earning purpose test;

- Expenses which are owing to a non-arm's length person must be paid in a timely fashion so that the expense does not give rise to an income inclusion;

- Capital losses may generally only be offset against capital gains, such that consideration must be given to the character of the assets and liabilities of the financing entity to ensure there are no mismatches;

- If the financing entity incurs foreign-currency denominated debt, any related foreign currency hedging instrument will need to be sufficiently "linked" to the underlying debt to ensure capital treatment of the hedge; for example, if the period of the hedge does l not match the period of the related debt, the financing entity will realize gains or losses on the hedge that will not be offset with realized losses or gains on the debt; and

- If the financing entity is a trust, it will be necessary for interests in the trust to "vest indefeasibly" or be structured as units where at least 95% of the units, by fair market value, are redeemable on demand by the holder to ensure that the trust is not deemed to dispose of any capital property under the "21 year" rule.

Recommendations

In order to ensure that the taxes arising under the Plan are minimized so that the overall cost of the Plan (over its 30 or more years of existence) to ratepayers is minimized and to ensure that Ontario Power Generation Inc. is kept whole from tax costs arising as a consequence of participating in the Plan, the following exemptions from PILs are required:

1) If the financing entity is a trust: Any income paid or made payable to OPG by the trust should be exempt from PILs. If this PILs exemption is not promulgated, the income will

not be distributed out of the trust, tax will be payable by the trust on the income and the costs of that tax payable will be passed on to ratepayers through the clean energy adjustment. This will be a significant cost.

2) If the financing entity is a corporation: The corporate financing entity should be exempt from PILs and any dividends paid to OPG should be exempt from PILs. Again, if these PILs exemptions are not promulgated, no dividends will be paid to OPG and the costs of all PILs paid by the financing entity will be passed on to ratepayers through the clean energy adjustment. This will be a significant cost.

3) If the financing entity is a partnership or limited partnership, any income allocated to OPG should be exempt from PILs.

4) If the financing entity is any other form of special purpose vehicle, the income of such entity should be exempt from PILs and any income from such special purpose vehicle allocated, paid or taxable in the hands of OPG should be exempt from PILs.

From: Ronald Kwan
To: John Kim; Bruno Amara
Cc: Gavin He
Subject: FW: Rate Mitigation Implementation Meeting - June 1, 2017
Date: Wednesday, May 31, 2017 10:41:25 PM
Attachments: Agenda_Weekly Rate Mitig Implmentation Group_June 1.docx
2017 05 31 Outstanding Business Issues Ontario Fair Hydro Plan - v03.docx
Consolidated - OFHP Matrix - Week of May 29 Clean.docx

Hi,

See attached.

Ron

-----Original Message-----
From: Gadi Mayman
Sent: May-31-17 7:23 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: Fw: Rate Mitigation Implementation Meeting - June 1, 2017

Original Message
From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Wednesday, May 31, 2017 7:03 PM
To: Steen Hume (CAB); Kaili Sermat-Harding (ENERGY); Michael Reid (ENERGY); Carolyn Calwell (MCSS); Scott Nelms (ENERGY); "jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)'; 'Rosemaire Leclair'; 'Mary Anne Aldred (maryanne.aldred@ontarioenergyboard.ca)'; 'Campbell, Bruce (bruce.campbell@ieso.ca)'; 'Kim Marshall (Kim.Marshall@ieso.ca)'; Scott Thompson (CAB); Helen Angus (MOHLTC); Steven Davidson (MTCS); 'Martine Band'; 'CROZZOLI Carlo -CBUSDEV&STRT'; Gadi Mayman; 'LEE John -TREASURY'; Karen Hughes (MGS); Veinot, Cindy (TBS)
Cc: Serge Imbrogno (ENERGY); Andrew Teliszewsky (ENERGY); Matt Whittington (ENERGY); Baker, Carys (ENERGY); Kyle MacIntyre (MOF); David McLean (MOF); Robert Foster (MOF); 'jordan.penic@ieso.ca'; 'sarah.branco@ontarioenergyboard.ca'; 'Turnevicius, Lorraine'; 'catriona.king@opg.com'; Francesca Bungaro-Yemec (ENERGY); Feather, Adam (ENERGY); Hilary Cox (ENE); Erin Thompson (ENERGY)
Subject: Rate Mitigation Implementation Meeting - June 1, 2017

Good evening,

Please find attached the material for discussion tomorrow morning.

Thanks,
Martin

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
June 1, 2017

Agenda

1) GA Refinancing
    - Committee Debrief (LSB)
    - Regulation Drafting (Energy / All)
    - Critical Paths (OPG / IESO / OEB)
    - Comparison of Clean Energy Adjustment to Debt Retirement Charge (OFA)
    - Draft Provincial Guarantees for Dealers (OPG/OFA)
    - Business Item (OPG/IGS)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

Outstanding Business Issues – Ontario Fair Hydro Plan

Briefing Note

PURPOSE

Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Provincial Support Agreement Term Sheet (Performance and Payment Guarantees)**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA have discussed a draft term sheet and the OFA, MOF and Blakes will work together to provide comments
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July.

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - Provincial staff, with OPG's concurrence, recommends minimizing, to the extent possible, the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers.
   - The Province is considering regulation changes to exempt from PILs the income arising to the OPG financing vehicle / OPG as a consequence of the Fair Hydro Plan.
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity.
   - **Next Steps:**
     - The MOF, OFA and OPG are working together to determine required regulation changes.
     - Torys prepared a memo on the item
     - Timing: MOF will be setting up a call with tax policy, OPG and Torys to discuss a memo Torys prepared on the item in the next few days

3. **Fair Hydro Plan - Master Subscription Agreement Term Sheet (Equity Injection Process)**
    - OPG will require equity injections on a monthly basis, to match the timing of the purchase of the IESO regulatory asset, as applicable, in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province.
    - The Ministry of Energy received appropriation for a fiscally-neutral operating asset expenditure of $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT.
    - **Next Steps:**
        - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process, which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
        - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June.

4. **Management Fees**
    - OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
    - The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations, which are currently in development.
    - OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements.
    - There are two components to the model proposed by OPG:
        - Base fee: the structure will allow OPG to earn a commercial fee, an accounting consolidation requirement, with periodic OEB review of the commercial basis of that fee. OEB and OPG are in discussions in order to develop a model that satisfies the accounting requirements and is consistent with OEB's processes.
        - Performance management fee: OPG has the ability to gain or lose depending on the actual financing cost relative to a benchmark, which would be shared equally between ratepayers and OPG. Gain/loss is capped at 1% of annual incremental issuance amount.
    - **Next Steps:**
        - OPG and OEB will bring forward a recommended framework for developing management fees.
        - Timing: TBD

5. **Subordinated Debt Loan Agreement**
    - OPG will lend the equity injection from the Province to the Fair Hydro Trust by way of subordinated debt

- Based on monthly funding requirements of the GA asset, the Trust will use short term financing and take out bonds once short term funding reaches certain levels
- OPG and OFA are working on a Debt Loan Arrangement that would establish the interest rates on the subordinated debt
- **Next Steps:**
    - OPG and OFA will bring forward a recommended framework for determining interest rates
    - Timing: TBD

6. IESO – Increased OFA Credit Facilities

- THE OPG financing entity is not expected to be immediately operational, so the IESO will need to have transitional financing in place to manage the difference in the payments to generators and other service providers vs payments from loads / LDCs.
- There may also be on-going monthly cash flow timing differences that the IESO will need a credit facility for.
- In addition, the OPG financing entity has the right to purchase the regulatory asset from IESO but is not required to purchase it.
- IESO is working with the OFA to increase the credit facilities in the event that the OPG financing entity does not purchase the regulatory asset
- **Next Steps:**
    - OFA is drafting a new agreement for a $2 billion credit facility for the OFA to lend funds to IESO for FHP purposes. Concurrently, the OFA is seeking the Minister's approval for an LRC submission to approve an OIC for an additional $2 billion in borrowing capacity, as well as a Directive from the Minister of Finance, which are both necessary for the OFA to lend funds to IESO under the requested new Credit Facility.
    - Timing: The OIC is scheduled for the June 27, 2017 LRC meeting. The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017

7. OPG Indemnity

- OPG (and IESO) are asking for the Province to indemnify the IESO, OPG (the entities) and their respective directors, officers and employee in order to allow them to carry out their roles in implementing the Ontario Fair Hydro Plan and primarily the Global Adjustment refinancing.
- Indemnification will need to ensure separation between the Province and OPG is maintained
- **Next Steps:**

- Staff in Ministry of Finance and Treasury Board Secretariat have received initial documents and are currently reviewing.
- Depending on the structure of the indemnity requested, an OIC may be required to provide authority to the Minister of Finance
- Timing: If an OIC is required this would be included in the June 27th, 2017 submission

Attachment Consolidated - OFHP Matrix - Week of May 29 C.docx (285465 Bytes) cannot be converted to PDF format.

From:	John Kim
To:	Bruno Amara
Subject:	FW: Rate Mitigation Implementation Meeting - May 18, 2017
Date:	Friday, May 19, 2017 6:29:02 AM
Attachments:	Action Items_May 18.docx

If we could do a full analysis on this pls.

John

From: Ronald Kwan
Sent: May-19-17 1:22 AM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: Rate Mitigation Implementation Meeting - May 18, 2017

Hi John,

Note the point on "OFA to work on analysis of comparison of clean energy adjustments to Debt Retirement Charge."

Ron

From: Gadi Mayman
Sent: May-18-17 8:16 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: Fw: Rate Mitigation Implementation Meeting - May 18, 2017

I wasn't at the meeting today. I'll forward Scott Nelms' report when he sends it.

Gadi

From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Thursday, May 18, 2017 6:53 PM
To: Steen Hume (CAB); Kaili Sermat-Harding (ENERGY); Michael Reid (ENERGY); Carolyn Calwell (MCSS); Scott Nelms (ENERGY); Tim Christie (ENERGY); ''jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)'; 'Rosemaire Leclair'; 'Mary Anne Aldred (maryanne.aldred@ontarioenergyboard.ca)'; 'Campbell, Bruce (bruce.campbell@ieso.ca)'; 'Kim Marshall (Kim.Marshall@ieso.ca)'; Scott Thompson (CAB); Helen Angus (MOHLTC); Steven Davidson (MTCS); 'Martine Band'; 'CROZZOLI Carlo -CBUSDEV&STRT'; Gadi Mayman; 'LEE John -TREASURY'
Cc: Serge Imbrogno (ENERGY); Andrew Teliszewsky (ENERGY); Matt Whittington (ENERGY); Baker, Carys (ENERGY); Kyle MacIntyre (MOF); David McLean (MOF); Robert Foster (MOF); 'jordan.penic@ieso.ca'; 'sarah.branco@ontarioenergyboard.ca'; 'Turnevicius, Lorraine'; 'catriona.king@opg.com'; Francesca Bungaro-Yemec (ENERGY); Feather, Adam (ENERGY); Hilary Cox (ENE); Erin Thompson (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting - May 18, 2017

Please find attached action items from today's meeting.

From: Schlaepfer, Martin (ENERGY)
Sent: May 17, 2017 7:09 PM
To: Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Reid, Michael (ENERGY); Calwell, Carolyn (ENERGY/MEDEI/MRI); Nelms, Scott (MOF); Christie, Tim (ENERGY); ''jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)'; 'Rosemaire Leclair'; 'Mary Anne Aldred (maryanne.aldred@ontarioenergyboard.ca)'; 'Campbell, Bruce (bruce.campbell@ieso.ca)'; 'Kim Marshall (Kim.Marshall@ieso.ca)'; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); 'Martine Band'; 'CROZZOLI Carlo -CBUSDEV&STRT'; Mayman, Gadi (OFA); 'LEE John -TREASURY'
Cc: Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); MacIntyre, Kyle (TBS); McLean, David (MOF); Foster, Robert (CAB); 'jordan.penic@ieso.ca'; 'sarah.branco@ontarioenergyboard.ca'; 'Turnevicius, Lorraine'; 'catriona.king@opg.com'; Bungaro-Yemec, Francesca (ENERGY)
Subject: Rate Mitigation Implementation Meeting - May 18, 2017

Good evening,

Please find attached the material for discussion tomorrow morning.

Thanks,
Martin

Action Items – May 18

1) GA Refinancing
    - Ministry working on motions which need to be filled a week from today. Draft motions to be shared early next week.
    - Ministry also working on regulations for mid and end of June timelines
    - OPG to set up SPV after regulations in June, which requires rating agencies review expected by the end of July
        - Documents will include commentary on credit worthiness
        - Potential engagement of Moody's/S&P/DBRS
    - Agencies (OPG/IESO/OEB) to provide critical paths for the next meeting
    - OPG to go to the market in Sept/Oct
    - IESO letter went to OFA to request $2.5B total credit
    - IESO expecting purchase and sale agreement by end of June
    - IESO memo and KPMG accounting opinion has been delivered to Ministry
    - OPG memo and E&Y accounting opinion has been delivered to Ministry
    - IESO is producing a document to respond to AG questions – to be shared with TBS for review
    - IESO to offer FAO separate meeting with KPMG (FAO declined)
    - FAO report to be provided to MO on Tuesday morning and be released on Wednesday at 9AM
    - OFA to work on analysis of comparison of clean energy adjustments to Debt Retirement Charge
    - Indemnities for Boards are tracking forward to be in place when legislation comes into force
    - Guarantees for dealers are still being explored and to be done in conjunction with rating process
        - Time is required to appropriately brief decision makers
        - OPG to provide draft version of Term Sheet to Ministry of Energy

2) Other OFHP Initiatives
    - RRRP, OESP and FN:
        - Ministry working on regulation details
        - OESP regulations will be the focus of the post-July 1 work stream
        - Products for both June 14
        - Ministry working with 5 Chiefs to determine the qualification of FN rebate based on existing processes
        - Ministry working to minimize number of individuals who qualify for credits but don't receive them on July 1
        - OEB calculation needs to be completed 15 business days from Royal Assent
    - Affordability Fund:
        - Waiting for social service agencies to respond
    - ICI:
        - No update

3) A Plan for Monitoring / Oversight
    - Ministry to develop implementation road map to track and ensure alignment of different work streams

From: John Kim
To: Emily Kerr
Subject: FW: Revised Electricity Assessment Note
Date: Monday, June 12, 2017 9:04:41 PM
Attachments: OFHP Regulations RAN - draft v3.doc
TB Sub _OFHP Report Back_June 12.docx

Hi Emily,

They are asking for comments for tomorrow. Let me know if you have comments/edits.

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: June-12-17 8:31 PM
To: Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Hindmarch-Watson, Tim (CAB) <Tim.Hindmarch-Watson2@ontario.ca>
Cc: Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Afshin Malekzadeh (MOHLTC) <Afshin.Malekzadeh@ontario.ca>
Subject: FW: Revised Electricity Assessment Note

Hi Everyone – Please see the attached draft assessment note for the electricity reg's tracking to TB/MBC tomorrow. I'd appreciate any input or feedback by first thing tomorrow. As you can see in the below chain, we've also simultaneously shared the latest version with senior management so the note is subject to change.

OPCD/TBS Legal – We've left placeholders in the risk section for accounting and legal risks. I am hoping that risks from previous assessment notes can be re-purposed and used for this note (assuming they haven't been mitigated). Frankly, I just didn't know which ones were the most important to flag. Please let me know if you have any concerns.

Thanks and happy to discuss.

Chris

From: Skubel, Chris (TBS)
Sent: June-12-17 8:27 PM
To: Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Cc: Dutton, Andrea (TBS); Malekzadeh, Afshin (TBS)
Subject: Revised Electricity Assessment Note

Hi Everyone – Please see the attached revised electricity note taking into consideration the conversation at today's re-group.

For the financial risks, we were unable to locate any material that spoke about the source of data or assumptions that supports the voted appropriation estimates for the social programs. As such, we haven't been able to address Karen's concern on documenting the assumptions behind the financials. We'll continue to look.

Please let me know if Maria, Cindy or Karen have any further comments on the material. Also, sharing the latest draft of the submission with tracked changes from the version shared this morning.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	June 13, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – May 9, 2017	**Tracking to: Fast Track** LRC & Cabinet – June 14, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan – Regulations Part 1

I. DECISION BEFORE THE BOARD

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval

II. RECOMMENDATIONS:

• Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval including: o Global Adjustment Refinancing; o Electricity Social Programs; and, o Bill Presentment.	*Receive*
• Proposed regulations: o Note key aspects of proposed regulations; o Recommend proposed regulations; and, o Direct the Ministry to return to TB/MBC with any additional regulations with financial implications supporting implementation of the Ontario Fair Hydro Plan prior to proceeding to LRC.	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o The details of additional proposed regulations with financial implications prior to proceeding to LRC; and, o An update on previously minuted report back requirements.	*Direct*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Global Adjustment Refinancing*	0.0	0.0	0.0
	Electricity social programs – RRRP/DRP^	344.0	472.0	484.0
	Electricity social programs – FNDC^	15.0	20.0	20.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.

^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017 which includes refinancing a portion of the Global Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

In May 2017, the Ministry reported back to TB/MBC with an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

Proposed Regulations

The proposed regulations are the next step in implementation of the OFHP and would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016,* and the *Fair Hydro Plan Act, 2017*.

Implementation of Global Adjustment (GA) Refinancing

On March 2, 2017, as part of OFHP, it was announced that a portion of the GAs would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The Ministry is proposing a new regulations and amendments to existing regulations that would (for example):

- Define the typical consumer upon which the calculations to achieve the reduction will be based;
- Support the required calculations related to refinancing the GA which will implement rate reductions for the typical residential consumer; and,
- Authorize the Independent Electricity System Operator to borrow to fund the regulatory asset.

The Ontario Energy Board will calculate the electricity rates that consumers will pay as of July 1, 2017.

Delivery of Electricity Social Programs

To date, a number of electricity support programs exist and there is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base (including high distribution cost, low income and first nations on-reserve customers).

The Ministry is proposing new regulations and amendments to existing regulations to support the implementation, establish frameworks and clarify program details for the new and enhanced social programs which will be effective July 1, 2017.

Local Delivery Companies will be reimbursed for credits provided via social programs to customers by IESO, which is subsequently reimbursed by the Ministry's voted appropriation.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. The proposed new regulations and regulatory amendments will (for example):

- Identifies who is eligible for RRRP funding (Hydro One R2 customers);
- Establishes the DRP to complement RRRP whereby eligible residential customers would have their monthly base distribution charges held to a maximum amount (it is estimated that ~800,000 customers will benefit); and,
- Identifies the LDC's whose customers are eligible for enhanced protection.

On-Reserve First Nations Delivery Credit (FNDC)

The program will be available to on-reserve customers serviced by licensed distributors and would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The proposed new regulations and regulatory amendments will (for example):

- Set out the program particulars including eligibility for the program (it is estimated that ~21,000 customers will benefit);
- Limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs; and,
- Provides a transitional period for LDCs to deliver the rate assistance.

Bill Presentment

The Ministry is proposing new regulations and amendments to existing regulations to support transparency and communications of the changes made under the OFHP on consumer invoices.

See Appendix F for additional details on the proposed regulations.

Analysis/Risks

Financial

- The financials submitted by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board (OEB). TB/MBC has requested the details of the forecasting models and costing estimates including assumptions.

$M	2017-18	2018-19	2019-20	2020-21
Rural or Remoate Rate Protection (RRRP)	344	472	484	497
On-Reserve First Nations Delivery Credit (FNDC)	15	20	20	20
Total	**359**	**492**	**504**	**517**

- The regulatory amendments do not result in a fiscal impact however the Ministry notes it is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The social programs allocations are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis, which would allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives, has been requested by TB/MBC to support better decision making and support meeting the government's fiscal targets.

- Lastly, there are no sunset dates for the programs and it is important to understand the full cost of the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22.

Accounting

- *Placeholder for accounting issues… [OPCD]*

Legal

- *Placeholder for legal issues… [TBS Legal]*

The Ministry has also reported back with an update to key risks including mitigation strategies (see Appendix G). In addition, the Ministry has also sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY), and launched third party technical analysis to assist with implementation of GA refinancing.

Additional Report Backs

To continue to implement the OFHP, the ministry will be returning to TB/MBC on June 27, 2017 with part 2 of the report back on the creation and amendment of regulations (related to Global Adjustment and the Ontario Electricity Support Program) prior to proceeding to LRC including an update on previously minuted report back requirements.

Name of analyst:	Chris Skubel/ Afshin Malekzadeh	**Phone number:**	416-327-2151
Date:	June 13, 2017	**Log number:**	
Branch / Division:	GGPR / PEMD / Treasury Board Secretariat		

APPENDIX A: PROPOSED MINUTE

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval.

In this regard, the Board:

i) Note that the proposed regulatory amendments include the following program parameters:

Electricity Social Programs:

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary;
b) Hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit; and
c) Sets out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    a. Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Limits eligibility to 11 affected LDCs serving on-reserve consumers identified by the OEB including: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

Implementation of GA Refinancing:

a) Support the required calculations to be made by the Ontario Energy Board (OEB);
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,
d) Provides provide the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC on the details of additional proposed regulations with financial implications prior to proceeding to LRC.

iv) Direct the Ministry to report back to TB/MBC on June 27th with an update on previously minuted report back requirements.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: OFHP OVERVIEW

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

APPENDIX D: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

v) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

d) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
e) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
f) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
g) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

e) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
f) Requirement for future consumers to pay the clean energy adjustment that backs financings.
g) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
h) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
i) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
j) Sets out that security interests can be granted in investment interests in the investment asset.

vi) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

vii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

viii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different

demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.

b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.

d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

ix) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the broadened program now government funded
- Report on and assessment of impacts of consolidation of LDCs
- Assessment of distribution rates and implications for the program

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

- Identify eligibility criteria, and refinements being made.
- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

x) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX F: DETAILS OF PROPOSED REGULATIONS

Partial Refinancing of the GA

The Ministry is proposing new regulations that would support the implementation of refinancing the GA including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the *Ontario Fair Hydro Act, 2017*.

The ministry is also proposing amendments to an existing regulation to authorize Independent Electricity System Operators to borrow for the purposes of funding the regulatory asset, including borrowing from the Ontario Financing Authority.

Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The *Fair Hydro Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, making the escalating factor unnecessary.

The ministry is proposing a new regulation to create a government funded DRP program. The regulation establishes a mechanism for the Ontario Energy Board (OEB) to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

The *Ontario Fair Hydro Plan Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program.

The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. It is estimated that as many as ~7000 eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program as they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under *Ontario Rebate For Electricity Consumers Act, 2016*, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.
If the required regulations are approved, the program would be in effect July 1, 2017.

Ontario Electricity Support Program

Additional regulatory amendments will be forthcoming in late June 2017.

Bill Presentment

The ministry is proposing to create new regulations under the *Ontario Fair Hydro Plan Act, 2017* that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.

- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.

- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments message. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017. The requirement for Hydro One to provide an on-bill message related to RRRP (which has become out-of-date with these program updates) is also repealed with proposed amendments. For clarity, Hydro One would not be exempt from including the messaging related to OFHP.

In anticipation of these new OFHP invoicing requirements, the ministry has made an amendment to revoke the “8% provincial rebate” messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an “8% Provincial Rebate” line item remains.

APPENDIX G: UPDATE ON RISKS AND MITIGATION STRATEGIES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **<u>Update:</u>** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **<u>Update:</u>** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **<u>Update:</u>** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **<u>Update:</u>** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

June 13, 2017

CONFIDENTIAL
MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back with updates to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

2.0 PURPOSE OF REQUEST

On May 31, 2017, Bill 132, the *Fair Hydro Act, 2017* (*FHA*), which enables Ontario's Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017*, (*OFHPA*) and the implementation of electricity social program-related amendments to the *Ontario Energy Board Act, 1998*, was passed by the legislature.

- The OFHPA will lower bills by 25 per cent for a typical residential consumer, starting July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to half a million small businesses and farms would also benefit.

- OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

  Note: These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on electricity bills for consumers.

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (*OEBA*); and

- Schedule 2 – includes the electricity social program-related amendments to the *OEBA.*

CONFIDENTIAL

On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

On May 9, 2017, as part of its *FHA* review, TB/MBC requested that the Ministry report back on key updates and the details of the proposed regulations that would support OFHP.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review a first package of proposed regulation and amendments and on June 27, 2017, a second package of regulations. These are necessary to ensure that the 25 per cent reduction on electricity bills is in place by July 1, 2017.

The new *OFHPA* and the proposed regulations and amendments described throughout, along with the independent accounting analysis, legal support and technical analysis and future financial agreements (i.e., expected to be reached and signed in fall 2017) should together mitigate the financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission and the May 9, 2017 TB submission.

1. Implementation of GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity price~~s~~ increas~~esing~~.

On March 2, 2017, as part of OFHP, it was announced that a portion of the Global Adjustment (GA) would be refinanced in order to more fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Under the *OFHPA* which enables GA Refinancing, electricity bills of typical residential consumers would be reduced by 25 per cent starting in July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

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Proposal

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II of the *Ontario Fair Hydro Plan Act, 2017* which is under Schedule 1 of the *Fair Hydro Act, 2017;* and
- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the Electricity Act, 1998.

On June 27, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation:

- Creating a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Act, 2017*.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financ~~ing~~iers (i.e., dealers);

- On June 1, 2017, the *OFHPA*, which enables GA refinancing and responds to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission, received Royal assent. Note: The Ministry has also prepared regulations to support implementation (as noted above);

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched third party technical analysis to assist with implementation of GA refinancing.

2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

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These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.

- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.

- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

In addition to amending two existing regulations and introducing two new regulations to roll out the social programs, the Ministry is also making several consequential amendments to other regulations and introducing a new invoicing regulation under the *Fair Hydro Act, 2017*. These changes include:

- Creating a new Invoicing Regulation made under the Ontario Fair Hydro Plan Act, 2017.

- Amending the O. Reg 363/16 (General) under the *Ontario Rebate for Electricity Consumers Act, 2016.*

- Amending O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) made under the *Ontario Energy Board Act, 1998.*

<u>Proposal</u>

The Government introduced legislation and is now developing regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy

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program of the old Ontario Hydro and has existed in its current form since 2001.

The new legislation enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers~~. The regulation will also prescribe the monthly amount of rate protection available to Hydro One R2 customers through RRRP.~~
(R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province).

Proposed amendments to O. Reg 442/01 would provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and would remove the escalating factor, as provisions under the new section 79.3 under the OEBA provides benefits in addition to RRRP for Hydro One's R2 customers, making the escalating factor unnecessary.

New benefits under section 79.3 of the OEBA would hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit.

Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher distribution cost LDCs.

The new legislation enables tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. Eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province.

The proposed prescribed distributors are:

- Atikokan Hydro Inc.
- InnPower Corporation
- Chapleau Public Utilities Corporation
- Sioux Lookout Hydro Inc.
- Northern Ontario Wires Inc.
- Lakeland Power Distribution Ltd. (Parry Sound Rate Zone)

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- Algoma Power Inc. (residential)
- Hydro One Networks Inc. (Low & medium density classified customers)

~~(as well as six additional higher-distribution cost LDCs).~~

The regulation will set out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers. In future years, this harmonized monthly charge, by design, cannot decrease as it adjusts to reflect the higher of either the lowest rate LDC in the program, or the maximum monthly charge of the previous year, as determined by the OEB.

On-Reserve First Nations Delivery Credit

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The legislative amendments to the *Ontario Energy Board Act, 1998*, are premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers as prescribed in regulation. Eligibility is restricted to those residential rate class First Nations customers who are members of a band as defined under the federal *Indian Act* ~~(Canada)~~.

The regulation does not stipulate any process for identifying on-reserve customers eligible for the credit but rather allows LDCs the flexibility to continue using their existing HST exemption processes.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of RRRP available to Hydro One R2 customers for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB currently sets the amount of the charge that recovers the cost of RRRP from all Ontario electricity customers. Once the regulatory mechanism

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is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. The regulation will also contain transition provisions to bridge the transition from rate payer funding to provincial funding, as well as mechanisms for sharing of information and funding flows. Change to the funding structure of the program does not require any additional implementation risks or efforts.

Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers will be prescribed in regulation. The regulation will prescribe the process by which the Ontario Energy Board would determine a maximum monthly distribution charge for prescribed customers of prescribed high-cost LDCs.

Affected LDCs would be impacted through the efforts required to adjust their billing systems in order to carry out the program. There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017. The regulation will also contain mechanisms for sharing of information and funding flows.

On-Reserve First Nation Delivery Credit

The new regulation will set out the program particulars including eligibility for the program. The regulation limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs. The 11 affected LDCs serving on-reserve consumers identified by the OEB in its report include: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017.

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Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.
11 affected LDCs will need to alter their billing systems to reflect the regulatory requirement to include a First Nations Delivery Credit line item on the bill directly below the delivery charge, or blended rate if applicable.

3.0 KEY CONTEXT

On June 1, 2017, the *Fair Hydro Act, 2017*, the legislation to enable the Ontario Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) received Royal assent. The OFHPA will reduce the electricity bills of typical residential consumers by 25 per cent starting in summer 2017. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

The Ministry's report back and update to TB/MBC focuses on the following OFHP initiatives:

1) Implementation of GA Refinancing:

Under the *OFHPA*, a portion of the GA would be refinanced in order to more fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Today's electricity consumers have been bearing disproportionate cost responsibility for the investments in developing the clean, modern and reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. The legislation recognizes the long-term benefit of clean energy investments to more appropriately allocate costs into the future to account for long-term benefits.

Refinancing a portion of GA would provide significant and immediate rate relief to electricity consumers that have been burdened with the costs of the necessary investments that have been made to decarbonize and modernize the province's electricity infrastructure, by spreading the cost of electricity investments so that they are shared proportionately by future consumers who cause a need for or benefit from the province's multi-billion dollar investments in electricity infrastructure.

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To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financiersing (i.e., dealers);

- Developed the *Fair Hydro Act, 2017* which enables the OFHP under the *Ontario Fair Hydro Plan Act (OFHPA), 2017*, to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: On June 1, 2017, the *OFHPA* received Royal assent.

- Developed supporting regulations which further contribute to the implementation of the OFHP under the legislation;

    - One new regulation and one amendment to existing regulation is due to go to the June 14, 2017 LRC/Cabinet; and

    - A further new proposed regulation is due to go to the June 27,2017 LRC/Cabinet – a draft of this proposed regulation will be available as part of that LRC package.

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched a third party technical analysis project to assist with implementation of GA refinancing.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II under the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*:
    - The Ministry of Energy is seeking LRC approval to create a new Regulation under the *Ontario Fair Hydro Plan Act* (*OFHPA*) to support the required calculations to be made by the Ontario Energy Board (OEB) under Part II of that Act (sections 6-12).
    - The proposed regulation outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP)) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.
    - The proposed regulation sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April

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30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments to the Part II regulation.

- In addition, the proposed regulation also sets out that customers of unit sub-meter providers (USMPs) would receive a proportionate share of near-term OFHPA reductions.
- If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.
- For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary. Note: Consumers not paying RPP would also receive GA refinancing if they meet the other criteria defined in the OFHPA under "specified consumers" in the OFHPA. These include consumers that have opted-out of RPP to sign contracts with electricity retailers or become wholesale consumers and those who are eligible for *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA), but not RPP, such as long-term care homes.
- In accordance with the *Ontario Fair Hydro Plan Act,* the OEB will determine the adjustment to be made to the GA charge on eligible non-RPP consumers' bills, effective July 1st. Electricity vendors will be expected to ensure the adjustment is reflected on their customers' bills as soon as possible, and to make retroactive payments where necessary.

- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*:
  - The Ministry of Energy is seeking LRC approval to amend O.Reg. 280/14 in response to the *OFHPA* and related regulations.
  - The proposed amendments would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its *OFHPA* activities, including the funding, borrowing and financial arrangements contemplated under the *OFHPA*. The IESO would be responsible for selling specified portions of the regulatory asset to OPG's financing entities, and to fund the IESO monthly deferrals which are to commence July 1, 2017, as provided for under section 23 of the OFHPA.
  - The additional authority set out in the proposed amendments to O.Reg. 280/14 would enable IESO to borrow amounts to fund the above-noted deferrals related to GA refinancing.

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- IESO would be expected to amend its Statement of Borrowing in a manner consistent with the amended regulation, once approved.

- On June 27, 2017, to further support implementation of OFHP, LRC / Cabinet will review a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Plan Act*, 2017.

2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

The government will identify Hydro One R2 customers, by regulation, as having RRRP funded through appropriated funds.

Distribution Rate Protection

The new Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, was established through legislative amendments under the *Fair Hydro Act, 2017*. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhanced protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

The regulation prescribes eligibility to all First Nation residential rate class customers living on-reserve. First Nations customers are ~~p~~prescribed in regulation as account holders who are members of a band as defined by the federal *Indian Act* ~~(Canada)~~.

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There are 11 LDCs identified by the OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 residential customers may be eligible.

The credit will automatically apply to the bills of those customers who have already registered with their LDC as HST exempt. Customers who have yet to register with their LDC will need to identify themselves to their LDC in order to receive the benefit.

The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), has crafted the policy in a manner which best reflects the needs and wishes of Ontario's many varied indigenous communities. COO has also developed a Communiqué to send out to all First Nation Chiefs to encourage them to make sure their members are receiving the HST exemption from their LDC. COO will finalize the Communiqué and release in June.

Roles and Responsibilities

Rural or Remote Rate Protection

The roles and responsibilities of the ~~Board~~ OEB remains the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The ~~Board~~ OEB would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would ~~once again need to appropriate~~be responsible for appropriating money from the legislature to cover the costs of administering the program.

On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers.

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4.0 BACKGROUND

Legislation to Implement Ontario's Fair Hydro Plan

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEBA); and

- Schedule 2 – includes the electricity social program-related amendments to the *Ontario Energy Board Act, 1998.*

On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

Legislation to Implement GA Refinancing

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the *Ontario Fair Hydro Plan Act, 2017* outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;

- A detailed Preamble, Purpose and Definitions;

- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;

- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and

- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

The legislation defines the mechanisms and framework that would achieve the refinancing of the GA.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the legislation.

To support the implementation of GA refinancing under the *Fair Hydro Act, 2017*, the Ministry has developed supporting regulations:

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- Ontario Regulation made Under Part II of the *Fair Hydro Act, 2017* ("the Part II Reg.") – sets out in detail the methodology that the Ontario Energy Board will use to make determinations under the *OFHPA*.

- Amendment to O. Reg. 280/14 to be made under the *Electricity Act, 1998* ("IESO Eligible Investments and Borrowing Reg.") – provides IESO with the necessary authority related to its OFHPA activities including the funding, borrowing and financial arrangements contemplated under the *OFHPA*.

- Ontario Regulation to be made under the *Fair Hydro Act, 2017* ("the General Reg.") – will provide for the implementation of the roles and responsibilities of the Financial Services Manager and IESO in relation to the refinancing of GA. Note: The General Reg. will be brought forward to LRC/Cabinet on June 27, 2017.

Social Programs

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.

- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.6 million.

- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.

- These customers still have high distribution costs and are often faced with significantly higher than average bills.

The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

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Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Legislative amendments under the Fair Hydro Act broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the majority of the existing RRRP program costs to the tax-base and funding all of the broadened distribution rate protection enhancements from the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

5.0 TIMING

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Under the *OFHPA*, a portion of the GA will be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

On April 20, 2017, OEB announced that it adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing.

If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.

The OEB must make a determination of RPP rates no later than 15 days from June 2nd, 2017, when the legislation received Royal Assent. As stipulated in the Act, these RPP rates would come into effect as of July 1, 2017.

For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

The Part II regulation lays out the methodology for the OEB to calculate electricity rates for consumers eligible for GA refinancing. As such it has not financial impact.

2) Social Programs:

As reported in the TB/MBC submission of May 9, 2017 and as approved in the TB/MBC submission of March 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution

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company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board. Cost forecasts are subject to some uncertainty surrounding consumer uptake, future consumption levels, and future rates as set by the OEB.

Subsequent to the development of the above financial impacts for RRRP/DRP, Hydro One Networks Inc. submitted a distribution rate application to the OEB for rates effective 2018-2022. ENERGY is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application. Note that final Hydro One rates are not expected until 2018, as the application is subject the OEB's rate setting process and the review is expected to take at least 8 months.

Per the Regulations, the Ministry has the authority to request social program costs forecasts from the OEB.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16, April 19, and May 17, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation. The Ministry has also held separate engagements with LDCs in particular to the social programs.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, May 23, and June 1 to discuss implementation.

8.0 RISK ASSESSMENT AND MITIGATION – UPDATES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-party financial advisors in advance of and throughout the drafting process to help to

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:**

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• The legislation was developed with input of third-party financiers (i.e., dealers) to ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **<u>Update:</u>** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset,

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **Update:** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the legislation is modelled on frameworks used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

10.0 PERFORMANCE MEASURES

The proposed new regulation under *OFHPA* outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.

The proposed amendments to O. Reg. 280/10 would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its OFHPA activities, including the funding, borrowing and financial arrangements contemplated under the OFHPA

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. This is the primary success metric for these programs. In future report backs, the Ministry will include the presentation of data collected through the IESO reporting portals to demonstrate the impact of these programs on customers. The Ministry will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing. Energy is also working with the Ministry of Community and Social

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Services on expanding program participation. Regulatory amendments needed to implement those policy objectives will be brought forward to the next LRC.

Ontario's Fair Hydro Plan also included a commitment to work with the OEB to drive distribution sector efficiencies within LDCs over the long-term. The Ministry is developing its policy approach to achieving these efficiencies, including potentially through LDC consolidation, through the Long-Term Energy Planning process.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

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From:	John Kim
To:	Ronald Kwan
Cc:	Deena Padamadan
Subject:	FW: Revised Electricity Assessment Note
Date:	Monday, June 12, 2017 9:00:19 PM
Attachments:	OFHP Regulations RAN - draft v3.doc TB Sub_ OFHP Report Back_June 12.docx

Fyi. I will see if there are opportune places to add comments.

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: June-12-17 8:31 PM
To: Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Hindmarch-Watson, Tim (CAB) <Tim.Hindmarch-Watson2@ontario.ca>
Cc: Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Afshin Malekzadeh (MOHLTC) <Afshin.Malekzadeh@ontario.ca>
Subject: FW: Revised Electricity Assessment Note

Hi Everyone – Please see the attached draft assessment note for the electricity reg's tracking to TB/MBC tomorrow. I'd appreciate any input or feedback by first thing tomorrow. As you can see in the below chain, we've also simultaneously shared the latest version with senior management so the note is subject to change.

OPCD/TBS Legal – We've left placeholders in the risk section for accounting and legal risks. I am hoping that risks from previous assessment notes can be re-purposed and used for this note (assuming they haven't been mitigated). Frankly, I just didn't know which ones were the most important to flag. Please let me know if you have any concerns.

Thanks and happy to discuss.

Chris

From: Skubel, Chris (TBS)
Sent: June-12-17 8:27 PM
To: Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Cc: Dutton, Andrea (TBS); Malekzadeh, Afshin (TBS)
Subject: Revised Electricity Assessment Note

Hi Everyone – Please see the attached revised electricity note taking into consideration the conversation at today's re-group.

For the financial risks, we were unable to locate any material that spoke about the source of data or assumptions that supports the voted appropriation estimates for the social programs. As such, we haven't been able to address Karen's concern on documenting the assumptions behind the financials. We'll continue to look.

Please let me know if Maria, Cindy or Karen have any further comments on the material. Also, sharing the latest draft of the submission with tracked changes from the version shared this morning.

Thanks,

Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	June 13, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – May 9, 2017	**Tracking to: Fast Track** LRC & Cabinet – June 14, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan – Regulations Part 1

I. DECISION BEFORE THE BOARD

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval

II. RECOMMENDATIONS:

• Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval including: o Global Adjustment Refinancing; o Electricity Social Programs; and, o Bill Presentment.	*Receive*
• Proposed regulations: o Note key aspects of proposed regulations; o Recommend proposed regulations; and, o Direct the Ministry to return to TB/MBC with any additional regulations with financial implications supporting implementation of the Ontario Fair Hydro Plan prior to proceeding to LRC.	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o The details of additional proposed regulations with financial implications prior to proceeding to LRC; and, o An update on previously minuted report back requirements.	*Direct*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Global Adjustment Refinancing*	0.0	0.0	0.0
	Electricity social programs – RRRP/DRP^	344.0	472.0	484.0
	Electricity social programs – FNDC^	15.0	20.0	20.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.

^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017 which includes refinancing a portion of the Global Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

In May 2017, the Ministry reported back to TB/MBC with an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

Proposed Regulations

The proposed regulations are the next step in implementation of the OFHP and would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016,* and the *Fair Hydro Plan Act, 2017*.

Implementation of Global Adjustment (GA) Refinancing

On March 2, 2017, as part of OFHP, it was announced that a portion of the GAs would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The Ministry is proposing a new regulations and amendments to existing regulations that would (for example):

- Define the typical consumer upon which the calculations to achieve the reduction will be based;
- Support the required calculations related to refinancing the GA which will implement rate reductions for the typical residential consumer; and,
- Authorize the Independent Electricity System Operator to borrow to fund the regulatory asset.

The Ontario Energy Board will calculate the electricity rates that consumers will pay as of July 1, 2017.

Delivery of Electricity Social Programs

To date, a number of electricity support programs exist and there is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base (including high distribution cost, low income and first nations on-reserve customers).

The Ministry is proposing new regulations and amendments to existing regulations to support the implementation, establish frameworks and clarify program details for the new and enhanced social programs which will be effective July 1, 2017.

Local Delivery Companies will be reimbursed for credits provided via social programs to customers by IESO, which is subsequently reimbursed by the Ministry's voted appropriation.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. The proposed new regulations and regulatory amendments will (for example):

- Identifies who is eligible for RRRP funding (Hydro One R2 customers);
- Establishes the DRP to complement RRRP whereby eligible residential customers would have their monthly base distribution charges held to a maximum amount (it is estimated that ~800,000 customers will benefit); and,
- Identifies the LDC's whose customers are eligible for enhanced protection.

On-Reserve First Nations Delivery Credit (FNDC)

The program will be available to on-reserve customers serviced by licensed distributors and would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The proposed new regulations and regulatory amendments will (for example):

- Set out the program particulars including eligibility for the program (it is estimated that ~21,000 customers will benefit);
- Limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs; and,
- Provides a transitional period for LDCs to deliver the rate assistance.

Bill Presentment

The Ministry is proposing new regulations and amendments to existing regulations to support transparency and communications of the changes made under the OFHP on consumer invoices.

See Appendix F for additional details on the proposed regulations.

Analysis/Risks

Financial

- The financials submitted by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board (OEB). TB/MBC has requested the details of the forecasting models and costing estimates including assumptions.

$M	2017-18	2018-19	2019-20	2020-21
Rural or Remoate Rate Protection (RRRP)	344	472	484	497
On-Reserve First Nations Delivery Credit (FNDC)	15	20	20	20
Total	**359**	**492**	**504**	**517**

- The regulatory amendments do not result in a fiscal impact however the Ministry notes it is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The social programs allocations are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis, which would allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives, has been requested by TB/MBC to support better decision making and support meeting the government's fiscal targets.

- Lastly, there are no sunset dates for the programs and it is important to understand the full cost of the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22.

Accounting

- *Placeholder for accounting issues… [OPCD]*

Legal

- *Placeholder for legal issues… [TBS Legal]*

The Ministry has also reported back with an update to key risks including mitigation strategies (see Appendix G). In addition, the Ministry has also sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY), and launched third party technical analysis to assist with implementation of GA refinancing.

Additional Report Backs

To continue to implement the OFHP, the ministry will be returning to TB/MBC on June 27, 2017 with part 2 of the report back on the creation and amendment of regulations (related to Global Adjustment and the Ontario Electricity Support Program) prior to proceeding to LRC including an update on previously minuted report back requirements.

Name of analyst:	Chris Skubel/ Afshin Malekzadeh	**Phone number:**	416-327-2151
Date:	June 13, 2017	**Log number:**	
Branch / Division:	GGPR / PEMD / Treasury Board Secretariat		

APPENDIX A: PROPOSED MINUTE

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval.

In this regard, the Board:

i) Note that the proposed regulatory amendments include the following program parameters:

Electricity Social Programs:

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary;
b) Hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit; and
c) Sets out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    a. Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Limits eligibility to 11 affected LDCs serving on-reserve consumers identified by the OEB including: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

Implementation of GA Refinancing:

a) Support the required calculations to be made by the Ontario Energy Board (OEB);
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,
d) Provides provide the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC on the details of additional proposed regulations with financial implications prior to proceeding to LRC.

iv) Direct the Ministry to report back to TB/MBC on June 27th with an update on previously minuted report back requirements.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: OFHP OVERVIEW

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

APPENDIX D: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

v) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

d) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
e) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
f) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
g) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

e) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
f) Requirement for future consumers to pay the clean energy adjustment that backs financings.
g) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
h) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
i) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
j) Sets out that security interests can be granted in investment interests in the investment asset.

vi) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

vii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

viii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different

demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.

b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.

d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

ix) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the broadened program now government funded
- Report on and assessment of impacts of consolidation of LDCs
- Assessment of distribution rates and implications for the program

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

- Identify eligibility criteria, and refinements being made.
- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

x) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX F: DETAILS OF PROPOSED REGULATIONS

Partial Refinancing of the GA

The Ministry is proposing new regulations that would support the implementation of refinancing the GA including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the *Ontario Fair Hydro Act, 2017*.

The ministry is also proposing amendments to an existing regulation to authorize Independent Electricity System Operators to borrow for the purposes of funding the regulatory asset, including borrowing from the Ontario Financing Authority.

Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The *Fair Hydro Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, making the escalating factor unnecessary.

The ministry is proposing a new regulation to create a government funded DRP program. The regulation establishes a mechanism for the Ontario Energy Board (OEB) to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

The *Ontario Fair Hydro Plan Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program.

The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. It is estimated that as many as ~7000 eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program as they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under *Ontario Rebate For Electricity Consumers Act, 2016*, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.
If the required regulations are approved, the program would be in effect July 1, 2017.

Ontario Electricity Support Program

Additional regulatory amendments will be forthcoming in late June 2017.

Bill Presentment

The ministry is proposing to create new regulations under the *Ontario Fair Hydro Plan Act, 2017* that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.

- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.

- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments message. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017. The requirement for Hydro One to provide an on-bill message related to RRRP (which has become out-of-date with these program updates) is also repealed with proposed amendments. For clarity, Hydro One would not be exempt from including the messaging related to OFHP.

In anticipation of these new OFHP invoicing requirements, the ministry has made an amendment to revoke the “8% provincial rebate” messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an “8% Provincial Rebate” line item remains.

APPENDIX G: UPDATE ON RISKS AND MITIGATION STRATEGIES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **<u>Update:</u>** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **<u>Update:</u>** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **<u>Update:</u>** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **<u>Update:</u>** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

June 13, 2017

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MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back with updates to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

2.0 PURPOSE OF REQUEST

On May 31, 2017, Bill 132, the *Fair Hydro Act, 2017* (*FHA*), which enables Ontario's Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017*, (*OFHPA*) and the implementation of electricity social program-related amendments to the *Ontario Energy Board Act, 1998*, was passed by the legislature.

- The OFHPA will lower bills by 25 per cent for a typical residential consumer, starting July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to half a million small businesses and farms would also benefit.

- OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

  Note: These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on electricity bills for consumers.

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (*OEBA*); and

- Schedule 2 – includes the electricity social program-related amendments to the *OEBA.*

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On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

On May 9, 2017, as part of its *FHA* review, TB/MBC requested that the Ministry report back on key updates and the details of the proposed regulations that would support OFHP.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review a first package of proposed regulation and amendments and on June 27, 2017, a second package of regulations. These are necessary to ensure that the 25 per cent reduction on electricity bills is in place by July 1, 2017.

The new *OFHPA* and the proposed regulations and amendments described throughout, along with the independent accounting analysis, legal support and technical analysis and future financial agreements (i.e., expected to be reached and signed in fall 2017) should together mitigate the financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission and the May 9, 2017 TB submission.

1. Implementation of GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity price~~s~~ increas~~esing~~.

On March 2, 2017, as part of OFHP, it was announced that a portion of the Global Adjustment (GA) would be refinanced in order to more fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Under the *OFHPA* which enables GA Refinancing, electricity bills of typical residential consumers would be reduced by 25 per cent starting in July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

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Proposal

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II of the *Ontario Fair Hydro Plan Act, 2017* which is under Schedule 1 of the *Fair Hydro Act, 2017;* and
- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the Electricity Act, 1998.

On June 27, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation:

- Creating a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Act, 2017*.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financ~~ing~~iers (i.e., dealers);

- On June 1, 2017, the *OFHPA*, which enables GA refinancing and responds to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission, received Royal assent. Note: The Ministry has also prepared regulations to support implementation (as noted above);

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched third party technical analysis to assist with implementation of GA refinancing.

2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

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These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.

- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.

- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

In addition to amending two existing regulations and introducing two new regulations to roll out the social programs, the Ministry is also making several consequential amendments to other regulations and introducing a new invoicing regulation under the *Fair Hydro Act, 2017*. These changes include:

- Creating a new Invoicing Regulation made under the Ontario Fair Hydro Plan Act, 2017.

- Amending the O. Reg 363/16 (General) under the *Ontario Rebate for Electricity Consumers Act, 2016.*

- Amending O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) made under the *Ontario Energy Board Act, 1998.*

<u>Proposal</u>

The Government introduced legislation and is now developing regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy

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program of the old Ontario Hydro and has existed in its current form since 2001.

The new legislation enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers~~. The regulation will also prescribe the monthly amount of rate protection available to Hydro One R2 customers through RRRP.~~
(R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province).

Proposed amendments to O. Reg 442/01 would provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and would remove the escalating factor, as provisions under the new section 79.3 under the OEBA provides benefits in addition to RRRP for Hydro One's R2 customers, making the escalating factor unnecessary.

New benefits under section 79.3 of the OEBA would hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit.

Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher distribution cost LDCs.

The new legislation enables tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. Eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province.

The proposed prescribed distributors are:

- Atikokan Hydro Inc.
- InnPower Corporation
- Chapleau Public Utilities Corporation
- Sioux Lookout Hydro Inc.
- Northern Ontario Wires Inc.
- Lakeland Power Distribution Ltd. (Parry Sound Rate Zone)

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- Algoma Power Inc. (residential)
- Hydro One Networks Inc. (Low & medium density classified customers)

~~(as well as six additional higher-distribution cost LDCs).~~

The regulation will set out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers. In future years, this harmonized monthly charge, by design, cannot decrease as it adjusts to reflect the higher of either the lowest rate LDC in the program, or the maximum monthly charge of the previous year, as determined by the OEB.

On-Reserve First Nations Delivery Credit

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The legislative amendments to the *Ontario Energy Board Act, 1998*, are premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers as prescribed in regulation. Eligibility is restricted to those residential rate class First Nations customers who are members of a band as defined under the federal *Indian Act* ~~(Canada)~~.

The regulation does not stipulate any process for identifying on-reserve customers eligible for the credit but rather allows LDCs the flexibility to continue using their existing HST exemption processes.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of RRRP available to Hydro One R2 customers for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB currently sets the amount of the charge that recovers the cost of RRRP from all Ontario electricity customers. Once the regulatory mechanism

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is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. The regulation will also contain transition provisions to bridge the transition from rate payer funding to provincial funding, as well as mechanisms for sharing of information and funding flows. Change to the funding structure of the program does not require any additional implementation risks or efforts.

Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers will be prescribed in regulation. The regulation will prescribe the process by which the Ontario Energy Board would determine a maximum monthly distribution charge for prescribed customers of prescribed high-cost LDCs.

Affected LDCs would be impacted through the efforts required to adjust their billing systems in order to carry out the program. There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017. The regulation will also contain mechanisms for sharing of information and funding flows.

On-Reserve First Nation Delivery Credit

The new regulation will set out the program particulars including eligibility for the program. The regulation limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs. The 11 affected LDCs serving on-reserve consumers identified by the OEB in its report include: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017.

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Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.
11 affected LDCs will need to alter their billing systems to reflect the regulatory requirement to include a First Nations Delivery Credit line item on the bill directly below the delivery charge, or blended rate if applicable.

3.0 KEY CONTEXT

On June 1, 2017, the *Fair Hydro Act, 2017*, the legislation to enable the Ontario Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) received Royal assent. The OFHPA will reduce the electricity bills of typical residential consumers by 25 per cent starting in summer 2017. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

The Ministry's report back and update to TB/MBC focuses on the following OFHP initiatives:

1) Implementation of GA Refinancing:

Under the *OFHPA*, a portion of the GA would be refinanced in order to more fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Today's electricity consumers have been bearing disproportionate cost responsibility for the investments in developing the clean, modern and reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. The legislation recognizes the long-term benefit of clean energy investments to more appropriately allocate costs into the future to account for long-term benefits.

Refinancing a portion of GA would provide significant and immediate rate relief to electricity consumers that have been burdened with the costs of the necessary investments that have been made to decarbonize and modernize the province's electricity infrastructure, by spreading the cost of electricity investments so that they are shared proportionately by future consumers who cause a need for or benefit from the province's multi-billion dollar investments in electricity infrastructure.

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To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financiersing (i.e., dealers);

- Developed the *Fair Hydro Act, 2017* which enables the OFHP under the *Ontario Fair Hydro Plan Act (OFHPA), 2017*, to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: On June 1, 2017, the *OFHPA* received Royal assent.

- Developed supporting regulations which further contribute to the implementation of the OFHP under the legislation;

    - One new regulation and one amendment to existing regulation is due to go to the June 14, 2017 LRC/Cabinet; and

    - A further new proposed regulation is due to go to the June 27,2017 LRC/Cabinet – a draft of this proposed regulation will be available as part of that LRC package.

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched a third party technical analysis project to assist with implementation of GA refinancing.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II under the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*:
    - The Ministry of Energy is seeking LRC approval to create a new Regulation under the *Ontario Fair Hydro Plan Act* (*OFHPA*) to support the required calculations to be made by the Ontario Energy Board (OEB) under Part II of that Act (sections 6-12).
    - The proposed regulation outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP)) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.
    - The proposed regulation sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April

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30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments to the Part II regulation.

- In addition, the proposed regulation also sets out that customers of unit sub-meter providers (USMPs) would receive a proportionate share of near-term OFHPA reductions.
- If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.
- For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary. Note: Consumers not paying RPP would also receive GA refinancing if they meet the other criteria defined in the OFHPA under "specified consumers" in the OFHPA. These include consumers that have opted-out of RPP to sign contracts with electricity retailers or become wholesale consumers and those who are eligible for *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA), but not RPP, such as long-term care homes.
- In accordance with the *Ontario Fair Hydro Plan Act,* the OEB will determine the adjustment to be made to the GA charge on eligible non-RPP consumers' bills, effective July 1st. Electricity vendors will be expected to ensure the adjustment is reflected on their customers' bills as soon as possible, and to make retroactive payments where necessary.

- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*:
  - The Ministry of Energy is seeking LRC approval to amend O.Reg. 280/14 in response to the *OFHPA* and related regulations.
  - The proposed amendments would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its *OFHPA* activities, including the funding, borrowing and financial arrangements contemplated under the *OFHPA*. The IESO would be responsible for selling specified portions of the regulatory asset to OPG's financing entities, and to fund the IESO monthly deferrals which are to commence July 1, 2017, as provided for under section 23 of the OFHPA.
  - The additional authority set out in the proposed amendments to O.Reg. 280/14 would enable IESO to borrow amounts to fund the above-noted deferrals related to GA refinancing.

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- IESO would be expected to amend its Statement of Borrowing in a manner consistent with the amended regulation, once approved.

- On June 27, 2017, to further support implementation of OFHP, LRC / Cabinet will review a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Plan Act*, 2017.

2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

The government will identify Hydro One R2 customers, by regulation, as having RRRP funded through appropriated funds.

Distribution Rate Protection

The new Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, was established through legislative amendments under the *Fair Hydro Act, 2017*. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhanced protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

The regulation prescribes eligibility to all First Nation residential rate class customers living on-reserve. First Nations customers are ~~p~~prescribed in regulation as account holders who are members of a band as defined by the federal *Indian Act* ~~(Canada)~~.

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There are 11 LDCs identified by the OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 residential customers may be eligible.

The credit will automatically apply to the bills of those customers who have already registered with their LDC as HST exempt. Customers who have yet to register with their LDC will need to identify themselves to their LDC in order to receive the benefit.

The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), has crafted the policy in a manner which best reflects the needs and wishes of Ontario's many varied indigenous communities. COO has also developed a Communiqué to send out to all First Nation Chiefs to encourage them to make sure their members are receiving the HST exemption from their LDC. COO will finalize the Communiqué and release in June.

Roles and Responsibilities

Rural or Remote Rate Protection

The roles and responsibilities of the ~~Board~~ OEB remains the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The ~~Board~~ OEB would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would ~~once again need to appropriate~~be responsible for appropriating money from the legislature to cover the costs of administering the program.

On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers.

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4.0 BACKGROUND

Legislation to Implement Ontario's Fair Hydro Plan

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEBA); and

- Schedule 2 – includes the electricity social program-related amendments to the *Ontario Energy Board Act, 1998.*

On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

Legislation to Implement GA Refinancing

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the *Ontario Fair Hydro Plan Act, 2017* outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;

- A detailed Preamble, Purpose and Definitions;

- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;

- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and

- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

The legislation defines the mechanisms and framework that would achieve the refinancing of the GA.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the legislation.

To support the implementation of GA refinancing under the *Fair Hydro Act, 2017*, the Ministry has developed supporting regulations:

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- Ontario Regulation made Under Part II of the *Fair Hydro Act, 2017* ("the Part II Reg.") – sets out in detail the methodology that the Ontario Energy Board will use to make determinations under the *OFHPA*.

- Amendment to O. Reg. 280/14 to be made under the *Electricity Act, 1998* ("IESO Eligible Investments and Borrowing Reg.") – provides IESO with the necessary authority related to its OFHPA activities including the funding, borrowing and financial arrangements contemplated under the *OFHPA*.

- Ontario Regulation to be made under the *Fair Hydro Act, 2017* ("the General Reg.") – will provide for the implementation of the roles and responsibilities of the Financial Services Manager and IESO in relation to the refinancing of GA. Note: The General Reg. will be brought forward to LRC/Cabinet on June 27, 2017.

Social Programs

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.

- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.6 million.

- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.

- These customers still have high distribution costs and are often faced with significantly higher than average bills.

The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

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Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Legislative amendments under the Fair Hydro Act broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the majority of the existing RRRP program costs to the tax-base and funding all of the broadened distribution rate protection enhancements from the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

5.0 TIMING

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Under the *OFHPA*, a portion of the GA will be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

On April 20, 2017, OEB announced that it adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing.

If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.

The OEB must make a determination of RPP rates no later than 15 days from June 2nd, 2017, when the legislation received Royal Assent. As stipulated in the Act, these RPP rates would come into effect as of July 1, 2017.

For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

The Part II regulation lays out the methodology for the OEB to calculate electricity rates for consumers eligible for GA refinancing. As such it has not financial impact.

2) Social Programs:

As reported in the TB/MBC submission of May 9, 2017 and as approved in the TB/MBC submission of March 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution

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company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board. Cost forecasts are subject to some uncertainty surrounding consumer uptake, future consumption levels, and future rates as set by the OEB.

Subsequent to the development of the above financial impacts for RRRP/DRP, Hydro One Networks Inc. submitted a distribution rate application to the OEB for rates effective 2018-2022. ENERGY is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application. Note that final Hydro One rates are not expected until 2018, as the application is subject the OEB's rate setting process and the review is expected to take at least 8 months.

Per the Regulations, the Ministry has the authority to request social program costs forecasts from the OEB.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16, April 19, and May 17, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation. The Ministry has also held separate engagements with LDCs in particular to the social programs.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, May 23, and June 1 to discuss implementation.

8.0 RISK ASSESSMENT AND MITIGATION – UPDATES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-party financial advisors in advance of and throughout the drafting process to help to

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:**

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• The legislation was developed with input of third-party financiers (i.e., dealers) to ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **<u>Update:</u>** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset,

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **Update:** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the legislation is modelled on frameworks used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

10.0 PERFORMANCE MEASURES

The proposed new regulation under *OFHPA* outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.

The proposed amendments to O. Reg. 280/10 would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its OFHPA activities, including the funding, borrowing and financial arrangements contemplated under the OFHPA

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. This is the primary success metric for these programs. In future report backs, the Ministry will include the presentation of data collected through the IESO reporting portals to demonstrate the impact of these programs on customers. The Ministry will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing. Energy is also working with the Ministry of Community and Social

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Services on expanding program participation. Regulatory amendments needed to implement those policy objectives will be brought forward to the next LRC.

Ontario's Fair Hydro Plan also included a commitment to work with the OEB to drive distribution sector efficiencies within LDCs over the long-term. The Ministry is developing its policy approach to achieving these efficiencies, including potentially through LDC consolidation, through the Long-Term Energy Planning process.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

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From: John Kim
To: Bruno Amara; Shajee Kathirgamanathan; Salman Qadir
Subject: FW: Revised Electricity Assessment Note
Date: Monday, June 12, 2017 8:53:23 PM
Attachments: OFHP Regulations RAN - draft v3.doc
TB Sub _OFHP Report Back_June 12.docx

Given the timeline requested, let's give it a very quick look and try to come up with any key comments tomorrow AM.

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: June-12-17 8:31 PM
To: Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Hindmarch-Watson, Tim (CAB) <Tim.Hindmarch-Watson2@ontario.ca>
Cc: Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Afshin Malekzadeh (MOHLTC) <Afshin.Malekzadeh@ontario.ca>
Subject: FW: Revised Electricity Assessment Note

Hi Everyone – Please see the attached draft assessment note for the electricity reg's tracking to TB/MBC tomorrow. I'd appreciate any input or feedback by first thing tomorrow. As you can see in the below chain, we've also simultaneously shared the latest version with senior management so the note is subject to change.

OPCD/TBS Legal – We've left placeholders in the risk section for accounting and legal risks. I am hoping that risks from previous assessment notes can be re-purposed and used for this note (assuming they haven't been mitigated). Frankly, I just didn't know which ones were the most important to flag. Please let me know if you have any concerns.

Thanks and happy to discuss.

Chris

From: Skubel, Chris (TBS)
Sent: June-12-17 8:27 PM
To: Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Cc: Dutton, Andrea (TBS); Malekzadeh, Afshin (TBS)
Subject: Revised Electricity Assessment Note

Hi Everyone – Please see the attached revised electricity note taking into consideration the conversation at today's re-group.

For the financial risks, we were unable to locate any material that spoke about the source of data or assumptions that supports the voted appropriation estimates for the social programs. As such, we haven't been able to address Karen's concern on documenting the assumptions behind the financials. We'll continue to look.

Please let me know if Maria, Cindy or Karen have any further comments on the material. Also, sharing the

latest draft of the submission with tracked changes from the version shared this morning.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	June 13, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – May 9, 2017	**Tracking to: Fast Track** LRC & Cabinet – June 14, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan – Regulations Part 1

I. DECISION BEFORE THE BOARD

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval

II. RECOMMENDATIONS:

• Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval including: o Global Adjustment Refinancing; o Electricity Social Programs; and, o Bill Presentment.	*Receive*
• Proposed regulations: o Note key aspects of proposed regulations; o Recommend proposed regulations; and, o Direct the Ministry to return to TB/MBC with any additional regulations with financial implications supporting implementation of the Ontario Fair Hydro Plan prior to proceeding to LRC.	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o The details of additional proposed regulations with financial implications prior to proceeding to LRC; and, o An update on previously minuted report back requirements.	*Direct*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Global Adjustment Refinancing*	0.0	0.0	0.0
	Electricity social programs – RRRP/DRP^	344.0	472.0	484.0
	Electricity social programs – FNDC^	15.0	20.0	20.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.

^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017 which includes refinancing a portion of the Global Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

In May 2017, the Ministry reported back to TB/MBC with an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

Proposed Regulations

The proposed regulations are the next step in implementation of the OFHP and would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016,* and the *Fair Hydro Plan Act, 2017*.

Implementation of Global Adjustment (GA) Refinancing

On March 2, 2017, as part of OFHP, it was announced that a portion of the GAs would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The Ministry is proposing a new regulations and amendments to existing regulations that would (for example):

- Define the typical consumer upon which the calculations to achieve the reduction will be based;
- Support the required calculations related to refinancing the GA which will implement rate reductions for the typical residential consumer; and,
- Authorize the Independent Electricity System Operator to borrow to fund the regulatory asset.

The Ontario Energy Board will calculate the electricity rates that consumers will pay as of July 1, 2017.

Delivery of Electricity Social Programs

To date, a number of electricity support programs exist and there is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base (including high distribution cost, low income and first nations on-reserve customers).

The Ministry is proposing new regulations and amendments to existing regulations to support the implementation, establish frameworks and clarify program details for the new and enhanced social programs which will be effective July 1, 2017.

Local Delivery Companies will be reimbursed for credits provided via social programs to customers by IESO, which is subsequently reimbursed by the Ministry's voted appropriation.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. The proposed new regulations and regulatory amendments will (for example):

- Identifies who is eligible for RRRP funding (Hydro One R2 customers);
- Establishes the DRP to complement RRRP whereby eligible residential customers would have their monthly base distribution charges held to a maximum amount (it is estimated that ~800,000 customers will benefit); and,
- Identifies the LDC's whose customers are eligible for enhanced protection.

On-Reserve First Nations Delivery Credit (FNDC)

The program will be available to on-reserve customers serviced by licensed distributors and would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The proposed new regulations and regulatory amendments will (for example):

- Set out the program particulars including eligibility for the program (it is estimated that ~21,000 customers will benefit);
- Limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs; and,
- Provides a transitional period for LDCs to deliver the rate assistance.

Bill Presentment

The Ministry is proposing new regulations and amendments to existing regulations to support transparency and communications of the changes made under the OFHP on consumer invoices.

See Appendix F for additional details on the proposed regulations.

Analysis/Risks

Financial

- The financials submitted by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board (OEB). TB/MBC has requested the details of the forecasting models and costing estimates including assumptions.

$M	2017-18	2018-19	2019-20	2020-21
Rural or Remoate Rate Protection (RRRP)	344	472	484	497
On-Reserve First Nations Delivery Credit (FNDC)	15	20	20	20
Total	**359**	**492**	**504**	**517**

- The regulatory amendments do not result in a fiscal impact however the Ministry notes it is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The social programs allocations are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis, which would allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives, has been requested by TB/MBC to support better decision making and support meeting the government's fiscal targets.

- Lastly, there are no sunset dates for the programs and it is important to understand the full cost of the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22.

Accounting

- *Placeholder for accounting issues… [OPCD]*

Legal

- *Placeholder for legal issues… [TBS Legal]*

The Ministry has also reported back with an update to key risks including mitigation strategies (see Appendix G). In addition, the Ministry has also sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY), and launched third party technical analysis to assist with implementation of GA refinancing.

Additional Report Backs

To continue to implement the OFHP, the ministry will be returning to TB/MBC on June 27, 2017 with part 2 of the report back on the creation and amendment of regulations (related to Global Adjustment and the Ontario Electricity Support Program) prior to proceeding to LRC including an update on previously minuted report back requirements.

Name of analyst:	Chris Skubel/ Afshin Malekzadeh	**Phone number:**	416-327-2151
Date:	June 13, 2017	**Log number:**	
Branch / Division:	GGPR / PEMD / Treasury Board Secretariat		

APPENDIX A: PROPOSED MINUTE

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval.

In this regard, the Board:

i) Note that the proposed regulatory amendments include the following program parameters:

Electricity Social Programs:

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary;
b) Hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit; and
c) Sets out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    a. Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Limits eligibility to 11 affected LDCs serving on-reserve consumers identified by the OEB including: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

Implementation of GA Refinancing:

a) Support the required calculations to be made by the Ontario Energy Board (OEB);
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,
d) Provides provide the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC on the details of additional proposed regulations with financial implications prior to proceeding to LRC.

iv) Direct the Ministry to report back to TB/MBC on June 27th with an update on previously minuted report back requirements.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: OFHP OVERVIEW

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

APPENDIX D: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

v) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

d) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
e) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
f) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
g) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

e) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
f) Requirement for future consumers to pay the clean energy adjustment that backs financings.
g) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
h) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
i) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
j) Sets out that security interests can be granted in investment interests in the investment asset.

vi) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

vii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

viii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different

demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.

b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.

d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

ix) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the broadened program now government funded
- Report on and assessment of impacts of consolidation of LDCs
- Assessment of distribution rates and implications for the program

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

- Identify eligibility criteria, and refinements being made.
- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

x) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX F: DETAILS OF PROPOSED REGULATIONS

Partial Refinancing of the GA

The Ministry is proposing new regulations that would support the implementation of refinancing the GA including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the *Ontario Fair Hydro Act, 2017*.

The ministry is also proposing amendments to an existing regulation to authorize Independent Electricity System Operators to borrow for the purposes of funding the regulatory asset, including borrowing from the Ontario Financing Authority.

Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The *Fair Hydro Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, making the escalating factor unnecessary.

The ministry is proposing a new regulation to create a government funded DRP program. The regulation establishes a mechanism for the Ontario Energy Board (OEB) to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

The *Ontario Fair Hydro Plan Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program.

The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. It is estimated that as many as ~7000 eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program as they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under *Ontario Rebate For Electricity Consumers Act, 2016*, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.
If the required regulations are approved, the program would be in effect July 1, 2017.

Ontario Electricity Support Program

Additional regulatory amendments will be forthcoming in late June 2017.

Bill Presentment

The ministry is proposing to create new regulations under the *Ontario Fair Hydro Plan Act, 2017* that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.

- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.

- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments message. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017. The requirement for Hydro One to provide an on-bill message related to RRRP (which has become out-of-date with these program updates) is also repealed with proposed amendments. For clarity, Hydro One would not be exempt from including the messaging related to OFHP.

In anticipation of these new OFHP invoicing requirements, the ministry has made an amendment to revoke the “8% provincial rebate” messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an “8% Provincial Rebate” line item remains.

APPENDIX G: UPDATE ON RISKS AND MITIGATION STRATEGIES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **<u>Update:</u>** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **<u>Update:</u>** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **<u>Update:</u>** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **<u>Update:</u>** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

June 13, 2017

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MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back with updates to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

2.0 PURPOSE OF REQUEST

On May 31, 2017, Bill 132, the *Fair Hydro Act, 2017* (*FHA*), which enables Ontario's Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017*, (*OFHPA*) and the implementation of electricity social program-related amendments to the *Ontario Energy Board Act, 1998*, was passed by the legislature.

- The OFHPA will lower bills by 25 per cent for a typical residential consumer, starting July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to half a million small businesses and farms would also benefit.

- OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

  Note: These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on electricity bills for consumers.

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (*OEBA*); and

- Schedule 2 – includes the electricity social program-related amendments to the *OEBA.*

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On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

On May 9, 2017, as part of its *FHA* review, TB/MBC requested that the Ministry report back on key updates and the details of the proposed regulations that would support OFHP.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review a first package of proposed regulation and amendments and on June 27, 2017, a second package of regulations. These are necessary to ensure that the 25 per cent reduction on electricity bills is in place by July 1, 2017.

The new *OFHPA* and the proposed regulations and amendments described throughout, along with the independent accounting analysis, legal support and technical analysis and future financial agreements (i.e., expected to be reached and signed in fall 2017) should together mitigate the financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission and the May 9, 2017 TB submission.

1. Implementation of GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity price~~s~~ increas~~esing~~.

On March 2, 2017, as part of OFHP, it was announced that a portion of the Global Adjustment (GA) would be refinanced in order to more fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Under the *OFHPA* which enables GA Refinancing, electricity bills of typical residential consumers would be reduced by 25 per cent starting in July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

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Proposal

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II of the *Ontario Fair Hydro Plan Act, 2017* which is under Schedule 1 of the *Fair Hydro Act, 2017;* and
- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the Electricity Act, 1998.

On June 27, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation:

- Creating a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Act, 2017*.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financ~~ing~~iers (i.e., dealers);

- On June 1, 2017, the *OFHPA*, which enables GA refinancing and responds to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission, received Royal assent. Note: The Ministry has also prepared regulations to support implementation (as noted above);

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched third party technical analysis to assist with implementation of GA refinancing.

2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

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These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.

- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.

- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

In addition to amending two existing regulations and introducing two new regulations to roll out the social programs, the Ministry is also making several consequential amendments to other regulations and introducing a new invoicing regulation under the *Fair Hydro Act, 2017*. These changes include:

- Creating a new Invoicing Regulation made under the Ontario Fair Hydro Plan Act, 2017.

- Amending the O. Reg 363/16 (General) under the *Ontario Rebate for Electricity Consumers Act, 2016.*

- Amending O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) made under the *Ontario Energy Board Act, 1998.*

<u>Proposal</u>

The Government introduced legislation and is now developing regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy

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program of the old Ontario Hydro and has existed in its current form since 2001.

The new legislation enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers~~. The regulation will also prescribe the monthly amount of rate protection available to Hydro One R2 customers through RRRP.~~
(R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province).

Proposed amendments to O. Reg 442/01 would provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and would remove the escalating factor, as provisions under the new section 79.3 under the OEBA provides benefits in addition to RRRP for Hydro One's R2 customers, making the escalating factor unnecessary.

New benefits under section 79.3 of the OEBA would hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit.

Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher distribution cost LDCs.

The new legislation enables tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. Eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province.

The proposed prescribed distributors are:

- Atikokan Hydro Inc.
- InnPower Corporation
- Chapleau Public Utilities Corporation
- Sioux Lookout Hydro Inc.
- Northern Ontario Wires Inc.
- Lakeland Power Distribution Ltd. (Parry Sound Rate Zone)

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- Algoma Power Inc. (residential)
- Hydro One Networks Inc. (Low & medium density classified customers)

~~(as well as six additional higher-distribution cost LDCs).~~

The regulation will set out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers. In future years, this harmonized monthly charge, by design, cannot decrease as it adjusts to reflect the higher of either the lowest rate LDC in the program, or the maximum monthly charge of the previous year, as determined by the OEB.

On-Reserve First Nations Delivery Credit

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The legislative amendments to the *Ontario Energy Board Act, 1998*, are premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers as prescribed in regulation. Eligibility is restricted to those residential rate class First Nations customers who are members of a band as defined under the federal *Indian Act* ~~(Canada)~~.

The regulation does not stipulate any process for identifying on-reserve customers eligible for the credit but rather allows LDCs the flexibility to continue using their existing HST exemption processes.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of RRRP available to Hydro One R2 customers for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB currently sets the amount of the charge that recovers the cost of RRRP from all Ontario electricity customers. Once the regulatory mechanism

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is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. The regulation will also contain transition provisions to bridge the transition from rate payer funding to provincial funding, as well as mechanisms for sharing of information and funding flows. Change to the funding structure of the program does not require any additional implementation risks or efforts.

Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers will be prescribed in regulation. The regulation will prescribe the process by which the Ontario Energy Board would determine a maximum monthly distribution charge for prescribed customers of prescribed high-cost LDCs.

Affected LDCs would be impacted through the efforts required to adjust their billing systems in order to carry out the program. There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017. The regulation will also contain mechanisms for sharing of information and funding flows.

On-Reserve First Nation Delivery Credit

The new regulation will set out the program particulars including eligibility for the program. The regulation limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs. The 11 affected LDCs serving on-reserve consumers identified by the OEB in its report include: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017.

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Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.
11 affected LDCs will need to alter their billing systems to reflect the regulatory requirement to include a First Nations Delivery Credit line item on the bill directly below the delivery charge, or blended rate if applicable.

3.0 KEY CONTEXT

On June 1, 2017, the *Fair Hydro Act, 2017*, the legislation to enable the Ontario Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) received Royal assent. The OFHPA will reduce the electricity bills of typical residential consumers by 25 per cent starting in summer 2017. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

The Ministry's report back and update to TB/MBC focuses on the following OFHP initiatives:

1) Implementation of GA Refinancing:

Under the *OFHPA*, a portion of the GA would be refinanced in order to more fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Today's electricity consumers have been bearing disproportionate cost responsibility for the investments in developing the clean, modern and reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. The legislation recognizes the long-term benefit of clean energy investments to more appropriately allocate costs into the future to account for long-term benefits.

Refinancing a portion of GA would provide significant and immediate rate relief to electricity consumers that have been burdened with the costs of the necessary investments that have been made to decarbonize and modernize the province's electricity infrastructure, by spreading the cost of electricity investments so that they are shared proportionately by future consumers who cause a need for or benefit from the province's multi-billion dollar investments in electricity infrastructure.

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To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financiersing (i.e., dealers);

- Developed the *Fair Hydro Act, 2017* which enables the OFHP under the *Ontario Fair Hydro Plan Act (OFHPA), 2017*, to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: On June 1, 2017, the *OFHPA* received Royal assent.

- Developed supporting regulations which further contribute to the implementation of the OFHP under the legislation;

    - One new regulation and one amendment to existing regulation is due to go to the June 14, 2017 LRC/Cabinet; and

    - A further new proposed regulation is due to go to the June 27,2017 LRC/Cabinet – a draft of this proposed regulation will be available as part of that LRC package.

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched a third party technical analysis project to assist with implementation of GA refinancing.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II under the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*:
    - The Ministry of Energy is seeking LRC approval to create a new Regulation under the *Ontario Fair Hydro Plan Act* (*OFHPA*) to support the required calculations to be made by the Ontario Energy Board (OEB) under Part II of that Act (sections 6-12).
    - The proposed regulation outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP)) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.
    - The proposed regulation sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April

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30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments to the Part II regulation.

- In addition, the proposed regulation also sets out that customers of unit sub-meter providers (USMPs) would receive a proportionate share of near-term OFHPA reductions.
- If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.
- For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary. Note: Consumers not paying RPP would also receive GA refinancing if they meet the other criteria defined in the OFHPA under "specified consumers" in the OFHPA. These include consumers that have opted-out of RPP to sign contracts with electricity retailers or become wholesale consumers and those who are eligible for *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA), but not RPP, such as long-term care homes.
- In accordance with the *Ontario Fair Hydro Plan Act,* the OEB will determine the adjustment to be made to the GA charge on eligible non-RPP consumers' bills, effective July 1st. Electricity vendors will be expected to ensure the adjustment is reflected on their customers' bills as soon as possible, and to make retroactive payments where necessary.

- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*:
  - The Ministry of Energy is seeking LRC approval to amend O.Reg. 280/14 in response to the *OFHPA* and related regulations.
  - The proposed amendments would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its *OFHPA* activities, including the funding, borrowing and financial arrangements contemplated under the *OFHPA*. The IESO would be responsible for selling specified portions of the regulatory asset to OPG's financing entities, and to fund the IESO monthly deferrals which are to commence July 1, 2017, as provided for under section 23 of the OFHPA.
  - The additional authority set out in the proposed amendments to O.Reg. 280/14 would enable IESO to borrow amounts to fund the above-noted deferrals related to GA refinancing.

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- IESO would be expected to amend its Statement of Borrowing in a manner consistent with the amended regulation, once approved.

- On June 27, 2017, to further support implementation of OFHP, LRC / Cabinet will review a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Plan Act*, 2017.

2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

The government will identify Hydro One R2 customers, by regulation, as having RRRP funded through appropriated funds.

Distribution Rate Protection

The new Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, was established through legislative amendments under the *Fair Hydro Act, 2017*. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhanced protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

The regulation prescribes eligibility to all First Nation residential rate class customers living on-reserve. First Nations customers are ~~p~~prescribed in regulation as account holders who are members of a band as defined by the federal *Indian Act* ~~(Canada)~~.

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There are 11 LDCs identified by the OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 residential customers may be eligible.

The credit will automatically apply to the bills of those customers who have already registered with their LDC as HST exempt. Customers who have yet to register with their LDC will need to identify themselves to their LDC in order to receive the benefit.

The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), has crafted the policy in a manner which best reflects the needs and wishes of Ontario's many varied indigenous communities. COO has also developed a Communiqué to send out to all First Nation Chiefs to encourage them to make sure their members are receiving the HST exemption from their LDC. COO will finalize the Communiqué and release in June.

Roles and Responsibilities

Rural or Remote Rate Protection

The roles and responsibilities of the ~~Board~~ OEB remains the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The ~~Board~~ OEB would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would ~~once again need to appropriate~~be responsible for appropriating money from the legislature to cover the costs of administering the program.

On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers.

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4.0 BACKGROUND

Legislation to Implement Ontario's Fair Hydro Plan

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEBA); and

- Schedule 2 – includes the electricity social program-related amendments to the *Ontario Energy Board Act, 1998.*

On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

Legislation to Implement GA Refinancing

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the *Ontario Fair Hydro Plan Act, 2017* outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;

- A detailed Preamble, Purpose and Definitions;

- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;

- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and

- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

The legislation defines the mechanisms and framework that would achieve the refinancing of the GA.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the legislation.

To support the implementation of GA refinancing under the *Fair Hydro Act, 2017*, the Ministry has developed supporting regulations:

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- Ontario Regulation made Under Part II of the *Fair Hydro Act, 2017* ("the Part II Reg.") – sets out in detail the methodology that the Ontario Energy Board will use to make determinations under the *OFHPA*.

- Amendment to O. Reg. 280/14 to be made under the *Electricity Act, 1998* ("IESO Eligible Investments and Borrowing Reg.") – provides IESO with the necessary authority related to its OFHPA activities including the funding, borrowing and financial arrangements contemplated under the *OFHPA*.

- Ontario Regulation to be made under the *Fair Hydro Act, 2017* ("the General Reg.") – will provide for the implementation of the roles and responsibilities of the Financial Services Manager and IESO in relation to the refinancing of GA. Note: The General Reg. will be brought forward to LRC/Cabinet on June 27, 2017.

Social Programs

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.

- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.6 million.

- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.

- These customers still have high distribution costs and are often faced with significantly higher than average bills.

The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

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Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Legislative amendments under the Fair Hydro Act broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the majority of the existing RRRP program costs to the tax-base and funding all of the broadened distribution rate protection enhancements from the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

5.0 TIMING

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Under the *OFHPA*, a portion of the GA will be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

On April 20, 2017, OEB announced that it adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing.

If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.

The OEB must make a determination of RPP rates no later than 15 days from June 2nd, 2017, when the legislation received Royal Assent. As stipulated in the Act, these RPP rates would come into effect as of July 1, 2017.

For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

The Part II regulation lays out the methodology for the OEB to calculate electricity rates for consumers eligible for GA refinancing. As such it has not financial impact.

2) Social Programs:

As reported in the TB/MBC submission of May 9, 2017 and as approved in the TB/MBC submission of March 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution

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company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board. Cost forecasts are subject to some uncertainty surrounding consumer uptake, future consumption levels, and future rates as set by the OEB.

Subsequent to the development of the above financial impacts for RRRP/DRP, Hydro One Networks Inc. submitted a distribution rate application to the OEB for rates effective 2018-2022. ENERGY is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application. Note that final Hydro One rates are not expected until 2018, as the application is subject the OEB's rate setting process and the review is expected to take at least 8 months.

Per the Regulations, the Ministry has the authority to request social program costs forecasts from the OEB.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16, April 19, and May 17, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation. The Ministry has also held separate engagements with LDCs in particular to the social programs.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, May 23, and June 1 to discuss implementation.

8.0 RISK ASSESSMENT AND MITIGATION – UPDATES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-party financial advisors in advance of and throughout the drafting process to help to

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:**

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• The legislation was developed with input of third-party financiers (i.e., dealers) to ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **<u>Update:</u>** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset,

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **Update:** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the legislation is modelled on frameworks used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

10.0 PERFORMANCE MEASURES

The proposed new regulation under *OFHPA* outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.

The proposed amendments to O. Reg. 280/10 would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its OFHPA activities, including the funding, borrowing and financial arrangements contemplated under the OFHPA

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. This is the primary success metric for these programs. In future report backs, the Ministry will include the presentation of data collected through the IESO reporting portals to demonstrate the impact of these programs on customers. The Ministry will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing. Energy is also working with the Ministry of Community and Social

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Services on expanding program participation. Regulatory amendments needed to implement those policy objectives will be brought forward to the next LRC.

Ontario's Fair Hydro Plan also included a commitment to work with the OEB to drive distribution sector efficiencies within LDCs over the long-term. The Ministry is developing its policy approach to achieving these efficiencies, including potentially through LDC consolidation, through the Long-Term Energy Planning process.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

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From:	Skubel, Chris (TBS)
To:	Sophie Liu (TCU); Nadine Petsche (MOF); Helen Graham (MOF); John Kim; Nick Smook (MOF); Paul Kaufman (MOHLTC); Didem Proulx (MTCU); Hindmarch-Watson, Tim (CAB)
Cc:	Andrea Dutton (MOF); Afshin Malekzadeh (MOHLTC)
Subject:	FW: Revised Electricity Assessment Note
Date:	Monday, June 12, 2017 8:31:09 PM
Attachments:	OFHP Regulations RAN - draft v3.doc TB Sub_ OFHP Report Back_June 12.docx

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Hi Everyone – Please see the attached draft assessment note for the electricity reg's tracking to TB/MBC tomorrow. I'd appreciate any input or feedback by first thing tomorrow. As you can see in the below chain, we've also simultaneously shared the latest version with senior management so the note is subject to change.

OPCD/TBS Legal – We've left placeholders in the risk section for accounting and legal risks. I am hoping that risks from previous assessment notes can be re-purposed and used for this note (assuming they haven't been mitigated). Frankly, I just didn't know which ones were the most important to flag. Please let me know if you have any concerns.

Thanks and happy to discuss.

Chris

From: Skubel, Chris (TBS)
Sent: June-12-17 8:27 PM
To: Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Cc: Dutton, Andrea (TBS); Malekzadeh, Afshin (TBS)
Subject: Revised Electricity Assessment Note

Hi Everyone – Please see the attached revised electricity note taking into consideration the conversation at today's re-group.

For the financial risks, we were unable to locate any material that spoke about the source of data or assumptions that supports the voted appropriation estimates for the social programs. As such, we haven't been able to address Karen's concern on documenting the assumptions behind the financials. We'll continue to look.

Please let me know if Maria, Cindy or Karen have any further comments on the material. Also, sharing the latest draft of the submission with tracked changes from the version shared this morning.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	June 13, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – May 9, 2017	**Tracking to: Fast Track** LRC & Cabinet – June 14, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan – Regulations Part 1

I. DECISION BEFORE THE BOARD

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval

II. RECOMMENDATIONS:

• Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval including: o Global Adjustment Refinancing; o Electricity Social Programs; and, o Bill Presentment.	*Receive*
• Proposed regulations: o Note key aspects of proposed regulations; o Recommend proposed regulations; and, o Direct the Ministry to return to TB/MBC with any additional regulations with financial implications supporting implementation of the Ontario Fair Hydro Plan prior to proceeding to LRC.	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o The details of additional proposed regulations with financial implications prior to proceeding to LRC; and, o An update on previously minuted report back requirements.	*Direct*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Global Adjustment Refinancing*	0.0	0.0	0.0
	Electricity social programs – RRRP/DRP^	344.0	472.0	484.0
	Electricity social programs – FNDC^	15.0	20.0	20.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.

^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017 which includes refinancing a portion of the Global Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

In May 2017, the Ministry reported back to TB/MBC with an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

Proposed Regulations

The proposed regulations are the next step in implementation of the OFHP and would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016,* and the *Fair Hydro Plan Act, 2017*.

Implementation of Global Adjustment (GA) Refinancing

On March 2, 2017, as part of OFHP, it was announced that a portion of the GAs would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The Ministry is proposing a new regulations and amendments to existing regulations that would (for example):

- Define the typical consumer upon which the calculations to achieve the reduction will be based;
- Support the required calculations related to refinancing the GA which will implement rate reductions for the typical residential consumer; and,
- Authorize the Independent Electricity System Operator to borrow to fund the regulatory asset.

The Ontario Energy Board will calculate the electricity rates that consumers will pay as of July 1, 2017.

Delivery of Electricity Social Programs

To date, a number of electricity support programs exist and there is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base (including high distribution cost, low income and first nations on-reserve customers).

The Ministry is proposing new regulations and amendments to existing regulations to support the implementation, establish frameworks and clarify program details for the new and enhanced social programs which will be effective July 1, 2017.

Local Delivery Companies will be reimbursed for credits provided via social programs to customers by IESO, which is subsequently reimbursed by the Ministry's voted appropriation.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. The proposed new regulations and regulatory amendments will (for example):

- Identifies who is eligible for RRRP funding (Hydro One R2 customers);
- Establishes the DRP to complement RRRP whereby eligible residential customers would have their monthly base distribution charges held to a maximum amount (it is estimated that ~800,000 customers will benefit); and,
- Identifies the LDC's whose customers are eligible for enhanced protection.

On-Reserve First Nations Delivery Credit (FNDC)

The program will be available to on-reserve customers serviced by licensed distributors and would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The proposed new regulations and regulatory amendments will (for example):

- Set out the program particulars including eligibility for the program (it is estimated that ~21,000 customers will benefit);
- Limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs; and,
- Provides a transitional period for LDCs to deliver the rate assistance.

Bill Presentment

The Ministry is proposing new regulations and amendments to existing regulations to support transparency and communications of the changes made under the OFHP on consumer invoices.

See Appendix F for additional details on the proposed regulations.

Analysis/Risks

Financial

- The financials submitted by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board (OEB). TB/MBC has requested the details of the forecasting models and costing estimates including assumptions.

$M	2017-18	2018-19	2019-20	2020-21
Rural or Remoate Rate Protection (RRRP)	344	472	484	497
On-Reserve First Nations Delivery Credit (FNDC)	15	20	20	20
Total	**359**	**492**	**504**	**517**

- The regulatory amendments do not result in a fiscal impact however the Ministry notes it is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The social programs allocations are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis, which would allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives, has been requested by TB/MBC to support better decision making and support meeting the government's fiscal targets.

- Lastly, there are no sunset dates for the programs and it is important to understand the full cost of the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22.

Accounting

- *Placeholder for accounting issues… [OPCD]*

Legal

- *Placeholder for legal issues… [TBS Legal]*

The Ministry has also reported back with an update to key risks including mitigation strategies (see Appendix G). In addition, the Ministry has also sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY), and launched third party technical analysis to assist with implementation of GA refinancing.

Additional Report Backs

To continue to implement the OFHP, the ministry will be returning to TB/MBC on June 27, 2017 with part 2 of the report back on the creation and amendment of regulations (related to Global Adjustment and the Ontario Electricity Support Program) prior to proceeding to LRC including an update on previously minuted report back requirements.

Name of analyst:	Chris Skubel/ Afshin Malekzadeh	**Phone number:**	416-327-2151
Date:	June 13, 2017	**Log number:**	
Branch / Division:	GGPR / PEMD / Treasury Board Secretariat		

APPENDIX A: PROPOSED MINUTE

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval.

In this regard, the Board:

i) Note that the proposed regulatory amendments include the following program parameters:

Electricity Social Programs:

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary;
b) Hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit; and
c) Sets out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    a. Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Limits eligibility to 11 affected LDCs serving on-reserve consumers identified by the OEB including: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

Implementation of GA Refinancing:

a) Support the required calculations to be made by the Ontario Energy Board (OEB);
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,
d) Provides provide the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC on the details of additional proposed regulations with financial implications prior to proceeding to LRC.

iv) Direct the Ministry to report back to TB/MBC on June 27th with an update on previously minuted report back requirements.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: OFHP OVERVIEW

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

APPENDIX D: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

v) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

d) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
e) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
f) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
g) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

e) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
f) Requirement for future consumers to pay the clean energy adjustment that backs financings.
g) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
h) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
i) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
j) Sets out that security interests can be granted in investment interests in the investment asset.

vi) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

vii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

viii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different

demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.

b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.

d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

ix) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the broadened program now government funded
- Report on and assessment of impacts of consolidation of LDCs
- Assessment of distribution rates and implications for the program

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

- Identify eligibility criteria, and refinements being made.
- Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
- Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

x) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX F: DETAILS OF PROPOSED REGULATIONS

Partial Refinancing of the GA

The Ministry is proposing new regulations that would support the implementation of refinancing the GA including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the *Ontario Fair Hydro Act, 2017*.

The ministry is also proposing amendments to an existing regulation to authorize Independent Electricity System Operators to borrow for the purposes of funding the regulatory asset, including borrowing from the Ontario Financing Authority.

Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The *Fair Hydro Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, making the escalating factor unnecessary.

The ministry is proposing a new regulation to create a government funded DRP program. The regulation establishes a mechanism for the Ontario Energy Board (OEB) to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

The *Ontario Fair Hydro Plan Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program.

The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. It is estimated that as many as ~7000 eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program as they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under *Ontario Rebate For Electricity Consumers Act, 2016*, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.
If the required regulations are approved, the program would be in effect July 1, 2017.

Ontario Electricity Support Program

Additional regulatory amendments will be forthcoming in late June 2017.

Bill Presentment

The ministry is proposing to create new regulations under the *Ontario Fair Hydro Plan Act, 2017* that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.

- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.

- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments message. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017. The requirement for Hydro One to provide an on-bill message related to RRRP (which has become out-of-date with these program updates) is also repealed with proposed amendments. For clarity, Hydro One would not be exempt from including the messaging related to OFHP.

In anticipation of these new OFHP invoicing requirements, the ministry has made an amendment to revoke the “8% provincial rebate” messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an “8% Provincial Rebate” line item remains.

APPENDIX G: UPDATE ON RISKS AND MITIGATION STRATEGIES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **<u>Update:</u>** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **<u>Update:</u>** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **<u>Update:</u>** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **<u>Update:</u>** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

MINISTRY OF ENERGY

TREASURY BOARD / MANAGEMENT BOARD of CABINET SUBMISSION

ONTARIO'S FAIR HYDRO PLAN – REPORT BACK

June 13, 2017

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MINISTRY OF ENERGY

1.0 MINISTRY REQUEST

1. The Ministry of Energy is reporting back with updates to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

2.0 PURPOSE OF REQUEST

On May 31, 2017, Bill 132, the *Fair Hydro Act, 2017* (*FHA*), which enables Ontario's Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017*, (*OFHPA*) and the implementation of electricity social program-related amendments to the *Ontario Energy Board Act, 1998*, was passed by the legislature.

- The OFHPA will lower bills by 25 per cent for a typical residential consumer, starting July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to half a million small businesses and farms would also benefit.

- OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

  Note: These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on electricity bills for consumers.

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (*OEBA*); and

- Schedule 2 – includes the electricity social program-related amendments to the *OEBA.*

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On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

On May 9, 2017, as part of its *FHA* review, TB/MBC requested that the Ministry report back on key updates and the details of the proposed regulations that would support OFHP.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review a first package of proposed regulation and amendments and on June 27, 2017, a second package of regulations. These are necessary to ensure that the 25 per cent reduction on electricity bills is in place by July 1, 2017.

The new *OFHPA* and the proposed regulations and amendments described throughout, along with the independent accounting analysis, legal support and technical analysis and future financial agreements (i.e., expected to be reached and signed in fall 2017) should together mitigate the financing, accounting and legal issues raised in the March 1, 2017 Cabinet Submission and the May 9, 2017 TB submission.

1. Implementation of GA Refinancing:

Ontario's energy system is being transformed – more than $50 billion has been invested to decarbonize and modernize the electricity system, including an investment of over $35 billion in clean and renewable generation.

Over the last decade the government has invested in Ontario's transmission and distribution infrastructure (i.e., the grid), clean generation and phased out the use of coal-fired generation, which has resulted in electricity price~~s~~ increas~~esing~~.

On March 2, 2017, as part of OFHP, it was announced that a portion of the Global Adjustment (GA) would be refinanced in order to more fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Under the *OFHPA* which enables GA Refinancing, electricity bills of typical residential consumers would be reduced by 25 per cent starting in July 1, 2017. In addition, increases to electricity bills would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

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Proposal

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II of the *Ontario Fair Hydro Plan Act, 2017* which is under Schedule 1 of the *Fair Hydro Act, 2017;* and
- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the Electricity Act, 1998.

On June 27, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation:

- Creating a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Act, 2017*.

Implementation

To implement GA refinancing and mitigate financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financ~~ing~~iers (i.e., dealers);

- On June 1, 2017, the *OFHPA*, which enables GA refinancing and responds to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission, received Royal assent. Note: The Ministry has also prepared regulations to support implementation (as noted above);

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched third party technical analysis to assist with implementation of GA refinancing.

2. Social Programs:

To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base.

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These customers include:

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.

- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.

- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The legislative amendments enable the creation or expansion of programs that provide meaningful rate relief to these customers.

In addition to amending two existing regulations and introducing two new regulations to roll out the social programs, the Ministry is also making several consequential amendments to other regulations and introducing a new invoicing regulation under the *Fair Hydro Act, 2017*. These changes include:

- Creating a new Invoicing Regulation made under the Ontario Fair Hydro Plan Act, 2017.

- Amending the O. Reg 363/16 (General) under the *Ontario Rebate for Electricity Consumers Act, 2016.*

- Amending O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) made under the *Ontario Energy Board Act, 1998.*

<u>Proposal</u>

The Government introduced legislation and is now developing regulatory changes for the enhanced electricity support programs which will shift costs from the rate base to the tax base, as well as establish the necessary frameworks to deliver these new or enhanced programs.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy

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program of the old Ontario Hydro and has existed in its current form since 2001.

The new legislation enables, through regulation, the transfer of the costs of funding the program for Hydro One's R2 customers from the rate-base to the tax-base for prescribed customers~~. The regulation will also prescribe the monthly amount of rate protection available to Hydro One R2 customers through RRRP.~~
(R2 customers are those customers of Hydro One classified as living in the lowest density areas of the Province).

Proposed amendments to O. Reg 442/01 would provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and would remove the escalating factor, as provisions under the new section 79.3 under the OEBA provides benefits in addition to RRRP for Hydro One's R2 customers, making the escalating factor unnecessary.

New benefits under section 79.3 of the OEBA would hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit.

Distribution Rate Protection

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher distribution cost LDCs.

The new legislation enables tax-based funding to support distribution rate protection for prescribed residential customers of LDCs with high-cost distribution rates. Eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province.

The proposed prescribed distributors are:

- Atikokan Hydro Inc.
- InnPower Corporation
- Chapleau Public Utilities Corporation
- Sioux Lookout Hydro Inc.
- Northern Ontario Wires Inc.
- Lakeland Power Distribution Ltd. (Parry Sound Rate Zone)

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- Algoma Power Inc. (residential)
- Hydro One Networks Inc. (Low & medium density classified customers)

~~(as well as six additional higher-distribution cost LDCs).~~

The regulation will set out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers. In future years, this harmonized monthly charge, by design, cannot decrease as it adjusts to reflect the higher of either the lowest rate LDC in the program, or the maximum monthly charge of the previous year, as determined by the OEB.

On-Reserve First Nations Delivery Credit

As part of discussions on Hydro One shares and rates at COO's All Chiefs Conference and the First Nations-Ontario Energy Table, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers". The legislative amendments to the *Ontario Energy Board Act, 1998*, are premised around the findings in the OEB Report submitted to the Ministry on December 29, 2016.

The program involves the elimination of the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers as prescribed in regulation. Eligibility is restricted to those residential rate class First Nations customers who are members of a band as defined under the federal *Indian Act* ~~(Canada)~~.

The regulation does not stipulate any process for identifying on-reserve customers eligible for the credit but rather allows LDCs the flexibility to continue using their existing HST exemption processes.

Implementation

Rural or Remote Rate Protection (RRRP)

Appropriated funds shall be used to offset the cost of RRRP available to Hydro One R2 customers for electricity consumed on or after July 1, 2017.

The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the money appropriated from the legislature by the Ministry of Finance (MOF).

The OEB currently sets the amount of the charge that recovers the cost of RRRP from all Ontario electricity customers. Once the regulatory mechanism

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is in place to enable the recovery of the majority of RRRP costs from the tax base, the OEB will significantly reduce the RRRP charge. The regulation will also contain transition provisions to bridge the transition from rate payer funding to provincial funding, as well as mechanisms for sharing of information and funding flows. Change to the funding structure of the program does not require any additional implementation risks or efforts.

Distribution Rate Protection

Appropriated funds shall be used to offset the cost of providing distribution rate protection to prescribed residential distribution rate protected consumers based on electricity consumed on or after July 1, 2017.

LDCs and eligible customers will be prescribed in regulation. The regulation will prescribe the process by which the Ontario Energy Board would determine a maximum monthly distribution charge for prescribed customers of prescribed high-cost LDCs.

Affected LDCs would be impacted through the efforts required to adjust their billing systems in order to carry out the program. There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017. Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017. The regulation will also contain mechanisms for sharing of information and funding flows.

On-Reserve First Nation Delivery Credit

The new regulation will set out the program particulars including eligibility for the program. The regulation limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs. The 11 affected LDCs serving on-reserve consumers identified by the OEB in its report include: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

There are transitional provisions that provide distributors with a prescribed time by which they must have adapted their billing systems while maintaining program eligibility for the rate assistance being provided. As part of the regulations, Energy intends to prescribe eligibility as of July 1, 2017.

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Distributors would be given a three month transitional period to begin delivering the rate assistance by no later than October 1, 2017.
11 affected LDCs will need to alter their billing systems to reflect the regulatory requirement to include a First Nations Delivery Credit line item on the bill directly below the delivery charge, or blended rate if applicable.

3.0 KEY CONTEXT

On June 1, 2017, the *Fair Hydro Act, 2017*, the legislation to enable the Ontario Fair Hydro Plan (OFHP) under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) received Royal assent. The OFHPA will reduce the electricity bills of typical residential consumers by 25 per cent starting in summer 2017. Up to 500,000 small businesses and farms would also benefit.

OFHP also announced other measures to enhance business competitiveness, helping vulnerable consumers and reduce the cost of electricity over the longer term.

The Ministry's report back and update to TB/MBC focuses on the following OFHP initiatives:

1) Implementation of GA Refinancing:

Under the *OFHPA*, a portion of the GA would be refinanced in order to more fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

Today's electricity consumers have been bearing disproportionate cost responsibility for the investments in developing the clean, modern and reliable electricity system that Ontario has today and that will continue to provide benefit to future generations. The legislation recognizes the long-term benefit of clean energy investments to more appropriately allocate costs into the future to account for long-term benefits.

Refinancing a portion of GA would provide significant and immediate rate relief to electricity consumers that have been burdened with the costs of the necessary investments that have been made to decarbonize and modernize the province's electricity infrastructure, by spreading the cost of electricity investments so that they are shared proportionately by future consumers who cause a need for or benefit from the province's multi-billion dollar investments in electricity infrastructure.

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To implement GA refinancing and to mitigate the financing, accounting and legal risks, the Ministry has:

- Worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financiersing (i.e., dealers);

- Developed the *Fair Hydro Act, 2017* which enables the OFHP under the *Ontario Fair Hydro Plan Act (OFHPA), 2017*, to respond to the financing, accounting and legal issues outlined in the March 1, 2017 Cabinet Submission. Note: On June 1, 2017, the *OFHPA* received Royal assent.

- Developed supporting regulations which further contribute to the implementation of the OFHP under the legislation;

    - One new regulation and one amendment to existing regulation is due to go to the June 14, 2017 LRC/Cabinet; and

    - A further new proposed regulation is due to go to the June 27,2017 LRC/Cabinet – a draft of this proposed regulation will be available as part of that LRC package.

- Sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY); and

- Launched a third party technical analysis project to assist with implementation of GA refinancing.

On June 14, 2017, to support implementation of OFHP, LRC / Cabinet will review the following proposed regulation and amendments:

- Creating a new Regulation made Under Part II under the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*:
    - The Ministry of Energy is seeking LRC approval to create a new Regulation under the *Ontario Fair Hydro Plan Act* (*OFHPA*) to support the required calculations to be made by the Ontario Energy Board (OEB) under Part II of that Act (sections 6-12).
    - The proposed regulation outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP)) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.
    - The proposed regulation sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April

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30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments to the Part II regulation.

- In addition, the proposed regulation also sets out that customers of unit sub-meter providers (USMPs) would receive a proportionate share of near-term OFHPA reductions.
- If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.
- For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary. Note: Consumers not paying RPP would also receive GA refinancing if they meet the other criteria defined in the OFHPA under "specified consumers" in the OFHPA. These include consumers that have opted-out of RPP to sign contracts with electricity retailers or become wholesale consumers and those who are eligible for *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA), but not RPP, such as long-term care homes.
- In accordance with the *Ontario Fair Hydro Plan Act,* the OEB will determine the adjustment to be made to the GA charge on eligible non-RPP consumers' bills, effective July 1st. Electricity vendors will be expected to ensure the adjustment is reflected on their customers' bills as soon as possible, and to make retroactive payments where necessary.

- Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*:
  - The Ministry of Energy is seeking LRC approval to amend O.Reg. 280/14 in response to the *OFHPA* and related regulations.
  - The proposed amendments would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its *OFHPA* activities, including the funding, borrowing and financial arrangements contemplated under the *OFHPA*. The IESO would be responsible for selling specified portions of the regulatory asset to OPG's financing entities, and to fund the IESO monthly deferrals which are to commence July 1, 2017, as provided for under section 23 of the OFHPA.
  - The additional authority set out in the proposed amendments to O.Reg. 280/14 would enable IESO to borrow amounts to fund the above-noted deferrals related to GA refinancing.

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- IESO would be expected to amend its Statement of Borrowing in a manner consistent with the amended regulation, once approved.

- On June 27, 2017, to further support implementation of OFHP, LRC / Cabinet will review a new Regulation ("General Regulation") to be made under the *Ontario Fair Hydro Plan Act*, 2017.

2) Social Programs:

Program Design

Rural or Remote Rate Protection (RRRP)

The legacy RRRP program remains intact with no changes made to the amount of the rate protection or the eligible LDCs. The legislation provides the authority for the government to prescribe classes of customers, customers or LDCs that would be funded through the tax-base rather than the rate-base.

The government will identify Hydro One R2 customers, by regulation, as having RRRP funded through appropriated funds.

Distribution Rate Protection

The new Distribution Rate Protection program, to complement the Rural or Remote Electricity Rate Protection (RRRP) program, was established through legislative amendments under the *Fair Hydro Act, 2017*. Eligible residential customers would have their monthly base distribution charges held to a maximum amount.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

Customers of the following LDCs are eligible for the enhanced protection: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

On-Reserve First Nations Delivery Credit

The regulation prescribes eligibility to all First Nation residential rate class customers living on-reserve. First Nations customers are ~~p~~prescribed in regulation as account holders who are members of a band as defined by the federal *Indian Act* ~~(Canada)~~.

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There are 11 LDCs identified by the OEB that provide service to on-reserve customers affected by the program. These include: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Remote Communities, PUC(Sault Ste. Marie), Thunder Bay. In total, about 21,500 residential customers may be eligible.

The credit will automatically apply to the bills of those customers who have already registered with their LDC as HST exempt. Customers who have yet to register with their LDC will need to identify themselves to their LDC in order to receive the benefit.

The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), has crafted the policy in a manner which best reflects the needs and wishes of Ontario's many varied indigenous communities. COO has also developed a Communiqué to send out to all First Nation Chiefs to encourage them to make sure their members are receiving the HST exemption from their LDC. COO will finalize the Communiqué and release in June.

Roles and Responsibilities

Rural or Remote Rate Protection

The roles and responsibilities of the ~~Board~~ OEB remains the same in terms of administering the legacy RRRP program. ENERGY will now be responsible for appropriating the funds from the legislature on an annual basis to cover the costs faced by those consumers or classes of consumers prescribed under regulation (namely Hydro One R2 customers).

Enhanced RRRP or Distribution Rate Protection

The ~~Board~~ OEB would be empowered, by regulation, to set the maximum monthly base distribution charge, based on prescribed criteria.

ENERGY would ~~once again need to appropriate~~be responsible for appropriating money from the legislature to cover the costs of administering the program.

On-Reserve First Nations Delivery Credit

ENERGY would be responsible for appropriating the money from the legislature to cover the costs of administering the credit to on-reserve customers.

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4.0 BACKGROUND

Legislation to Implement Ontario's Fair Hydro Plan

On May 11, 2017, the government introduced Bill 132, *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:

- Schedule 1 – is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEBA); and

- Schedule 2 – includes the electricity social program-related amendments to the *Ontario Energy Board Act, 1998.*

On May 31, 2017, the Bill passed third reading and received Royal Assent on June 1, 2017.

Legislation to Implement GA Refinancing

To enable implementation of GA refinancing and mitigate financing, accounting and legal risks, the *Ontario Fair Hydro Plan Act, 2017* outlines:

- Roles and responsibilities for the OEB, IESO, OPG and the Province;

- A detailed Preamble, Purpose and Definitions;

- Details with respect to Fair Adjustment, Clean Energy Adjustment, Implementation (i.e., Financial Services Manager, Fair Allocation Amount, Financing Plan), Regulatory Asset and Investment Asset;

- Scope of provincial undertaking and enabling the Province to provide guarantees and indemnities to back stop that undertaking; and

- Amendments to other acts (i.e., *Electricity Act* and *Ontario Energy Board)*.

The legislation defines the mechanisms and framework that would achieve the refinancing of the GA.

The Ministry has worked closely with key ministries (i.e., TBS-OPCD, MOF-OFA/IGS, MAG, CO), OEB, IESO, OPG and their independent advisors and third party financing in the development of the legislation.

To support the implementation of GA refinancing under the *Fair Hydro Act, 2017*, the Ministry has developed supporting regulations:

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- Ontario Regulation made Under Part II of the *Fair Hydro Act, 2017* ("the Part II Reg.") – sets out in detail the methodology that the Ontario Energy Board will use to make determinations under the *OFHPA*.

- Amendment to O. Reg. 280/14 to be made under the *Electricity Act, 1998* ("IESO Eligible Investments and Borrowing Reg.") – provides IESO with the necessary authority related to its OFHPA activities including the funding, borrowing and financial arrangements contemplated under the *OFHPA*.

- Ontario Regulation to be made under the *Fair Hydro Act, 2017* ("the General Reg.") – will provide for the implementation of the roles and responsibilities of the Financial Services Manager and IESO in relation to the refinancing of GA. Note: The General Reg. will be brought forward to LRC/Cabinet on June 27, 2017.

Social Programs

Rural or Remote Rate Protection (RRRP)

Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class. There are approximately 330,000 R2 customers across the Province. These customers have some of the highest distribution costs in the Province.

- From 2001-2016 the program provided $125.4 million annually to help defray these costs.

- In the 2016 Speech from the Throne, this funding was expanded by $116.4 million to a total of $241.6 million.

- As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.

- These customers still have high distribution costs and are often faced with significantly higher than average bills.

The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

RRRP is currently funded by rate-payers. All IESO-grid connected consumers pay a charge of $0.0021 per kilowatt-hour to off-set the costs of delivering RRRP. For an average residential customer this amounts to ~$1.60 per month. This charge will be substantially reduced once the R2 portion of the RRRP program is funded through the tax-base, rather than rate payers.

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Distribution Rate Protection (DRP)

RRRP is targeted to customers based on geographic and density-based criteria. Many customers, including those in rural areas, face higher than average distribution costs, but are not eligible to receive rate protection under RRRP.

Legislative amendments under the Fair Hydro Act broaden rate protection by creating a new distribution rate protection program to complement the Rural or Remote Electricity Rate Protection program.

Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.

- Providing distribution rate protection to a broader number of consumers would help mitigate geographic-based differences in rates for the consumers who are most impacted and often see such differences as inequitable.

Mitigation for all electricity consumers would be provided by moving the majority of the existing RRRP program costs to the tax-base and funding all of the broadened distribution rate protection enhancements from the tax-base.

On-Reserve First Nations Delivery Credit

On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

ENERGY has a number of Bilateral Tables with the Chiefs of Ontario (COO) and First Nations that include the Energy Table to discuss policy issues, the Hydro One Negotiating Table to discuss Hydro One shares, and the Grievance Table.

The Grievance Table process was established at the request of COO as a means to avoid litigation to resolve historic grievances related to the energy sector and prevent these issues from impeding progress on broadening the ownership of Hydro One (H1).

The cost of electricity and delivery charges were identified as the prevailing grievance at the First Nations-Ontario Energy Table meeting in Timmins in 2016, and the Minister of Energy agreed to explore options for a First Nations Rate through the Grievance Table process.

5.0 TIMING

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Under the *OFHPA*, a portion of the GA will be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

On April 20, 2017, OEB announced that it adjusted the RPP rates effective May 1, 2017 to account for its estimation of the impact of a portion of GA Refinancing.

If the regulation is approved, the OEB intends to release new RPP rates effective July 1, 2017 that will include the full impact of OFHP as determined under the Part II adjustments.

The OEB must make a determination of RPP rates no later than 15 days from June 2nd, 2017, when the legislation received Royal Assent. As stipulated in the Act, these RPP rates would come into effect as of July 1, 2017.

For consumers eligible for GA refinancing that are not on the RPP, adjustments would be made on their electricity consumption from July 1, 2017 onwards as necessary.

6.0 FINANCIAL IMPACT

1) GA Refinancing:

The Part II regulation lays out the methodology for the OEB to calculate electricity rates for consumers eligible for GA refinancing. As such it has not financial impact.

2) Social Programs:

As reported in the TB/MBC submission of May 9, 2017 and as approved in the TB/MBC submission of March 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344,000,000
On-Reserve First Nations Delivery Credit	15,000,000

The cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution

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company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board. Cost forecasts are subject to some uncertainty surrounding consumer uptake, future consumption levels, and future rates as set by the OEB.

Subsequent to the development of the above financial impacts for RRRP/DRP, Hydro One Networks Inc. submitted a distribution rate application to the OEB for rates effective 2018-2022. ENERGY is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application. Note that final Hydro One rates are not expected until 2018, as the application is subject the OEB's rate setting process and the review is expected to take at least 8 months.

Per the Regulations, the Ministry has the authority to request social program costs forecasts from the OEB.

7.0 STAKEHOLDER ANALYSIS

Stakeholder	Comments
Eligible Electricity Consumers	• As a result of OFHP, eligible electricity consumers will welcome the immediate reduction in electricity bills that they will experience in the short to medium term.
Electricity Agencies	• In the development of legislation to enable implementation of OFHP, the Ministry has been working closely with OEB, IESO and OPG and their independent advisors.
Local Distribution Companies (LDCs)	• The Ministry hosted LDC workshop sessions on March 16, April 19, and May 17, 2017. Nearly 40 LDC representatives attended in person or by phone and were briefed on OFHP, including implementation. The Ministry has also held separate engagements with LDCs in particular to the social programs.
Chief of Ontario (COO)	• COO have publicly supported the introduction of the First Nations Delivery Credit. • ENERGY met with COO on April 26, May 23, and June 1 to discuss implementation.

8.0 RISK ASSESSMENT AND MITIGATION – UPDATES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
1) Global Adjustment (GA) Refinancing			

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **<u>Update:</u>** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-party financial advisors in advance of and throughout the drafting process to help to

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:**

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			• The legislation was developed with input of third-party financiers (i.e., dealers) to ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **<u>Update:</u>** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset,

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **Update:** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some

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Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy
			people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

9.0 JURISDICTIONAL ANALYSIS

GA Refinancing approached outlined in the legislation is modelled on frameworks used in the United States (e.g., Duke Energy), where utility debt is financed by selling it to investors with recovery from ratepayers over time.

The Ministry conducted no jurisdictional analysis related to the expansion of social program funding as the structure of Ontario's electricity sector, and thus the delivery of these benefits, is unique.

10.0 PERFORMANCE MEASURES

The proposed new regulation under *OFHPA* outlines the methodology that the OEB will use in applying *OFHPA* reductions to eligible consumers who participate in the OEB's Regulated Rate Plan (RPP) and non-regulated consumers who are eligible for GA refinancing under *OFHPA*.

The proposed amendments to O. Reg. 280/10 would provide the Independent Electricity System Operator (IESO) with the necessary authority related to its OFHPA activities, including the funding, borrowing and financial arrangements contemplated under the OFHPA

With respect to the social programs, performance will be evaluated by the amount of funding flowed to consumers in order to reduce their electricity bills. This is the primary success metric for these programs. In future report backs, the Ministry will include the presentation of data collected through the IESO reporting portals to demonstrate the impact of these programs on customers. The Ministry will work with the OEB over the coming years to ensure that data is available to determine if the programs continue to provide meaningful rate relief.

The Ministry and the OEB have engaged with the Behavioral Insights Office at the TBS to consider ways to increase program participation. Discussions are ongoing. Energy is also working with the Ministry of Community and Social

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Services on expanding program participation. Regulatory amendments needed to implement those policy objectives will be brought forward to the next LRC.

Ontario's Fair Hydro Plan also included a commitment to work with the OEB to drive distribution sector efficiencies within LDCs over the long-term. The Ministry is developing its policy approach to achieving these efficiencies, including potentially through LDC consolidation, through the Long-Term Energy Planning process.

12.0 RECOMMENDATION

1) The Ministry of Energy is reporting back to the Treasury Board/Management Board of Cabinet (TB/MBC) on the following:

    i. Implementation of Global Adjustment (GA) Refinancing; and

    ii. Delivery of Electricity Social Programs (i.e., Rural or Remote Rate Protection, and First Nations On-Reserve Delivery Credit).

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From:	John Kim
To:	Bruno Amara; Shajee Kathirgamanathan; Salman Qadir
Subject:	FW: Revised Electricity Assessment Note
Date:	Tuesday, June 13, 2017 9:27:02 AM
Attachments:	OFHP Regulations RAN - draft v3np.doc

Fyi, OPCD input.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, June 13, 2017 8:44 AM
To: Chris Skubel (MGS) <Chris.Skubel@ontario.ca>
Cc: Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Afshin Malekzadeh (MOHLTC) <Afshin.Malekzadeh@ontario.ca>; Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Hindmarch-Watson, Tim (CAB) <Tim.Hindmarch-Watson2@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: Revised Electricity Assessment Note

Chris,
Please find attached draft wording for consideration in the accounting section of the note.
Please note that Cindy Veinot has not yet reviewed the wording.
Regards,
Nadine

From: Skubel, Chris (TBS)
Sent: June 12, 2017 8:31 PM
To: Liu, Sophie (TBS); Petsche, Nadine (TBS); Graham, Helen (TBS); Kim, John (OFA); Smook, Nick (TBS); Kaufman, Paul (TBS); Proulx, Didem (TBS); Hindmarch-Watson, Tim (CAB)
Cc: Dutton, Andrea (TBS); Malekzadeh, Afshin (TBS)
Subject: FW: Revised Electricity Assessment Note

Hi Everyone – Please see the attached draft assessment note for the electricity reg's tracking to TB/MBC tomorrow. I'd appreciate any input or feedback by first thing tomorrow. As you can see in the below chain, we've also simultaneously shared the latest version with senior management so the note is subject to change.

OPCD/TBS Legal – We've left placeholders in the risk section for accounting and legal risks. I am hoping that risks from previous assessment notes can be re-purposed and used for this note (assuming they haven't been mitigated). Frankly, I just didn't know which ones were the most important to flag. Please let me know if you have any concerns.

Thanks and happy to discuss.

Chris

From: Skubel, Chris (TBS)
Sent: June-12-17 8:27 PM
To: Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Cc: Dutton, Andrea (TBS); Malekzadeh, Afshin (TBS)

Subject: Revised Electricity Assessment Note

Hi Everyone – Please see the attached revised electricity note taking into consideration the conversation at today's re-group.

For the financial risks, we were unable to locate any material that spoke about the source of data or assumptions that supports the voted appropriation estimates for the social programs. As such, we haven't been able to address Karen's concern on documenting the assumptions behind the financials. We'll continue to look.

Please let me know if Maria, Cindy or Karen have any further comments on the material. Also, sharing the latest draft of the submission with tracked changes from the version shared this morning.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	June 13, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – May 9, 2017	**Tracking to: Fast Track** LRC & Cabinet – June 14, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan – Regulations Part 1

I. DECISION BEFORE THE BOARD

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval

II. RECOMMENDATIONS:

• Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval including: o Global Adjustment Refinancing; o Electricity Social Programs; and, o Bill Presentment.	*Receive*
• Proposed regulations: o Note key aspects of proposed regulations; o Recommend proposed regulations; and, o Direct the Ministry to return to TB/MBC with any additional regulations with financial implications supporting implementation of the Ontario Fair Hydro Plan prior to proceeding to LRC.	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o The details of additional proposed regulations with financial implications prior to proceeding to LRC; and, o An update on previously minuted report back requirements.	*Direct*

III. FINANCIAL SUMMARY

$ Millions	**2017-18**	**2018-19**	**2019-20**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base: Global Adjustment Refinancing*	0.0	0.0	0.0
Electricity social programs – RRRP/DRP^	344.0	472.0	484.0
Electricity social programs – FNDC^	15.0	20.0	20.0
Offset Recommended	0.0	0.0	0.0
Total Potential Fiscal Impact	0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.
^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017 which includes refinancing a portion of the Global Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

In May 2017, the Ministry reported back to TB/MBC with an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

Proposed Regulations

The proposed regulations are the next step in implementation of the OFHP and would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016,* and the *Fair Hydro Plan Act, 2017*.

Implementation of Global Adjustment (GA) Refinancing

On March 2, 2017, as part of OFHP, it was announced that a portion of the GAs would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The Ministry is proposing a new regulations and amendments to existing regulations that would (for example):

- Define the typical consumer upon which the calculations to achieve the reduction will be based;
- Support the required calculations related to refinancing the GA which will implement rate reductions for the typical residential consumer; and,
- Authorize the Independent Electricity System Operator to borrow to fund the regulatory asset.

The Ontario Energy Board will calculate the electricity rates that consumers will pay as of July 1, 2017.

Delivery of Electricity Social Programs

To date, a number of electricity support programs exist and there is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base (including high distribution cost, low income and first nations on-reserve customers).

The Ministry is proposing new regulations and amendments to existing regulations to support the implementation, establish frameworks and clarify program details for the new and enhanced social programs which will be effective July 1, 2017.

Local Delivery Companies will be reimbursed for credits provided via social programs to customers by IESO, which is subsequently reimbursed by the Ministry's voted appropriation.

Commented [npp1]: For an interim period and/or as required? The role of the OPGTrust may not be fully presented otherwise.

Commented [npp2]: •Consider whether additional details are necessary to more clearly present the transaction overview:
•The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a Regulatory Asset.
–OEB would determine rates to allow IESO to recover under-collection recorded in its variance account in the event the under-collection is not sold.
IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust

Investment Asset
•The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an "Investment Asset".
–The legislation establishes property rights for the Investment Asset such as the right to collect principal and interest and financing costs in the form of the clean energy adjustment from eligible consumers.
•The Investment Asset may in turn be sold to other investors or group of investors.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. The proposed new regulations and regulatory amendments will (for example):

- Identifies who is eligible for RRRP funding (Hydro One R2 customers);
- Establishes the DRP to complement RRRP whereby eligible residential customers would have their monthly base distribution charges held to a maximum amount (it is estimated that ~800,000 customers will benefit); and,
- Identifies the LDC's whose customers are eligible for enhanced protection.

On-Reserve First Nations Delivery Credit (FNDC)

The program will be available to on-reserve customers serviced by licensed distributors and would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The proposed new regulations and regulatory amendments will (for example):

- Set out the program particulars including eligibility for the program (it is estimated that ~21,000 customers will benefit);
- Limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs; and,
- Provides a transitional period for LDCs to deliver the rate assistance.

Bill Presentment

The Ministry is proposing new regulations and amendments to existing regulations to support transparency and communications of the changes made under the OFHP on consumer invoices.

See Appendix F for additional details on the proposed regulations.

Analysis/Risks

Financial

- The financials submitted by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board (OEB). TB/MBC has requested the details of the forecasting models and costing estimates including assumptions.

$M	2017-18	2018-19	2019-20	2020-21
Rural or Remoate Rate Protection (RRRP)	344	472	484	497
On-Reserve First Nations Delivery Credit (FNDC)	15	20	20	20
Total	359	492	504	517

- The regulatory amendments do not result in a fiscal impact however the Ministry notes it is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The social programs allocations are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis, which would allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives, has been requested by TB/MBC to support better decision making and support meeting the government's fiscal targets.

Commented [npp3]: For purposes of…have been provided?

Commented [npp4]: Details in the regulations will impact the final accounting analysis (IESO ability to recognize a rate regulated asset, control of OPG Trust by OPG, etc.)

- Lastly, there are no sunset dates for the programs and it is important to understand the full cost of the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22.

Accounting

The fiscal impact associated with the Fair Hydro Plan will be determined by how the series of complex transactions are accounted for on the Province's Consolidated Financial Statements which are prepared in accordance with public sector accounting standards established by CPA Canada. A number of details yet to be finalized through the regulations and various commercial agreements will impact the final accounting analysis.

It is anticipated that both the IESO's and OPG's external auditors will provide independent accounting opinions on the appropriate accounting for elements of the FHP structure related to each entity, respectively. Based on the audited financial results for these organizations, supported by the anticipated accounting opinions, the Office of the Provincial Controller will prepare the Province's consolidated financial statements.

At this time, the Auditor General has voiced several concerns regarding the planned accounting treatment for the Fair Hydro Plan as related specifically to the Global Adjustment component which is expected to impact the Province's financial results for the first time in 2017/18. The Auditor General has also publicly communicated her opposition to a change in the IESO's accounting policy to reflect rate regulated balances on its books. The Province supports the IESO's accounting treatment as more fairly presenting the economic substance of the entity's market-related activities.

The Auditor is currently reviewing the Province's accounting analysis related to the Affordability Fund which reflects a $100M transfer payment to be reflected in the Province's 2016/17 Public Accounts.

If the Auditor General does not concur with the Province's accounting treatment, including the change in accounting treatment by the IESO, she may qualify her audit opinion on the Provinces' financial statements in the Public Accounts.

- ~~*Placeholder for accounting issues… [OPCD]*~~

Legal

- *Placeholder for legal issues… [TBS Legal]*

The Ministry has also reported back with an update to key risks including mitigation strategies (see Appendix G). In addition, the Ministry has also sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY), and launched third party technical analysis to assist with implementation of GA refinancing.

Additional Report Backs

To continue to implement the OFHP, the ministry will be returning to TB/MBC on June 27, 2017 with part 2 of the report back on the creation and amendment of regulations (related to Global Adjustment and the Ontario Electricity Support Program) prior to proceeding to LRC including an update on previously minuted report back requirements.

Name of analyst:	Chris Skubel/ Afshin Malekzadeh	**Phone number:**	416-327-2151
Date:	June 13, 2017	**Log number:**	
Branch / Division:	GGPR / PEMD / Treasury Board Secretariat		

APPENDIX A: PROPOSED MINUTE

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval.

In this regard, the Board:

i) Note that the proposed regulatory amendments include the following program parameters:

Electricity Social Programs:

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary;
b) Hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit; and
c) Sets out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    a. Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Limits eligibility to 11 affected LDCs serving on-reserve consumers identified by the OEB including: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

Implementation of GA Refinancing:

a) Support the required calculations to be made by the Ontario Energy Board (OEB);
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,
d) Provides provide the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC on the details of additional proposed regulations with financial implications prior to proceeding to LRC.

iv) Direct the Ministry to report back to TB/MBC on June 27th with an update on previously minuted report back requirements.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: OFHP OVERVIEW

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

APPENDIX D: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

v) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

d) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
e) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
f) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
g) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

e) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
f) Requirement for future consumers to pay the clean energy adjustment that backs financings.
g) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
h) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
i) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
j) Sets out that security interests can be granted in investment interests in the investment asset.

vi) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

vii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

viii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different

demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.

b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.

d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

ix) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the broadened program now government funded
   - Report on and assessment of impacts of consolidation of LDCs
   - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Identify eligibility criteria, and refinements being made.
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

x) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX F: DETAILS OF PROPOSED REGULATIONS

Partial Refinancing of the GA

The Ministry is proposing new regulations that would support the implementation of refinancing the GA including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the *Ontario Fair Hydro Act, 2017*.

The ministry is also proposing amendments to an existing regulation to authorize Independent Electricity System Operators to borrow for the purposes of funding the regulatory asset, including borrowing from the Ontario Financing Authority.

Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The *Fair Hydro Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, making the escalating factor unnecessary.

The ministry is proposing a new regulation to create a government funded DRP program. The regulation establishes a mechanism for the Ontario Energy Board (OEB) to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

The *Ontario Fair Hydro Plan Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program.

The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. It is estimated that as many as ~7000 eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program as they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under *Ontario Rebate For Electricity Consumers Act, 2016*, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.
If the required regulations are approved, the program would be in effect July 1, 2017.

Ontario Electricity Support Program

Additional regulatory amendments will be forthcoming in late June 2017.

Bill Presentment

The ministry is proposing to create new regulations under the *Ontario Fair Hydro Plan Act, 2017* that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments message. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017. The requirement for Hydro One to provide an on-bill message related to RRRP (which has become out-of-date with these program updates) is also repealed with proposed amendments. For clarity, Hydro One would not be exempt from including the messaging related to OFHP.

In anticipation of these new OFHP invoicing requirements, the ministry has made an amendment to revoke the “8% provincial rebate” messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an “8% Provincial Rebate” line item remains.

APPENDIX G: UPDATE ON RISKS AND MITIGATION STRATEGIES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **Update:** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **<u>Update:</u>** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **<u>Update:</u>** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **<u>Update:</u>** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **<u>Update:</u>** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be ~~created~~ increated in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

From:	Montgomery, Kaitlin (MOF)
To:	John Kim
Subject:	FW: regulations
Date:	Friday, June 09, 2017 4:29:22 PM
Attachments:	Regulations.docx

Any of these regs the ones you wanted to see? Lemme know and ill see if I can get my hands on drafts.

From: Pastori, Andrea (ENERGY)
Sent: June 9, 2017 4:27 PM
To: Montgomery, Kaitlin (MOF)
Cc: Cox, Hilary (ENERGY)
Subject: RE: regulations

Hi Kaitlin,

Use this list instead. Any issues identified have now been resolved.

Thanks
Andrea

From: Pastori, Andrea (ENERGY)
Sent: June-09-17 3:52 PM
To: Montgomery, Kaitlin (MOF)
Cc: Cox, Hilary (ENERGY)
Subject: RE: regulations

Kaitlin,

Attached is the master list.

Thanks
Andrea

From: Pastori, Andrea (ENERGY)
Sent: June-09-17 3:12 PM
To: Cox, Hilary (ENERGY)
Cc: Montgomery, Kaitlin (MOF)
Subject: RE: regulations

Hilary, is 429/04 now going to June 27?

From: Cox, Hilary (ENERGY)
Sent: June-09-17 3:03 PM
To: Montgomery, Kaitlin (MOF)
Cc: Pastori, Andrea (ENERGY)
Subject: RE: regulations

Andrea Pastori has the master list. CC:ing him on request.

From: Montgomery, Kaitlin (MOF)
Sent: June 9, 2017 3:02 PM
To: Cox, Hilary (ENERGY)
Subject: regulations

Question for you….do you know which regulations are going to june 14th and which are going to 27th? Is there a master list somewhere?

Regulations – Master List	
Social Programs June 14: LRC Tracking #: REG-11537/11538/11539/11540 (Mosaic ID) Evista Tracking #: SUB-REG-2017-01128/01129/01130/01131 June 27: LRC Tracking #: REG-11478 (Mosaic ID) Evista Tracking #: SUB-REG-2017-01034	
OESP - O. Reg. 314/15 – amendments - Amending *O. Reg 314/15 (Ontario Electricity Support Program)* made under the *Ontario Energy Board Act, 1998*.	June 27
RRRP expansion to R2 - Amending *O. Reg. 442/01(Rural or Remote Electricity Rate Protection)* made under the *Ontario Energy Board Act, 1998*	June 14*****
Distribution Rate Protection - Creating a new Regulation (Distribution Rate Protection) made under the *Ontario Energy Board Act, 1998*	June 14
First Nation Rate Distribution - Creating a new Regulation (First Nation Delivery Credit) made under the *Ontario Energy Board Act, 1998*	June 14
Bill Presentment – require bill insert quarterly; prescribed messages; - Creating a new Invoicing Regulation made under the *Ontario Fair Hydro Plan Act, 2017*	June 14
GA Refinancing	
June 14: LRC Tracking #: REG-11479/11535 (Mosaic ID) Evista Tracking #: SUB-REG-2017-01035/01124/01126 June 27: LRC Tracking #: REG-11534 (Mosaic ID) Evista Tracking #: SUB-REG-2017-01123	
Part II Reg.	June 14
General Regulation	June 27
~~O. Reg. 429/04 (GAM) – amendments~~	~~June 27~~
O. Reg. 280/14 (IESO Eligible Borrowing) – amendments	June 14
Billing Requirements	
LRC Tracking #: REG-11477/11541 (Mosaic ID) Evista Tracking #: SUB-REG-2017-01032/01132	
O. Reg. 275/04 – remove DRC message; exempt Hydro One	June 14

Commented [AP1]: No longer proceeding.

Commented [AP2]: To be moved to June 14 once above has been confirmed.

- Amending O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) made under the *Ontario Energy Board Act, 1998*	
Amending the O. Reg. 363/16 (General) under the *Ontario Rebate for Electricity Consumers Act, 2016*	June 14
Billing Requirements (FYI)	
O. Reg. 364/16 – repeal in part to remove 8% on bill and on envelope messaging; exempt Hydro One	**Minister's reg., repealed**
O. Reg. 442/01 – remove RRRP messaging for Hydro One	***** to be included in RRRP amendment above

From: Bruno Amara
To: Shajee Kathirgamanathan; John Kim; Salman Qadir; Adam Prokop
Subject: Fair Hydro Plan Act (April 26 2017) Consultation v4.docx
Date: Wednesday, May 03, 2017 4:47:34 PM
Attachments: Fair Hydro Plan Act (April 26 2017) Consultation v4.docx

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This is last version that I have.

Version 4

This confidential draft document is provided for discussion purposes only. It should not be construed as representing the position adopted by the Government of Ontario on any of the topics included or not included in this document. The notes included in this document are intended only to help facilitate a discussion of the topics to which they relate. Any potential legislation is subject to the approval of the Ontario Legislature.

A proposal to create Legislation.

An Act to provide for the fair allocation of costs of electricity over time, if enacted

A proposal to create Legislation.

An Act to provide for the fair allocation of costs of electricity over time, if enacted

EXPLANATORY NOTE TO BE ADDED BY LEGISLATIVE COUNSEL
TO ANY FINAL BILL PRIOR TO INTRODUCTION.

Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects.[1] These commitments can only be achieved if costs are shared fairly among consumers, today and in the future.

Electricity rates have risen for two key reasons. First, decades of under-investment in the electricity system resulted in the need to invest more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable. Second, the decision to eliminate Ontario's use of coal and produce clean, renewable power has created additional costs.

The actions taken to achieve a clean, modern and reliable electricity system have resulted in significant costs to consumers today. The burden of financing these system improvements and funding key programs has unfairly fallen almost entirely on the shoulders of today's consumers.

The Government of Ontario is committed to ensuring that the costs of financing these investments and the associated charges to consumers are allocated fairly among present and future generations of consumers.

Recognizing that the electricity infrastructure that has been built and the policy decisions that have been made will create benefits for years to come, costs should be allocated fairly over time, so that consumers in the future pay their fair share for the benefits that they receive from the investments already made.

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PART I
GENERAL

Interpretation
Definitions

1xx. (1) In this Act,

"Board" means the Ontario Energy Board; ("French")

"clean energy adjustment" means the amount determined under section 10xx; ("French")

"clean energy benefits" means the value of the benefits determined to be derived by or accruing to the specified consumers as a result of the clean energy initiative, including as a result of clean energy costs; ("French")

"clean energy costs" means the value of the costs allocated to specified consumers as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

(a) the estimated amounts to be paid or reflected by the IESO in adjustments made under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts for,

(i) renewable energy generation or capacity,

(ii) conservation and demand management,

(iii) energy storage,

(iv) energy efficiency,

(v) natural gas generation and capacity, excluding contracts relating to amounts payable by the IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed, or

(vi) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(b) such other estimated costs as may be prescribed; ("French")

"clean energy initiative" means the policies of the Government of Ontario related to,

(a) fostering the growth of and investment in clean and renewable energy sources and technologies,

(b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies, and

(c) promoting conservation and demand management; ("French")

"electricity vendor"[2] means,

(a) a licensed distributor,

(b) a licensed retailer,

(c) the IESO in circumstances where the IESO directly invoices a specified consumer, or

(d) such other person as may be prescribed; ("French")

"fair allocation amount" means the amount determined in under section 15xx;

"financing entity" means an entity established or caused to be established under subsection 17xx (3); ("French")

"Financial Services Manager" means the Financial Services Manager appointed under section 13xx; ("French")

"Financing Plan" means the plan prepared under section 16xx, as amended from time to time in accordance with this Act; ("French")

"funding obligation" means,

(a) a payment obligation incurred in connection with the transfer of a regulatory asset or the refinancing of an existing funding obligation, or

(b) a payment obligation that meets such other criteria as may be prescribed; ("French")

[2] FLS - this is similar to the definition of "electricity vendor" in the Ontario Rebate for Electricity Consumers Act, 2016

"IESO" means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; ("SIERE")

"IESO funding shortfall" means the amount determined under section 20xx; ("French")

"investment asset" means the rights and interests described in section 22xx; ("French")

"investment interest owner" means a financing entity that has acquired and holds an investment interest; ("French")

"investment interest" means,

(a) an ownership interest in the investment asset, and

(b) in circumstances where the ownership interest is transferred, the rights and benefits specified in the agreement under which the interest is transferred; ("French")

"invoice amount" means, in respect of an invoice period, the sum of the amounts set out in subsection (2.1) in relation to the provision of electricity in Ontario to a specified consumer; ("French")

"invoice period" means the period in respect of which an invoice amount applies, as specified on an invoice issued by an electricity vendor; ("French")

"licensed distributor" means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system; ("French")

"licensed retailer" means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; ("French")

"Minister" means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; ("ministre")

"Ontario Power Generation Inc." means the corporation incorporated as Ontario Power Generation Inc. under the *Business Corporations Act* on December 1, 1998; ("Ontario Power Generation Inc.")

"prescribed" means prescribed by the regulations; ("prescrit")

"reference period" means,

(a) the period beginning on May 1, 2017 and ending on October 31, 2017, and

(b) during the period beginning on November 1, 2017 and ending on April 30, 2047,

(i) every six-month period following the period mentioned in clause (a); or

(ii) any period shorter than six months, as may be prescribed; ("French")

"refinancing" means, subject to the regulations, a redemption, repayment or repurchase of a funding obligation; ("French")

"regulation" means a regulation made under this Act; ("règlement")

"regulatory asset" means the right and interest established under section 21xx; ("French")

"specified consumer" means,

(a) a person who has an account with an electricity vendor for the supply of electricity in Ontario and meets the criteria set out in subsection (2); or

(b) such other person as may be prescribed; ("French")

"sub-meter customer" means a person who is supplied electricity by a specified consumer, if an invoice for the electricity is issued to the person by the specified consumer, by an agent of the specified consumer or by a unit sub-meter provider providing unit sub-metering for the specified consumer; ("French")

"transfer" means [TBD]; ("French")

"unit sub-metering" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("activités liées aux compteurs divisionnaires d'unité")

"unit sub-meter provider" has the same meaning as in the *Energy Consumer Protection Act, 2010*; ("fournisseur de compteurs divisionnaires d'unité")

Specified consumers

(2) For the purposes of clause (a) of the definition of "specified consumer" in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of 50 kilowatts or less, or such other amount as may be prescribed.

2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.

3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or the has had the obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.

4. The person's account with the electricity vendor relates to,

    i. a dwelling,

    ii. a property within the meaning of the *Condominium Act, 1998*,

    iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or

    iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.

5. The person satisfies such criteria as may be prescribed.

Invoice amount

(2.1) Subject to the regulations, the invoice amount for a specified consumer in respect of an invoice period includes the following amounts:

1. In circumstances where the electricity is provided by a licensed distributor or a licensed retailer, the following amounts in respect of the invoice period:

    i. The commodity price of the electricity used.

    ii. The rates and charges set out in the applicable rate order issued by the Board under subsection 78 (3) of the *Ontario Energy Board Act, 1998* and in effect on April 30, 2017.

    iii. Any adjustment on the invoice required under section 25.33 of the *Electricity Act, 1998*.

iv. The amount of any harmonized sales tax payable by the consumer under Part IX of the *Excise Tax Act* (Canada) in respect of the amounts mentioned in subparagraphs i, ii and iii;

v. Any other amounts as may be prescribed.

2. In circumstances where the electricity is provided by the IESO or other prescribed entity, such amounts as may be prescribed in respect of the invoice period. ("French")

Same, exclusions

(2.2) Subject to the regulations, an invoice amount does not include any of the following amounts:

1. The balance of any amounts carried forward from previous invoices in respect of previous invoice periods.

2. Penalties or interest.

3. Charges that do not relate to the use of electricity.

4. Any of the following charges that may be set out in an order issued by the Board under subsection 78 (3) of the *Ontario Energy Board Act, 1998*:

   i. A fixed monthly service charge payable by a generation facility within the meaning of section 56 of the *Ontario Energy Board Act, 1998* and classified as "microFIT".

   ii. A charge labelled as a "specific service charge" or "retail service charge".

   iii. A rate rider [of the prescribed type or class].

5. Any other prescribed amounts.

Effect of invalidity, etc.[3]

2xx. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if one or more provisions are held to be invalid, the intention of the Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

[3] FLS: this is from the *Climate Change Mitigation and Low-carbon Economy Act, 2016*

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect the validity or enforceability of a funding obligation incurred under this Act before the day that the provision is held to be invalid or ceases to be in effect, or any rights or obligations associated with the funding obligation.

Purpose

3xx. (1) The purposes of this Act are,[4]

(a) to ensure that clean energy costs are fairly allocated among present and future specified consumers and reflect the fair allocation; and

(b) to recognize that clean energy benefits have accrued and will accrue over time and will continue to benefit present and future electricity consumers in the Province.

Crown bound

4xx. This Act binds the Crown.

Protection and assurances

Prohibition

5xx. (1) The Crown shall not do anything that would,

(a) hinder, delay, impair or prejudice the charging, collection or remittance of amounts in respect of the clean energy adjustment;

(b) except as expressly permitted by this Act, reduce the clean energy adjustment determined under this Act or lower the priority of the clean energy adjustment over other debts; or

(c) adversely affect an investment asset or a funding obligation.

Clarification with respect to regulations

(2) For greater certainty, the things prohibited under subsection (1) include the making or approving of a regulation under this Act.

Agreements for compensation

(3) The Minister may, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding the performance of IESO or electricity vendors under this Act or similar transactions.

[4] FLS: Please see the *Electricity Act, 1998* for much of the wording proposed in this section.

Guarantee, indemnification

(4) The Lieutenant Governor in Council may by order,

(a) authorize the Minister of Finance, on behalf of the Province,

(i) to agree to guarantee or indemnify any debts, obligations, securities or undertakings associated with an investment interest, and

(ii) to determine terms and conditions and the amount on which the guarantee or indemnity will be given;

(b) impose terms and conditions, as it considers advisable, on which the Minister of Finance may, on behalf of the Province, agree to guarantee or indemnify as described in subclause (a) (ii); and

(c) specify a maximum liability for the guarantee or indemnity.

PART II
FAIR ADJUSTMENT OF ELECTRICITY RATES

Definitions

6xx. In this Part,

"effective date" means the date determined under section 6.5xx; ("French")

"RPP rate" means the rate determined by the Board under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*, which rate is commonly referred to as the Regulated Price Plan"; ("French")

"specified RPP consumer" means a specified consumer who meets the following criteria:

1. The consumer is a member of the class of consumers prescribed by the regulations made under the *Ontario Energy Board Act, 1998* for the purposes of subsection 79.16 (1) of that Act.

2. The consumer is subject to the RPP rate. ("French")

Specified RPP consumer, first fair adjustment

6.1xx (1) The rate for electricity payable by a specified RPP consumer for the period beginning on the effective date and ending on April 30, 2018 is the rate required for a specified RPP consumer who meets the prescribed criteria to receive a monthly invoice

amount that is 25 per cent lower than the monthly invoice amount for that consumer under the comparison rate described in subsection (2).

Comparison rate

(2) The comparison rate is the rate that would be effective May 1, 2017, determined by the Board solely using the method prescribed by the regulations made under clause 79.16 (1) (b) of the *Ontario Energy Board Act, 1998*.

Same

(3) For the purposes of subsection (2), the applicable method is the method on the day this section comes into force.

Specified consumers (non-RPP), first fair adjustment

6.2xx The rate for electricity payable by a specified consumer who is not a specified RPP consumer for the period beginning on the effective date and ending on April 30, 2018 is the rate that would be necessary in order for [the monthly global adjustment rate] in respect of a specified consumer who is not a specified RPP consumer (RPP) and who meets the prescribed criteria to be reduced by the same amount as the difference between the comparison rate referred to in subsection 6.1xx (2) and the rate determined under subsection 6.1xx (1).

Determination by Board

6.3xx The Board shall determine the rates mentioned in sections 6.1xx and 6.2xx no later than seven business days after the day this section receives Royal Assent.

Implementation of rates

6.4xx Each electricity vendor, [specified consumer who provides electricity to a sub-meter customer and unit sub-meter provider who provides unit sub-metering for a specified consumer] shall, no later than seven business days after the day on which the Board determines the rates under section 6.3xx, adapt is billing practices and invoices to reflect the new rates.

Effective date

6.5xx The rates determined under section 6.3xx are effective on the earlier of the following days:

1. The first day of the month immediately following the last day of the seven-day period referred to in section 6.4xx.

2. July 1, 2017.

Transition

6.6xx (1) This section applies if an electricity vendor, specified consumer or unit sub-meter provider is unable to comply with section 6.4xx for one of the following reasons:

1. There are fewer than seven days between the day of the Board's determination of rates under section 6.3xx and the effective date.

2. Technical or operational reasons.

Same

(2) In the circumstances described in subsection (1), the electricity vendor, specified consumer or unit sub-meter provider shall,

(a) adapt its invoices as soon as possible and, in any event, no later than August 1, 2017; and

(b) ensure that any specified consumer or sub-meter customer invoiced at a rate higher than the applicable rate determined by the Board receives the difference between the rate shown on their invoice and the applicable rate as a lump sum credit on the first invoice issued after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Subsequent fair adjustments

7xx. The Lieutenant Governor in Council may make regulations prescribing the methodology to be applied by the Board to determine rates for electricity payable by specified consumers and sub-meter customers during the period beginning on May 1, 2018 and ending on April 30, 2022.

Sub-meter customers

7.1xx A specified consumer who provides electricity to a sub-meter customer and any unit sub-meter provider who provides unit sub-metering for the specified consumer shall ensure that the rate payable by each sub-meter customer is the applicable rate determined under this Part.

PART III
CLEAN ENERGY ADJUSTMENT

Specified consumers to pay

8xx. (1) Upon receipt of an invoice that includes an amount in respect of the clean energy adjustment, a specified consumer shall pay the amount to the electricity vendor, as agent of the investment interest owners, in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Same

(2) For greater certainty, subsection (1) applies regardless of,

(a) whether the clean energy adjustment was determined in a manner that was inconsistent with this Act; and

(b) whether the amount payable in respect of the clean energy adjustment relates to funding obligations that were incurred in a manner that was not in material conformity with the Financing Plan.

Indebtedness of specified consumer

(4) An unpaid amount that is required to be paid by a specified consumer under this section constitutes indebtedness of the specified consumer to each investment interest owner to the extent of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer.

Recovery from sub-meter consumers

(6) A specified consumer who provides electricity to a sub-meter customer may recover amounts in respect of the clean energy adjustment payable under this section from each sub-meter customer on a pro rata basis.

Irrevocability of amount

9xx. (1) An amount in respect of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness resulting from the clean energy adjustment and is irrevocable upon invoicing the consumer and may not be set off or by passed.

Exception

(2) Subsection (1) does not apply to the extent that there is a clerical, typographical or calculation-related error by the electricity vendor.

Determination of clean energy adjustment
Financial Services Manager to determine

10xx. (1) The Financial Services Manager shall determine the clean energy adjustment payable by all specified consumers in respect of each month in a reference period by adding the estimated finance amount in respect of the reference period to the true up amount in respect of the reference period.

Estimated finance amount, true up amount

(2) The estimated finance amount and the true up amount shall be determined in accordance with the regulations.

Regulations re true up amount

(3) The regulations under subsection (2) shall have regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the finance amount when it is due.

2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

    i. differences between the estimated and actual finance amount for the immediately preceding reference period,

    ii. differences between amounts invoiced and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and

    ii. variations in billings due to variations in electricity consumption.

Financial Services Manager to notify Board

(4) The Financial Services Manager shall, in accordance with the regulations, notify the Board of the clean energy adjustment and such other information related to the determination of the clean energy adjustment as may be prescribed.

Board to determine rates

(5) The Board shall, in accordance with the regulations, determine the rate at which specified consumers are invoiced to recover the clean energy adjustment in respect of the reference period.

IESO to receive amounts

11xx. (2) The IESO shall, as an agent of the investment interest owners, receive amounts in respect of the clean energy adjustment paid to it from electricity vendors in accordance with the regulations and the market rules made under section 32 of the *Electricity Act, 1998*.

Account

(3) All of the following amounts received by the IESO shall, until paid to or for the benefit of the investment interest owner in accordance with subsection (5), be deposited promptly into an account established for the purposes of receiving those amounts:

1. Amounts described in subsection 11xx (2).

2. Payments made by specified consumers directly to the IESO as electricity vendor under subsection 8xx (1).

Same, held in trust

(4) All amounts received by the IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment interest owner, be received and held in trust by the IESO for the investment interest owners or a secured party to whom a security interest in an investment interest is granted under this Act.

IESO to remit

(5) The IESO shall remit amounts received by it in respect of the clean energy adjustment to or for the benefit of the investment interest owners in accordance with the regulations.

Electricity vendor to invoice specified consumers

12xx. (1) Each electricity vendor shall issue an invoice to each of its specified consumers for the amount payable by the consumer in respect of the clean energy adjustment, as determined by applying the rate set by the Board under subsection 10xx (2) and in accordance with the regulations.

Electricity vendor to report

(1.1) Each electricity vendor shall, in accordance with the regulations, promptly report to the IESO the total amount invoiced to its specified consumers in respect of the clean energy adjustment, the amount collected and such further information as may be prescribed.

Electricity vendor to collect

(2) Each electricity vendor shall, as agent of the investment interest owners, collect amounts in respect of the clean energy adjustment from specified consumers in accordance with the regulations.

Pro rating of payments

(3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges in respect of the same period.

Held in trust

(4) Payments received by an electricity vendor from or on behalf of specified consumers shall, until paid to or for the benefit of the investment interest owner in accordance with subsection (5), be received by and held by each electricity vendor in trust for the benefit of the investment interest owners.

Remittance to IESO

(5) Each electricity vendor shall remit amounts described in subsection (5) to the IESO for the benefit of the investment interest owners in accordance with the regulations.

PART IV
IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

13xx. (1) Subject to subsection (2), Ontario Power Generation Inc. is appointed as the Financial Services Manager for the purposes of this Act.

Replacement

(2) The Minister may terminate an appointment of a Financial Services Manager and may, in accordance with the regulations, appoint a new person or entity as the Financial Services Manager.

Duties and powers

14xx. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment interest owners.

Same

(2) The administration of the investment asset may include the following:

1. Providing information, in accordance with the regulations, to the Board in respect of funding obligations and the determination of the clean energy adjustment in accordance with section 10xx.

2. Providing information to the IESO in respect of obligations under Part III.

3. Such other matters as may be prescribed.

Review of costs

(3) The Board shall review the administrative costs of the Financial Services Manager in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Financial Services Manager to calculate fair allocation amount

15xx. (1) The Financial Services Manager shall calculate a fair allocation amount in respect of each reference period, having regard to the need to align that amount with the finance amount payable during the reference period, for the purpose of fairly measuring and allocating the estimated clean energy costs and estimated clean energy benefits among the specified consumers in respect of the reference period.

Timing of calculation

(1.1) The Financial Services Manager shall calculate a fair allocation amount in respect of each reference period before any funding obligation is incurred [by a financing entity during the reference period].

Amount

(1.2) The fair allocation amount in respect of a reference period is the sum of the following amounts:

1. The amount, if any, by which, if this Act had not been enacted, the estimated clean energy costs and estimated clean energy benefits allocated to specified consumers in respect of the reference period would have exceeded the estimated amount of the adjustments provided for under section 25.33 of the *Electricity Act, 1998* and the regulations made under that provision that would have been borne by the specified consumers in respect of clean energy costs for the reference period.

2. A portion of the value of any fair adjustment that has been made under Part II in respect of any previous reference period.

Principles

(2) In calculating the estimated clean energy costs and estimated clean energy benefits to be allocated to specified consumers in respect of a reference period, the Financial Services Manager shall [comply with the regulations and] have regard to the following principles:

1. Clean energy costs allocated to specified consumers in respect of a reference period should be allocated in proportion to the clean energy benefits attributed to the specified consumers in respect of the reference period.

2. The clean energy benefits allocated to the specified consumers in respect of a reference period should be determined in accordance with the regulations.

3. The fair allocation calculation should include reasonable assumptions regarding the following:

    i. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.

    ii. The expected number of specified consumers in respect of each reference period.

    iii. The expected electricity consumption rates in respect of each reference period.

Method

(3) The Financial Services Manager shall calculate a fair allocation amount in accordance with such methods as the Financial Services Manager considers appropriate, having regard to the requirements of this Act.

Notification to Minister

(4) The Financial Services Manager shall notify the Minister of the methods used to calculate the fair allocation amount and any changes to those methods.

Effective date

(6) The fair allocation calculation or an amendment to the fair allocation calculation takes effect on the day that is 30 days after the fair allocation calculation or the amendment, as the case may be, is provided to the Minister in writing.

Publication

(7) The Minister shall ensure that the fair allocation calculation and any amendments to it are made available to the public in a manner that the Minister considers appropriate.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

16xx. (1) The Financial Services Manager shall prepare a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred for the purposes of acquiring an investment interest in accordance with this Act.

Plan to be provided to Minister

(1.1) The Financial Services Manager shall provide the Financing Plan to the Minister.

Principles

(2) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Any incurrence of a funding obligation should reasonably align with the estimated finance amount, as determined in accordance with the regulations, that would, subject to any refinancing, become due and payable during a reference period with the fair allocation amount determined in respect of the reference period under this Part as of the time of the incurrence, in each case after reducing the fair allocation calculation by the amount of any fair adjustment in respect of the reference period.

2. Incurrences should be implemented in a manner that, in the opinion of the Financial Services Manager, is reasonable, cost effective and that reflects prevailing market terms and conditions.

3. Reasonable assumptions should be made regarding such matters as may be prescribed.

Limitation, first five year period

(4) In respect of each reference period from May 1, 2017 to April 30, 2022, no funding obligation shall be incurred that would become payable during the reference period and result in amounts payable in respect of the clean energy adjustment in respect of the reference period unless,

(a) no fair adjustment has been made under Part II in respect of the reference period; or

(b) if a fair adjustment has been made under Part II in respect of the reference period, the funding obligations incurred would not be payable during the reference period in an amount that exceeds the [difference between the fair allocation amount in respect of the reference period and the amount of the fair adjustment in respect of the reference period].

Other reports

(3.1) The Financial Services Manager shall submit to the Minister such reports and information as the Minister may require from time to time and shall, if required by the Minister to do so, examine, report and advise on any question relating to the Financing Plan.

Confidentiality

(5) The following are deemed to be records subject to clauses 18 (1) (c) and (d) of the *Freedom of Information and Protection of Privacy Act*:

1. The Financing Plan.

2. Reports referred to in subsection (3.1).

3. Any other document that would reveal information contained in the Financing Plan or the reports.

Amendments to plan

(6) The Financial Services Manager may amend the Financing Plan at any time.

Same

(7) In the event that the Financing Plan is amended, any reference in this section to the Financing Plan is deemed to be a reference to the plan as amended.

Implementation of Financing Plan

17xx. (1) The Financial Services Manager shall incur funding obligations in material conformity with the applicable Financing Plan.

Same

(2) For greater certainty, subsection 17xx (5) applies despite the failure of the Financial Services Manager to comply with subsection (1).

Financing entities

(3) In accordance with the Financing Plan, the Financial Services Manager may establish or cause to be established one or more financing entities that may incur funding obligations.

Prohibition

(3.1) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, Ontario Power Generation Inc., the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation or other agreement.

Effect of amendment to fair allocation amount

(4) Each funding obligation incurred and each transfer made by a financing entity is deemed to be consistent with the Financing Plan and [the fair allocation amount].

PART V
THE REGULATORY ASSET

IESO funding shortfall

20xx. (1) The IESO funding shortfall for each month shall be determined in accordance with the regulations.

Electricity vendors to provide information

(2) Electricity vendors shall provide to IESO such information as IESO may reasonably request for the purposes of determining the IESO shortfall under subsection (1) and such further information as may be prescribed.

Same

(3) IESO may rely on information provided by electricity vendors for the purposes of the determination under subsection (1).

Variance account to be established, maintained

20.1xx (1) The IESO shall establish and maintain a variance account for the purposes of this section.

Recording in variance account

(2) The IESO shall record the following in the variance account:

1. The amount of the IESO funding shortfall for each month.

2. All payments received by the IESO resulting from the exercise of the right of recovery under section 21xx and any transfer under section 22xx.

3. Such other adjustments as may be prescribed.

Recording determinative

(3) Subject to any finding of [manifest error], a recording by the IESO in the variance account of the balance is, as of the time of the recording, determinative of the balance at the time.

Rights of investment interest owner

(4) No change made by IESO to the balance in the variance account shall, if the previous balance was relied upon by an investment interest owner in the context of a transfer under section 22x, affect the rights of the investment interest owner acquired under the transfer.

Regulatory asset established

21xx. (1) The IESO has the right, exercisable in accordance with this Act and the regulations, to recover the balance recorded in the variance account from specified consumers.

Limitation

(2) Despite subsection (1), the IESO shall not be entitled to collect all or part of the balance recorded in the variance account from specified consumers before May 1, 2022.[is this wrt inflation limit?]

Board to set rates

(3) The Board shall, from time to time, determine and set rates payable by specified consumers to allow for IESO to recover the balance recorded in the variance account.

Same, limitations

(4) The Board's powers under subsection (3) shall be exercised in accordance with the regulations.

Transfer of regulatory asset

22xx. (1) The IESO may from time to time transfer all or a portion of the regulatory asset to any financing entity.

Same

(2) Upon receipt by IESO of payment in consideration of a transfer of all or a portion of the regulatory asset, the transfer shall be valid and enforceable against the IESO and the IESO shall retain no further right, title or interest in, or any obligations in respect of, the regulatory asset or in the investment asset created by the transfer.

Same

(3) Upon transfer, the financing entity acquires an investment interest and becomes an investment asset owner.

Validity of transfer

23xx. (1) A transfer of a regulatory asset under this Act is a valid and enforceable sale and absolute transfer to the investment interest owner of the regulatory asset.

Same

(2) Without limiting subsection (1), any transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of IESO's right to recover the IESO funding shortfall, and not merely as a security interest, and upon the absolute transfer the transferor shall retain no right, title or interest in the regulatory asset, including all rights to recover the IESO funding shortfall.

Deemed perfection, etc.

(3) At the time a transfer of a regulatory asset is made, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI
THE INVESTMENT ASSET

Effect of transfer

24xx. (1) The first transfer of the regulatory asset or a portion of it creates the investment asset.

Same

(2) Upon any transfer of all or a portion of the regulatory asset to a financing entity, the investment asset resulting from the transfer is immediately vested in the financing entity, free and clear of any adverse claim, and the financing entity becomes an investment interest owner and acquires an investment interest**.**

Investment asset established

25xx. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests of investment interest owners:

1. The right to impose, invoice, collect, receive and recover amounts in respect of the clean energy adjustment from specified consumers, including the right to determine the clean energy adjustment in accordance with this Act.**[what does this mean?]**

2. The right to receive, collect and recover amounts in respect of the clean energy adjustment that are imposed, invoiced and recoverable under this Act, including any amounts in respect of the clean energy adjustment that are held by electricity vendors or other prescribed parties.

3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.

4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge and invoice for amounts in respect of the clean energy adjustment.

5. The right to enforce the duties and obligations under this Act of each electricity vendor to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by an electricity vendor to recover payment of amounts in respect of the clean energy adjustment.

6. All rights of any kind related to any of the other property rights or interests that comprise the investment interest.

7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether it is invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

Not affected by failure to impose etc. clean energy adjustment

(1.1) An investment interest is not affected by any failure to impose, attribute, invoice, accrue or collect amounts in respect of the clean energy adjustment.

No set off, etc.

(2) The investment asset shall not be set off,

(a) by a consumer, an electricity vendor, an agent of the investment interest owner or an owner of distribution system assets in the Province;

(b) in connection with any default of a person mentioned in clause (a); or

(c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(3) The rights of the investment asset owner to collect and enforce its rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with Part III of this Act.

Collective action required

(4) If the investment interest owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment interest owner collectively and in coordination with all other investment interest owners, and any

agreement among that collective in furtherance of the collective action shall be valid and binding on the investment interest owner as a collective in accordance with its terms.

Transfer of investment interest

26xx. An investment interest owner may transfer all or a portion of its rights and interests in an investment interest to any other investment interest owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

27xx. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the investment asset owner a valid property right and interest in, to and under the applicable investment interest in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment interest owner's right, title and interest in, to and under an investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the investment interest owner shall have priority over any liens in favour of such other persons.

Investment interest owner may grant security interest

28xx. (1) An investment interest owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that it is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by the investment interest owner to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment interest owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any ccount of any electricity vendor, an agent of an electricity vendor or other person who may have commingled such revenues or other proceeds with other funds.

Notice required

(7) The secured party shall be entitled to exercise the rights of an investment interest owner only after the secured party has given notice of the enforcement of its security interest to the IESO.

Definition

(8) For the purposes of this section, a security interest is perfected when it is perfected as described in the *Personal Property Security Act.*

PART VI
MISCELLANEOUS

Appointment of agent, invoicing or collection

29xx. If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity

vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Not Crown agent

30xx. For greater certainty, no agent appointed under this Act is an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Sequestration

31xx. (1) A court in the Province may, upon application by an investment interest owner or a secured party, order the sequestration and payment of amounts in respect of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment interest owner or secured party by any person or entity authorized to collect amounts in respect of the clean energy adjustment, including defaults on any required remittance of amounts in respect of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Choice of law

32xx. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to the transfer of an interest or right or creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section x shall be the laws of the Province.

Conflict

33xx. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

34xx. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required to be taken under the Financing Plan or in relation to the determination of the fair allocation amount.

Immunity

35xx. (1) No action or other proceeding for damages shall be instituted against any employee of the Province, IESO, OPG or OEB for any act done in good faith in the execution or intended execution of any duty or authority under this Act or for any alleged neglect or default in the execution in good faith of any duty or authority under this Act.

Same

(2) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act*, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.

References in marketing materials and offering documents

36xx. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under section 5xx unless the prescribed requirements, if any, are satisfied.

Non-application, Financial Administration Act, s. 28[5]

37xx. Section 28 of the *Financial Administration Act* does not apply with respect to any transaction or agreement or undertaking required, permitted, contemplated or authorized, directly or indirectly, under this Act.

Regulations

38xx. The Lieutenant Governor in Council may make regulations in respect of the following matters:

1. [6]Governing anything that is required or permitted to be prescribed or that is required or permitted to be done by, or in accordance with, the regulations or as authorized, specified or provided in the regulations.

2. Defining, for the purposes of a regulation, words and expressions used in this Act that are not defined in the Act.

x. Prescribing types of payment obligations that constitute funding obligations;

x. governing the calculation [true-up amount] and how the amount is to be applied to the clean energy adjustment;

x. governing the inclusion of information under this Act on invoices, which may include requiring notice to be provided by electricity vendors to specified persons regarding the adjustments;

x. governing the inclusion of information about the clean energy adjustment and any other matters provided for under this Act on invoices issued to specified consumers, including the form that the information must take and the form of

[5] FLS - see s. 51 of the Electricity Act, 1998
[6] FLS - see s. 78 (1) of the Climate Change Mitigation and Low-carbon Economy Act, 2016 - paras. 1 and 2.

the invoices and any notice to be provided to the specified consumer under this Act[7];

x. prescribing the time within which any action required by this Act may be required to be done;

x. Providing for such other matters as the Lieutenant Governor in Council considers advisable to carry out the purpose of this Act.

PART VII[8]
AMENDMENTS TO OTHER ACTS

ELECTRICITY ACT, 1998

200x. (1) Subsection 6 (1) of the *Electricity Act, 1998* is amended by adding the following clauses:

(q.0.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,

(i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*;

(ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities;

(iii) engaging in activities related to the creation, transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,

(iv) incurring liabilities in relation to the regulatory asset

(v) transferring the regulatory asset for consideration;

(vi) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

[7] FLS - see *OEBA s.79.17 and 88(1)(z.11) and (z.12)*
[8] FLS: These amendments are drawn from previous drafting contained in gov2016.146.e05 (which was drafted as amendments to the EA, 1998).

200.1xx (1) Subsection 25.33 (1) of the Act is amended by striking out "and" at the end of clause (a) and by adding the following clauses:

(c) amounts paid to or received from a [prescribed] financial services entity or [a financing entity prescribed under] the *Ontario Fair Hydro Plan Act, 2017* and any related amounts; and

(d) amounts collected from consumers who are [specified consumers within the meaning of] the *Ontario Fair Hydro Plan Act, 2017* in respect of the clean energy adjustment and any related amounts.

(1.1) Subsection 25.33 (2) of the Act is amended by striking out "and" at the end of clause (a) and by adding the following clauses:

(c) amounts paid to or received from a [prescribed] financial services entity or [a financing entity prescribed under] the *Ontario Fair Hydro Plan Act, 2017* and any related amounts; and

(d) amounts collected from consumers who are [specified consumers within the meaning of] the *Ontario Fair Hydro Plan Act, 2017* in respect of the clean energy adjustment and any related amounts.

(2) Subsection 25.33 (3) of the Act is amended by adding the following paragraph:

4. A consumer who is,

   i. a [specified consumer within the meaning of] the *Ontario Fair Hydro Plan Act, 2017*, or

   ii. prescribed by the regulations [made under the *Ontario Energy Board Act, 1998]*.

(3) Clause 25.33 (4) (b) of the Act is amended by adding "or as may be required under a regulation made under the *Ontario Fair Hydro Plan Act, 2017* or the *Ontario Energy Board Act, 1998*" at the end.

(4) Subsection 25.33 (5) of the Act is amended by adding "or under the *Ontario Fair Hydro Plan Act, 2017*" at the end

201x. Section 53.1 of the Act is amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

53.1 (1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and engaging in activities to facilitate the implementation of that Act, including entering into contracts and undertakings on behalf of financing entities, subject to the right to be paid by the financing entities for those services.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create or invest in one or more subsidiaries, trusts, partnerships or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

Deemed assets, entity

(1.3) Despite any other provision of this Act, the *Business Corporations Act* or any other Act,

(a) the assets and liabilities of a special purpose financing entity shall not form part of the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries; and

(b) the assets and liabilities of Ontario Power Generation Inc. or any of its subsidiaries shall not form part of the assets and liabilities of a financing entity.

Definition, financing entity

(1.4) For the purposes of this section, "financing entity" has the same meaning as in the *Fair Hydro Plan Act, 2017*.

AMENDMENTS TO ONTARIO ENERGY BOARD ACT, 1998

204x. Subsection 1 (1) of the *Ontario Energy Board Act, 1998* is amended by adding the following paragraph:

6. To facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*.

205x. Subsection 70 (2.1) of the Act is amended by adding the following paragraph:

4. The licensee is required to comply with the *Ontario Fair Hydro Plan Act, 2017*.

206x. Section 78.1 of the Act is amended by adding the following subsection:

Same, limitation re Ontario Power Generation Inc.

(3) The determination of a payment to Ontario Power Generation Inc. under this section shall not include any consideration of amounts related to activities of Ontario Power Generation Inc. carried out in relation to the *Ontario Fair Hydro Plan Act, 2017*.

Same

(3.1) The amounts referred to in subsection (3) include, without limitation, the following:

1. Amounts related to the appointment of Ontario Power Generation Inc. as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

2. Amounts related to the charging of fees for performing duties as the Financial Services Manager.

3. Amounts related to exercising the powers and performing the duties of the Financial Services Manager.

4. Amounts related to the consolidation of the assets and liabilities for accounting purposes of any special purpose financing entities established under and for the purposes of that Act.

Short Title - this proposal for legislation would, if approved by the Legislature, have a short title to be determined by Government.

Timing – this proposal for legislation would, if approved by the Legislature, come into force on a date to be established by Government.

From:	John Kim
To:	John Kim
Subject:	Fw: Funding the Ontario Fair Hydro Plan - GA Refinancing backgrounder
Date:	Wednesday, May 03, 2017 10:12:55 PM
Attachments:	Funding the Ontario Fair Hydro Plan - GA Refinancing.docx

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From: Bruno Amara
Sent: May 1, 2017 10:14:54 AM
To: John Kim
Subject: FW: Funding the Ontario Fair Hydro Plan - GA Refinancing backgrounder

Hi John

Fyi, See attached. I haven't read through yet, but forwarding in interests of time.

From: Adam Prokop
Sent: Sunday, April 30, 2017 11:37 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: Funding the Ontario Fair Hydro Plan - GA Refinancing backgrounder

Hello team,

I have compiled a backgrounder on the key issues surrounding the funding of the GA refinancing. The file and source documents can be found here: \\ofina.on.ca\ofadfs\Users\CEF\Hydro 2017\Electricity Prices\Mitigation Proposals\Debt Financing the GA\Funding the FHP - GA Financing

Kind regards,

Adam Prokop
Economic Specialist
Office: 416-315-6462
adam.prokop@ofina.on.ca

Funding the Ontario Fair Hydro Plan – Global Adjustment Refinancing

EXECUTIVE SUMMARY

The Ontario Fair Hydro Plan was announced in March 2017 to lower electricity rates for consumers. A large part of this plan was the refinancing of the global adjustment (GA) charge[1].

Refinancing

In the early years, a portion of the costs covered by the GA would be refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing would be recovered from ratepayers. Under current forecasts, the immediate reduction in the GA would be about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

The government intends to introduce legislation that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance the GA over a longer period of time. OPG and IESO will be used in a GA deferral structure for a variety of reasons, including:

- The ability of OPG to recognize regulatory assets as a government business enterprise – this allows the costs to be recovered from ratepayers and recognized under an established accounting framework to eliminate fiscal impacts.
- To reduce the borrowing pressure on the Province's credit rating, as debt from OPG is not consolidated on a line-by-line basis.
- To allow for a commercialization process in line with similar structures regarding utility assets from a historical precedent.
- To lower financing costs to ratepayers to allow gradual increases in rates.

Funding Criteria

The current proposal is to have the Province fund up to 44% of the annual GA refinancing (analogous to "GA deferral"). In determining the method of funding for the GA deferral structure, there are several interrelated issues that need to be addressed in order to achieve critical objectives. The following are some of the critical objectives considered in this document:

1. **Maintaining OPG's status as a Government Business Enterprise**
2. **Credit rating agency considerations (including capital structure)**

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[1] The GA covers the cost of building new electricity infrastructure in the province, as well as delivering Ontario's conservation programs − ensuring that enough electricity supply will be available over the long term. The global adjustment is set monthly to reflect:

- The differences between the wholesale market price for electricity, known as Hourly Ontario Energy Price (HOEP) and:
  - Regulated rates for Ontario Power Generation's nuclear and hydroelectric generating stations;
  - Payments for building or refurbishing infrastructure such as gas-fired and renewable facilities and other nuclear, as well as the contracted rates paid to a number of generators across the province;
- The cost of delivering conservation programs.

Responding to changes in the HOEP, the global adjustment varies from month to month − generally, when the HOEP is lower, the global adjustment is higher in order to cover the costs of regulated and contracted generation.

    a. **Maintaining a good credit rating for OPG**
    b. **Maintaining a good credit rating for tranches in the SPV, particularly the senior tranche for capital markets**
    c. **Maintaining a good credit rating for the Province**
3. **Allowing for the consolidation of the SPV onto OPG's books**
4. **Enabling OPG and the Province to recover the costs of financing**
5. **Maintaining the profitability and viability of the GA deferral structure**
6. **Eliminating or mitigating the annual fiscal impact over the refinancing period**

Funding Options

A variety of funding options from the Province are being considered, in the range between debt and equity, including:

1. **Equity Injection – cash given to OPG in exchange for common shares**
2. **Equity Injection – cash given to OPG in exchange for preferred shares**
3. **Debt – cash given to OPG in exchange for debt (market level interest)**
4. **Other Mezzanine debt – cash given to OPG in exchange for some type of convertible debt**
5. **Debt into SPV – the Province buys debt securities directly from the SPV in exchange for cash**

Recommendation

Based on the available funding options and key objectives, the following risks have been identified in Figure 1:

Figure 1 – Risk Table*

	Common Equity to OPG	Preferred Shares to OPG	Debt to OPG	Other Mezzanine Debt to OPG	Debt to SPV
Maintaining GBE status	M – H	L – M	L – M	L – M	L – M
Credit Rating	L	L – M	M – H	L – M	M
Accounting Consolidation	L – MH	L – MH	L – MH	L – MH	L – MH
Cost Recovery	M – H	L – M	L – M	L - M	L
Profitability & viability	L	L – M	M	L – M	L – M
Fiscal Impact	M	L – M	L – M	L – M	L

**Level of risk of objectives not being achieved*
L = Low, M = Medium, MH = Medium High, H = High

The recommended strategy would be not to limit provincial funding to a certain type of debt or equity, but rather to implement a financing plan that benefits all parties (i.e., the Province, OPG,

IESO, security holders, LDCs, and ratepayers). Such a strategy could involve issuing more equity (e.g., a mix of common and preferred shares) in earlier years to establish the viability of the financing structure, and gradually moving to more debt-like financing options as the financing structure reaches the repayment "inflection point", and as the mechanism establishes a history of profitable operations as well as timely payments.

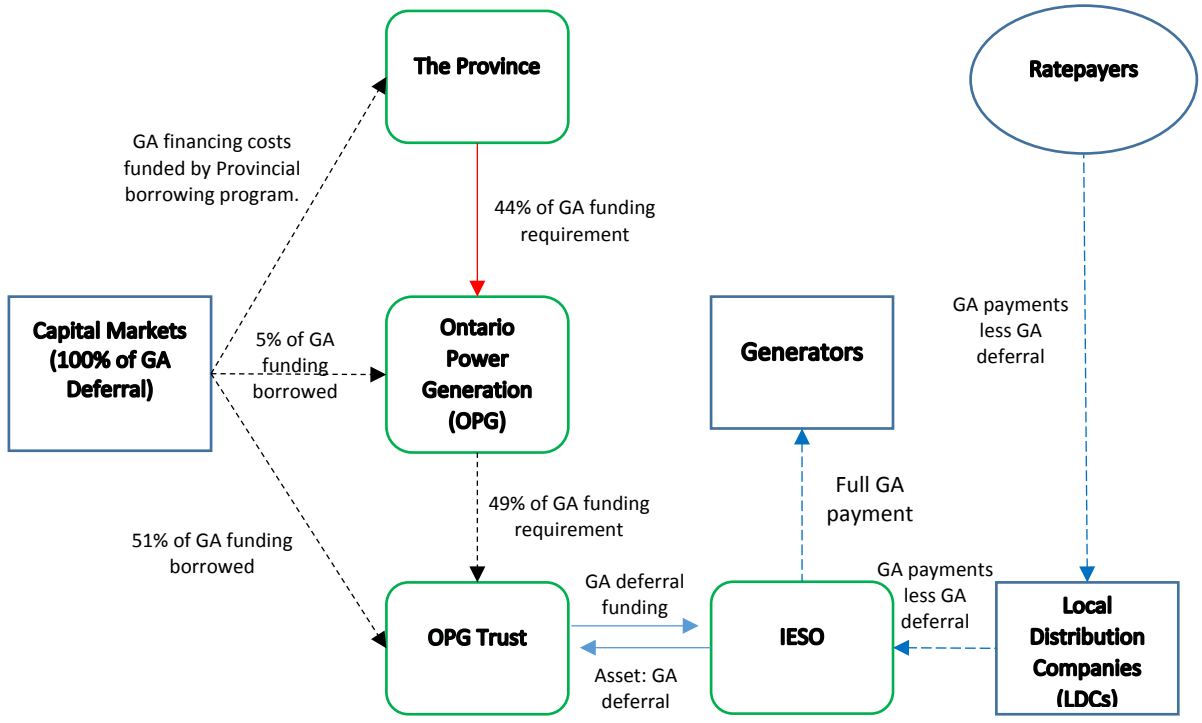
External auditors, accounting experts, and credit rating agencies need to be brought into the discussion to ensure the required objectives can be obtained.

Current Proposed Structure

The Ministry of Energy, Ministry of Finance and the Ontario Financing Authority (OFA) are coordinating with OPG to implement a Global Adjustment (GA) smoothing mechanism.

Under the current proposal, OPG would develop a Special Purpose Vehicle (SPV) referred to as "OPG Trust" which will use 100% debt financing to purchase regulatory assets from the IESO. These regulatory assets represent the portion of RPP GA expenses deferred to future years. IESO would use the cash from the OPG Trust to make up the shortfall in GA recoveries from ratepayers in order to fully compensate generators. Figure 2 illustrates a simplified version of the GA refinancing structure.

Figure 2 – GA Refinancing Structure



Based on the OPG white paper (*Appendix B*) - a collection of proposed requirements for the structure to get the preferred accounting treatment from OPG's auditors and accounting advisors - it is important to note that:

- The 44% funding provided by the Province is the **maximum** amount that can be provided to OPG for the SPV, either indirectly (through OPG) or directly (into the SPV).
    - Can be **debt** or **equity**
    - Can be **less than 44%**
    - Nothing in the proposed requirements requires the Province to invest in OPG directly rather than directly in the SPV; **need a written confirmation from external auditors/advisors to illustrate why this is necessary**.
- The 51% of the funding directly into the SPV from the capital markets is **not a minimum** amount that must be provided, based on the language provided.
    - For example, OPG could borrow 20% of the GA deferral from capital markets and separate that into the SPV, the Province could provide 40% of the deferral directly or indirectly, and capital markets could provide the remaining 40% directly into the SPV. This would satisfy the requirements (since the capital markets are funding the OPG's 20%).
    - Rephrased, capital markets must fund the majority of the SPV, either directly or through OPG.
- OPG must own at least 5% of the total debt, and over 50% of the most junior debt in the SPV (i.e., the equity tranche).
    - This is to fulfill consolidation requirements for IFRS and US GAAP for an SPV (explained later).
    - Based on the notion that the minimal amount of the equity tranche is 10% (with OPG owning more than half of this amount).

Critical Objectives

1. Maintaining OPG's status as a Government Business Enterprise

Appendix A highlights the relevant Public Sector Accounting Standards (PSAS or "PS") issued by the Public Sector Accounting Board (PSAB). The December 2014 version is the latest available standard. PSAS is the accounting framework followed by the Province for its financial statements.

A government business enterprise is accounted for under the modified equity method – it is reported at its net asset value (i.e., total assets – total liabilities, with adjustments) on the Provincial accounts, without conforming to PSAB standards or being consolidated on a line-by-line basis. For OPG, even though the company is using US GAAP as its accounting framework, it is now accounted for under the modified equity method using IFRS as the accounting framework. This is the Auditor General's preference, as there are now interim IFRS standards (*IFRS 14 Regulated Deferral Accounts*) that allow for rate regulation. The original rationale for

OPG and Hydro One using US GAAP was because PSAB and IFRS had no standards for rate regulation.

The rationale for using the modified equity method rather than line-by-line consolidation like other government reporting entities is explained under PS 1300.33:

> *Accounting for a government business enterprise by the equity method avoids commingling the independently-managed business enterprise's budget and actual results with those of other government organizations on a line-by-line basis. It also avoids including the business enterprise's gross debt with that of other government organizations as the business enterprise is expected to repay that debt from its own revenues.*

There are four requirements to be considered a government business enterprise (GBE):

> *PS 3070.03 (and PS 1300.28) - a government business enterprise is an organization that* ***has <u>all</u> of the following characteristics****:*
> *(a) It is a separate legal entity with the power to contract in its own name and that can sue and be sued;*
> *(b) It has been delegated the financial and operational authority to carry on a business;*
> *(c) It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and*
> *(d) It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.*

If one of these conditions fails for OPG, it would lose its status as a GBE, resulting in line-by-line consolidation with the province. This will cause considerable consolidation problems because:

- OPG has rate regulated assets that would likely not be recognized under PSAB in the Provincial accounts – could result in a fiscal impact.
- OPG's nuclear liabilities and assets would be consolidated onto the public accounts, potentially impacting credit ratings.
- In the case of the GA structure, the debt in the SPV from capital markets would be recognized directly on the Province's balance sheet and the offsetting regulatory assets may be derecognized/written down – a fiscal impact.

In terms of the SPV structure, the fourth requirement from PS 3070.03 is the most at risk – if OPG can, in the normal course of its operations, maintain its operations and meets its liabilities from revenues received from sources outside of the government reporting entity. PS 1300.30 and 1300.31.b further explain this standard:

> *.30 A government business enterprise should, in the normal course of its operations, be able to maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity. These revenues include not only amounts from the sale of goods and services, but also* ***transfers received from other governments or sources outside of the government reporting entity****.*

> *.31 When determining if an organization can maintain its operations and meet its liabilities with revenues received from outside of the government reporting entity, the following factors should be considered:*
> *(a) The organization's history of maintaining its operations and meeting its liabilities;*
> *(b) Whether the organization would continue to maintain its operations and meet its liabilities without relying on* ***sales to, or subsidies in cash or kind from, the government reporting entity****;*
> *(c) Past, present and future economic conditions within which the organization operates; and*
> *(d)* ***Whether the organization has realistic and specific plans that show how it expects to be able to maintain its operations and meet its liabilities in the future****.*

There is nothing specific in PSAB about equity injections, but in terms of debt, there is the following standard:

> *PS 3230.09 If a government* ***charges little or no interest to the government business enterprise for the use of debt proceeds****, the difference between the interest cost to the government and the interest charged to the government business enterprise is in the* ***nature of a subsidy****. Such circumstances would be* ***taken into account in assessing if the organization continues to meet the financial self-sustainability requirement*** *inherent in the definition of a government business enterprise in GOVERNMENT REPORTING ENTITY, Section PS 1300.*

For an equity injection from the Province to OPG, there is a risk that it could be viewed as subsidy due to:

a) **The frequency and size of the transactions** – It has been proposed that the equity injection be monthly and over a period of ten years. Such a reliance on continually injected funds without a mandatory "cost" such as interest could be viewed as a subsidy, akin to an interest-free loan.
    a. The notion that OPG is operating as a "going concern" is also threatened by the reliance on the equity funding.

b) Ontario is already the sole shareholder – The Province already owns 100% of OPG, and is essentially dictating that OPG use equity injections for a specific mandate which threatens the idea of autonomy.

c) There needs to be a rate of return that justifies an equity injection from a commercial standpoint: the cost of equity is always higher than the cost of debt due to the lowest claim on assets that an equity holder possesses – debtholders get paid first. Thus, equity holders must be compensated for taking this risk. In order for the equity injection to not be viewed as a subsidy, the return from the GA deferral mechanism must be substantially higher than the cost of borrowing for the Province to fund these equity injections.
    - Several wholly-owned state-owned enterprises (SOEs), which are similar to GBEs in definition, were examined for the rationale behind recapitalization from their respective governments. Australia, Estonia, Hungary, New Zealand, Slovenia, and

Norway all demonstrate that wholly-owned unlisted SOEs have requirements that recapitalizations from the government are subject to minimum expected rates-of-return. This is usually at least the cost of capital or a market comparable rate. Other countries (Chile, Finland, Israel, Korea, Lithuania, Netherlands, Poland, and UK) have no specific mechanisms to ensure market-consistent equity costs, but have several other methods including:

- Recapitalization is subject to a regular feasibility study
- Both public interest and expected financial return are taken into account when deciding on recapitalization
- Considering a market consistent benchmark
- Considering the risk of the investment.

As long as the weighted average return from the SPV (i.e., the rate that is charged to ratepayers) adequately compensates the Province for the risk associated with an equity injection, it is unlikely that the equity injections will be viewed as a subsidy.

In terms of credit ratings, there is nothing in PSAB that dictates that a GBE requires certain ratios or credit ratings in order to maintain that status:

- As of April 6, 2017, OPG has a credit rating of A(low) from DBRS.
- Even if OPG was downgraded in the BBB range, this would still be investment grade.
- OPG would have a higher cost of debt, but this would passed on to consumers (higher cost of debt for the regulated activities, excluding the SPV mechanism).
- The credit rating section will further address rating agency issues.

2. Credit rating agency considerations (including capital structure)

Page 21 from the Cabinet submission PowerPoint (*Appendix C*) states a number of assumptions about the financing of the GA deferral structure, which are assessed below:

- *"Given that SPV will be consolidated into OPG for accounting purposes, the significant amount of debt required to fund the GA deferral will have a severe impact on OPG's credit rating. If 100% of the requirement is funded by debt, OPG would be downgraded"*.
  - **Comments:**
  - The purpose of the SPV is to separate the risk from the regulatory assets from the business risk of OPG – the SPV is bankruptcy remote if setup correctly.
  - The SPV is consolidated on an accounting basis, but only the percentage of the GA deferral funded directly by OPG to the SPV would be considered as part of the normal operations structure of OPG.
    - However, as DBRS views securitization as a form of debt financing, securitized assets of non-financial companies are normally added back to debt to calculate adjusted debt ratios.

- If OPG goes bankrupt, it will not impact the SPV – OPG has no right to the assets in the SPV as a separate legal entity.
- If the SPV fails, the capital market debtholders (**expected to 51% of the GA deferral)** have the right to the regulatory assets in the SPV that were securitized, but have no recourse from OPG since the SPV is a separate legal entity.
- The tranches that make up the SPV will be given a separate credit rating assessment by rating agencies.

- "*To manage the exposure and minimize the cost of funding. The required funding would be split into 2 buckets:*

  1. 56% from capital markets; and

  2. The remainder provided by the Province via equity injection, which would be loaned to SPV as subordinated debt."
  - **Comments:**
  - The remainder does not need to be financed from the Province – both OPG and the capital markets have the potential to take on more debt from the SPV.
  - The cost of funding for OPG may be minimized, but the cost of funding overall may not be due to the higher cost of equity.
  - "Exposure" is already being minimized through the SPV.
- *The use of equity to fund a portion of the GA deferral allows for an improvement in both Net Income and EBITDA as incremental revenue is captured by the increase in the value of the deferral which would offset the fiscal impact of the borrowing at Province level.*
  - **Comments:**
  - There would be an improvement in net income and the structure theoretically would have no fiscal impact.
- "*Credit rating metrics are generally maintained within established limits*":
  - **Comments:**
  - No supplementary evidence to support this.

Maintaining a strong credit rating for OPG

On April 6, 2017, DBRS confirmed the issuer rating and Unsecured Debt rating of OPG at A(low) as well as its Commercial Paper at R-1 (low). The outlook for OPG was stable, with the ratings supported by four key factors:

1) The reasonable regulatory regime in place for the Company's generation facilities
2) Continuing financial support from its shareholder, the Province of Ontario (rated AA (low) Stable, by DBRS)
3) Strong cash flow-to-debt ratios
4) Strong debt-to-capital ratios

With the GA deferral and recovery mechanism, assuming the supporting legislation is passed, the first two factors would remain strong. In terms of cash flow-to-debt and debt-to-capital ratios, there may be a difference in the total debt and total debt amounts on an accounting, legal, regulatory, and rating agency basis:

- **Accounting basis**: The entire Trust, i.e., 100% of the GA deferral and the associated regulatory assets, would be consolidated onto OPG's books, increasing total debt and total capital.
- **Legal basis**: the SPV is considered separate from OPG.
- **Regulatory basis**: From the latest draft legislation, the expectation is that the SPV would not be part of the rate-setting process. It remains to be seen how equity injections from the Province to OPG would be treated.
- **Rating agency basis**: A discussion with rating agencies needs to be conferenced to confirm how they would treat the debt in the SPV in the calculation of risk assessment ratios such as total debt-to-capital.

DBRS's primary financial risk assessment (FRA) metrics for utilities are highlighted in Figure 3 below:

Figure 3. Regulated Electric, Natural Gas, and Water Utilities – Primary DBRS FRA Metrics

Primary Metric	AA	A	BBB	BB/B
Cashflow-to-debt	> 17.5%	12.5% to 17.5%	10.0% to 12.5%	0.0% to 10.0%
Debt-to-capital	< 55%	55% to 65%	65% to 75%	75% to 90%
EBIT-to-interest	> 2.8x	1.8x to 2.8x	1.5x to 1.8x	1.0x to 1.5x

OPG's historical performance on these key ratios are illustrated below in Figure 4:

Figure 4. OPG Historical DBRS Primary FRA Metrics

(CAD millions)	2015	2014	2013	2012	2011
Cash flow/Total debt 1	33.2%	27.0%	22.9%	20.8%	28.9%
Total debt in capital structure 1, 2	35.9%	36.9%	38.9%	36.9%	36.8%
EBIT gross interest coverage (times) 3	(0.86)	0.24	(1.12)	0.66	0.02
EBITDA gross interest coverage (times) 3	2.89	2.75	2.21	3.15	2.71
(Cash flow - n.w.f.)/Total debt 4	27.5%	21.3%	16.5%	13.8%	21.1%

1 Including operating leases. 2 Adjusted for Accumulated Other Comprehensive Income. 3 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds. 4 Included nuclear waste funding (n.w.f.) payments as they are not discretionary.

OPG has been outperforming two of the three key metrics for the past five years (within AA range), but has been rated at A (low) for several reasons including the negative EBIT coverage, among other factors. *Appendix E* includes additional information from DBRS's general methodology for regulated utilities.

The effect of different scenarios on capital structure, assuming that the Province uses either preferred equity or debt instead of equity injections to finance 44% of the GA deferral annually, is shown below:

Figure 5. Financing effect on Capital Structure ($20.3B total borrowing)

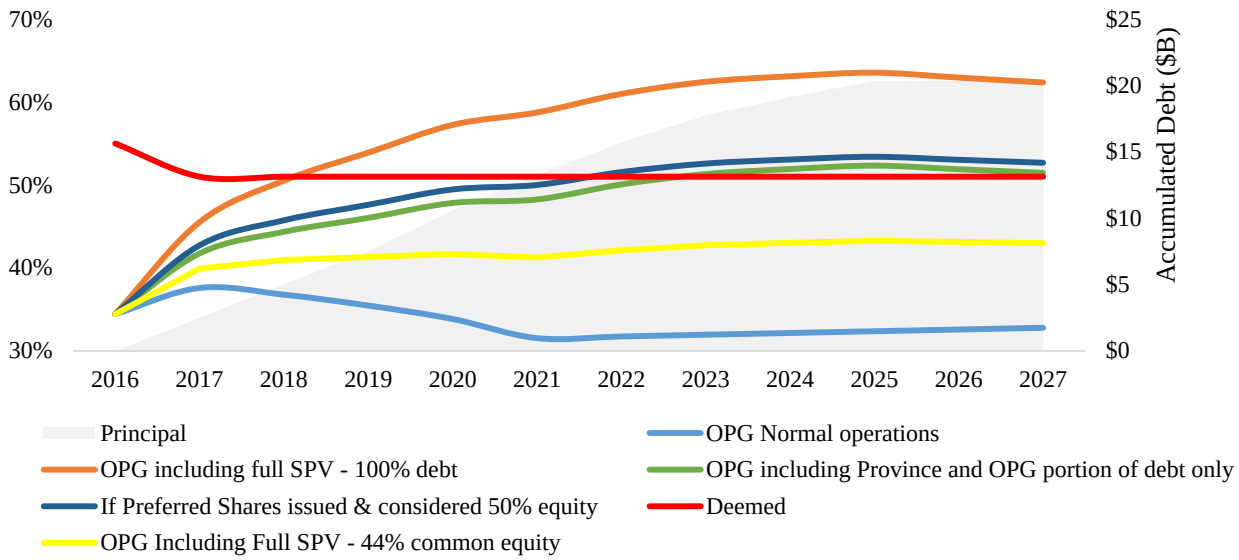
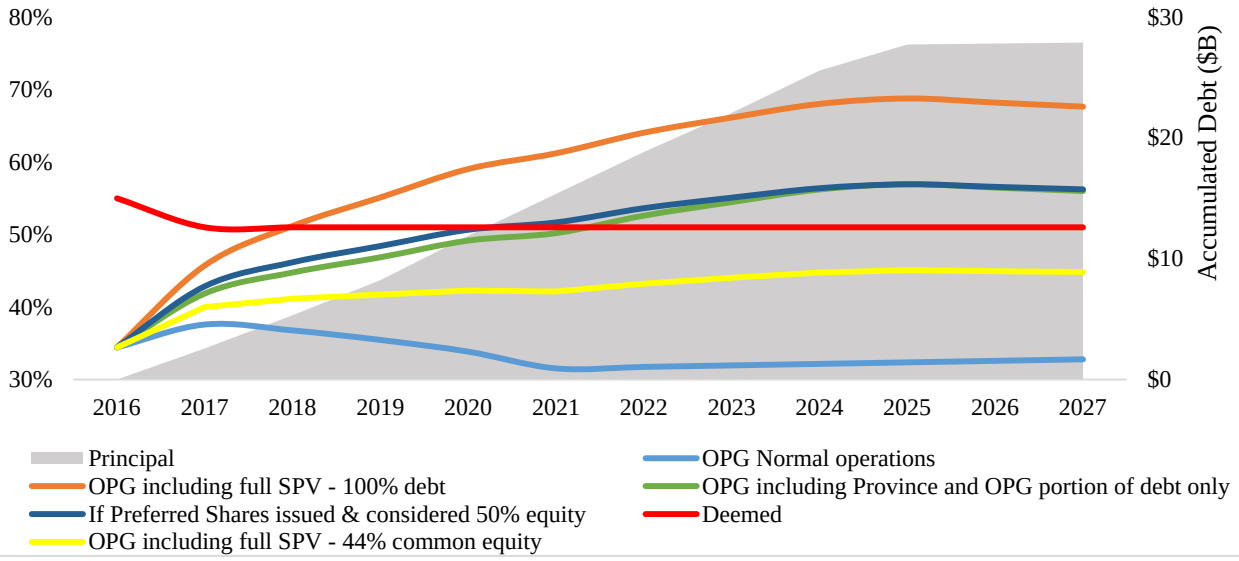


Figure 6. Financing effect on Capital Structure ($28B total borrowing)



**Figures generated from model based on OPG BP forecasts, Ministry of Energy cabinet submission, and internal CEFD assumptions*.

It is recommended that OPG provide a forecast and rationale on key credit rating ratios and capital structure to justify its insistence that common equity is required to maintain a good credit rating.

Maintaining a good credit rating for the SPV

In order to understand the proposed GA financing structure, one can examine the components of the structure and similar historical undertakings.

SPV

An SPV (special purpose vehicle or special purpose entity) is a bankruptcy-remote entity established for the sole purpose of issuing debt securities. The bankruptcy remote component of the SPV is crucial to the securitization and isolates the bondholders from event risk associated with the originator and servicer. The debt securities typically issued by an SPV are asset-backed securities (ABS) which are bonds collateralized by a distinct pool of assets. The most common collateral types found in asset-backed securities are credit card receivables, auto and equipment loans or leases, home equity loans, student loans and installment sales contracts for manufactured housing units.

- The performance of the underlying collateral will largely determine the performance of the bond.
- **In recent conversations, it has been flagged that the proposed structure will not result in a securitization transaction, despite its similarities.**

US Rate Reduction Bonds

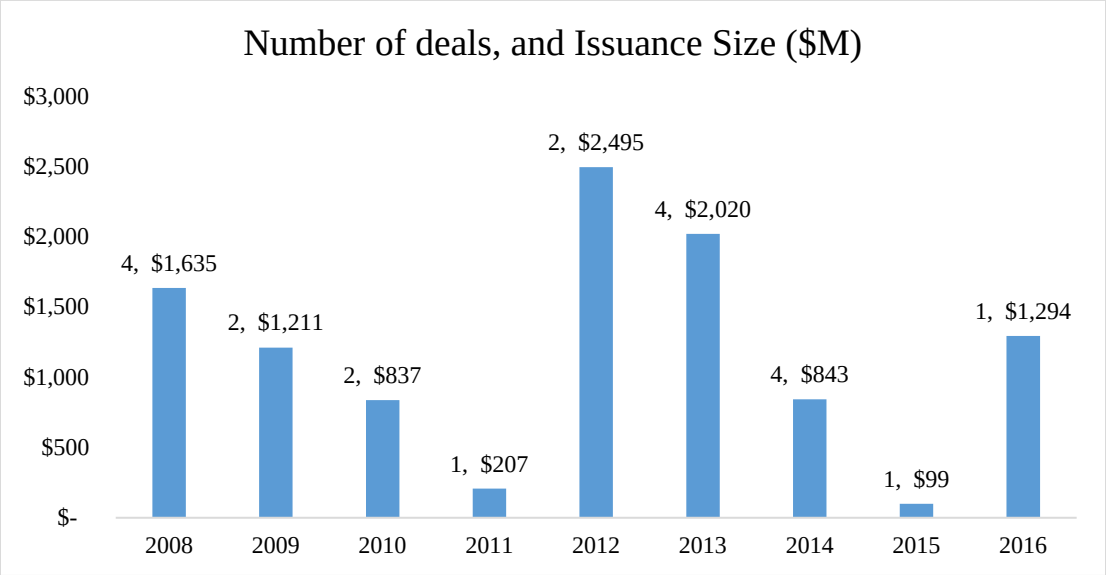
The proposed GA mechanism is most similar to rated reduction bonds (RRBs) from the United States. An RRB is the securitization of a cashflow stream generated by a fee charged to utility consumers. RRBs came into prominence in the US after the passing of the Energy Policy Act of 1992 that led to the privatization of the electricity market. Deregulation of the electric utilities was introduced to foster a competitive environment and to reduce the rates charged to customers. However, when states deregulated utilities, the resulting decrease in revenue caused many utility company assets to become uneconomic to operate. These uneconomic assets are referred to as "stranded assets". RRBs were developed to enable utilities to bridge the gap between the book value of stranded assets in the previously regulated environment and their current market value in a deregulated one. The use of RRBs allows for an extended recovery period of those costs at an AAA funding rate.

The fee or transition charge is collected by utilities over a specific period of time. Because the state legislature designates the transition charge to be a statutory property right, it can be sold by a utility to an SPV and then securitized. It is the legislative designation of the transition charge as an asset that makes RRBs different from the typical asset securitized.

Transition charges are initially calculated based on projections of utility usage and the ability to collect revenues. However, actual collection experience may differ from initial projections. Because of this, there is a “true up” mechanism in these securitizations. This mechanism permits the utility to recompute the transition charges on a periodic basis over the term of the securitization

based on actual collection experience. The advantage of the true-up mechanism to the bond classes is that it provides cash flow stability as well as a form of credit enhancement.

From 1995 to 2003, there were more than $31B issuances of RRBs (about $45B total since 2012) in over 20 states. The deal size has been between $35M and $3B in the past for the US. RRBs have traded at spreads comparable to AAA-rated credit cards in the US. Figure 7 below is a summary of RRB deals since 2008:



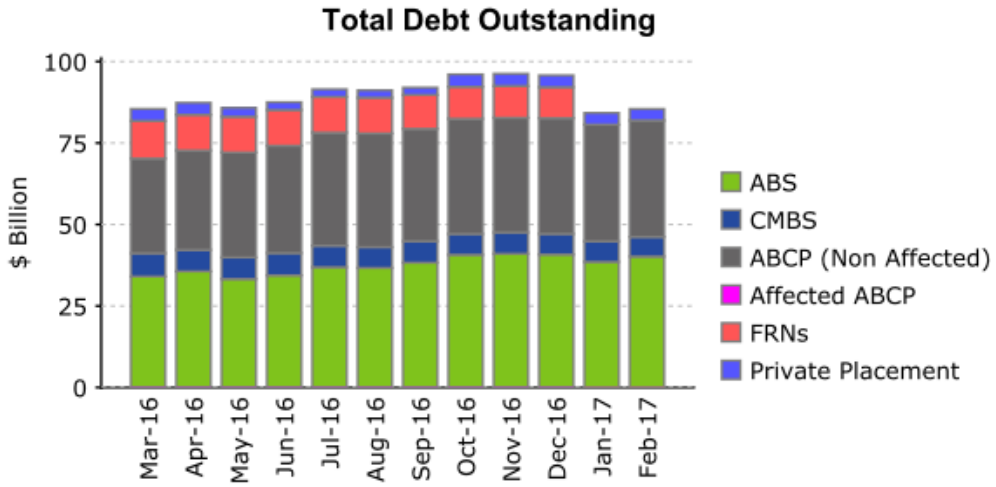
Appendix D contains details of each of the historical RRB issuances from Figure 7 above.

A key difference between RRBs and the proposed debt securities from the GA financing structure is that there is more uncertainty surrounding the GA deferral mechanism.

- RRBs book value and current market value are relatively known at the time of issuance, thus it may be easier to determine the fee that is needed to recuperate the stranded assets from the start.
- The extent of borrowing needed for the GA adjustment is not known ahead of time.
    - However, reasonable estimation and the true-up mechanism can mitigate this issue.
    - Once a history of forecast accuracy and fees collected from ratepayers has been established, there will be more certainty in the amount and timing of cashflows.

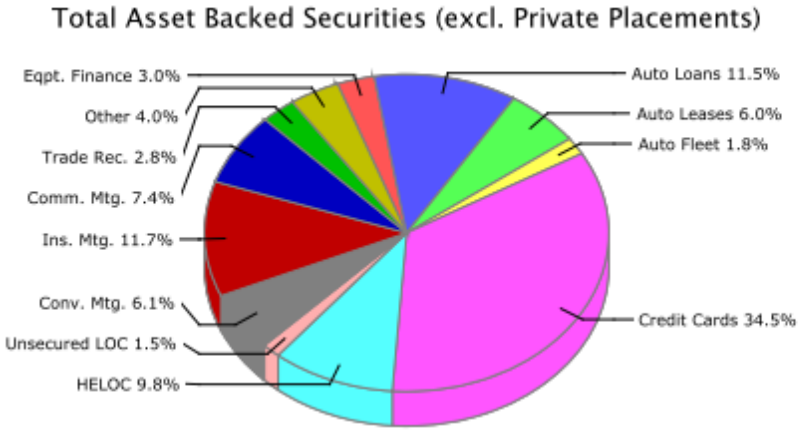
Canadian Securitization Market

The total amount outstanding in the Canadian securitization market ended February 2017 at $85.0 billion. The figures below illustrate the market composition as of February 2017.



Total Asset Backed Securities (excl. Private Placements)

Dealer/Administrator	Outstanding Amount	Market Share
TD Securities Inc.	21,108,826,721	25.8%
RBC Capital Markets Inc.	15,849,571,935	19.3%
BMO Capital Markets	14,880,241,648	18.2%
CIBC World Markets Inc.	9,648,552,341	11.8%
Scotia Capital Inc.	7,732,545,756	9.4%
Other	5,941,339,645	7.3%
National Bank Financial Inc.	4,376,185,678	5.3%
Bank of Nova Scotia (BNS)	1,551,896,531	1.9%
Merrill Lynch Canada Inc.	591,797,636	0.7%
HSBC Securities (Canada) Inc.	92,500,000	0.1%
Canadian Tire Bank	89,698,890	0.1%
National Bank of Canada (NBC)	60,910,750	0.1%
HSBC Bank Canada	4,349,881	0.0%
Total	**$81,928,417,413**	**100.0%**



Asset Classes in Other	Percent
Auto Floorplan	0.65 %
Equipment Floorplan	0.72 %
Auto Rental	0.82 %
Reverse Mtg.	0.73 %
Ins. Premium Loans	0.20 %
Fran. Loans	0.87 %

An issuance of $2.5 billion a year by the SPV (including the "private placement" to the Province) would be approximately 3% of the total Canadian market. There has also been discussion of entrance into the US market.

Credit Enhancement

There are a variety of methods for credit enhancement of securitized assets:

1) Excess spread – The difference between the utility fee cash flows brought in from the regulated asset and the costs of the securitization (financing costs, servicing fees, etc.). If ratepayers are charged 6% and bondholders have an interest at 4%, the excess spread of 2% helps cover if some ratepayers have late payments.
2) Cash reserve account: holding excess cash.
3) Overcollateralization: having the regulatory assets value higher than the issued notes.
4) Subordination
5) Letter of credit from a third party.

SPV Credit rating

Rate reduction bonds minimize costs by qualifying for triple A ratings and accordingly are issued with yields considerably lower than those based on the sponsoring utility's long-term debt rating. In order to be eligible for this level of credit quality, rate reduction bonds must possess certain common structural characteristics.

- First, the bonds must be authorized by specific state enabling legislation entitling the utility to impose and collect usage-based customer charges that are dedicated to payment of the bonds.
- The charges must be non-bypassable; that is, they cannot be eliminated by switching to alternative providers of service.
- The legislation requires the utility to seek and receive an irrevocable financing order from the state utility regulator. The financing order creates a present intangible property right to impose and collect the non-bypassable charge in amounts necessary to service the bonds.
- The legislation and financing order provide for a periodic true-up rate mechanism, by which at least annually, and more frequently in many cases, the special charges are reviewed and adjusted to correct for any under collection, to assure timely payment of the principal and interest on the bonds.
- The legislation also provides for a covenant by the state that until the bonds have been paid, the state will not impair the value of the securitization collateral or, but for the true-up process, reduce, alter or impair the special charges to the utility's customers.

Legislation

- The current draft of the legislation has similar provisions discussed above.
- A Triple AAA rating is likely with the supporting legislation and the proposed credit enhancements of subordination, excess spread, and the true-up mechanism.
    - For RRBs, the difference between market value and book value (i.e., the stranded assets) was relatively known at the time of issuance.

- In this case, the extent of the total borrowing is not known, which may put the credit rating at risk with more uncertain cash flows than the precedent from RRB.

Maintaining a good credit rating for the Province

Maintaining the Province's credit rating is critical to lowering the borrowing costs over the refinancing period. Keeping the SPV consolidated onto OPG's books and minimizing Provincial borrowing are the two critical objectives needed to reduce fiscal impacts and the probability of a rating downgrade.

3. Allowing for the consolidation of the SPV onto OPG's books

The SPV needs to be consolidated onto OPG's balance sheets in order for the rate regulated assets to be recognized under US GAAP. When OPG is consolidated onto the Province's accounts, it will be recognized under the modified equity method under PSAB. The modified equity method has the net asset value of OPG recognized as an equity investment on the province's books, with OPG able to maintain an IFRS accounting framework when calculating the net assets and not conforming to PSAB. If the Province or related government reporting entity that is not a GBE is seen as controlling the SPV, then line-by-line consolidation will occur with potential fiscal impacts from the loss of recognition of the regulatory assets that are not recognized under PSAB.

Appendix F highlights how the Province could indirectly or indirectly fund the SPV while allowing OPG to consolidate the SPV on its books. In general terms, the two main criteria to be satisfied are:

1) **OPG must be seen as controlling the Trust** – the way the legislation is being drafted is to have OPG have full control of the Trust, including controlling the economic performance of the Trust.
2) **OPG must have the majority of the equity tranche in the SPV** – this is because OPG must be exposed to either the majority of expected losses, the majority of expected residual returns, or both, under general accounting consolidation requirements. The equity tranche gets all of the residual returns but is the first to absorb losses – thus satisfying this requirement.

It is important to note that:

- There are no clear rules under PSAB for the consolidation of a special purpose vehicle or special purpose entity.
  - The OPG white paper requirements do not prohibit the Province from directly funding the SPV.
- There are no public sector accounting standards specifically related to a provincial investment in the subsidiary of a government business enterprise.
- There may be the possibility of the Province issuing debt to OPG that is then moved to the SPV, thus giving the Province access to the returns from the SPV without the Province going through OPG.

4-6. Cost Recovery, Profitability, and Fiscal impact

The options for the Province to fund the GA deferral structure are in the continuum of common equity to pure debt:

Common equity to OPG

- Gives OPG the most flexibility in managing the trust and ability to absorb temporary losses.
- Preferred method by OPG.
- Lower chance of a ratings downgrade.
- Return charged to ratepayers, on a weighted average basis, would need to justify the proportion of equity injected into OPG that is ultimately put into the SPV, otherwise could be seen as a subsidy to the Province.
- OPG would be able to, but not obliged to, flow dividends back to the Province that would be used to settle interest/principal costs.
- Issue of "double leverage" – the Province's equity stake in OPG (and ultimately the SPV) is funded by debt.
- There could be no fiscal impact with the profit to OPG from the Trust offsetting the interest on Provincial borrowing.
    - However, on a cash basis, there is no guarantee that OPG would pass the required payments to the Province to settle interest and principal payments – there are timing issues.
    - This could lead to fiscal costs eventually once the Trust is dissolved with OPG potentially hanging on to billions of dollars of cash to use for its own initiatives.

Preferred Equity to OPG

- The suggested method would have cumulative dividends that could be deferred for at least 10 years, payable with cash, and with the preferred shares redeemable after ten years from the time of issuance.
    - Under DBRS rating criteria, would likely get 50% equity treatment (*Appendix E*)
- The deferral of dividends would still give OPG flexibility in managing the trust and the ability to absorb temporary losses.
- Lower chance of a ratings downgrade than using debt.
- Lower return to be charged to ratepayers versus common equity to justify preferred equity funding.
- Allows for the Province to eventually receive payments, with the cumulative dividends compensating the Province for the interest payments on its borrowed portion.
    - The preferred share rate of return would need to be higher than the cost of debt for the Province to be compensating for capitalized interest costs.
- OPG would be obliged to pay back dividends, but could delay this outcome for ten years.
- The fiscal impact risk would be expected to be less than common equity with a reasonably guaranteed flow of cash from OPG to the Province through dividends and redemption.

Debt to OPG

- Gives OPG the least flexibility in managing the trust and ability to absorb temporary losses.
- Highest chance of a ratings downgrade.
- Provides a mechanism for the Province to get timely interest and principal payments back from the Trust.
- Fiscal impact risk is the lowest in terms of receiving principal and interest payments.

Various other options would be between the equity and debt spectrum.

Appendix A. Public Sector Accounting Standards related to Government Business Enterprises

Key sections have been highlighted.

SECTION PS 3070 – Investments in Government Business Enterprises

.03 A government business enterprise is a government organization that has all of the following characteristics:
(i) It is a separate legal entity with the power to contract in its own name and that can sue and be sued;
(ii) It has been delegated the financial and operational authority to carry on a business;
(iii) **It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity**; and
(iv) **It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity**.

These criteria are explained in GOVERNMENT REPORTING ENTITY, paragraphs PS 1300.29-.31.

Inter-organizational transactions and balances

.29 Inter-organizational transactions and balances are not eliminated under the modified equity method.

.30 Inter-organizational gains and losses are, however, eliminated on assets remaining within the government reporting entity at the financial statement date. As a result, gains or losses related to sales and purchases of services for example, between a government business enterprise and other government organizations would not be eliminated when the government business enterprise is included in government consolidated financial statements by the modified equity method.

.31 For financial assets, such as inventories for resale, that are transferred between a governmental unit and a government business enterprise, unrealized gains or losses may occur. The existence of unrealized losses may indicate a permanent decline in the value of the relevant assets. It may be necessary to recognize this decline by writing down such assets.

.32 Transfers of assets from a governmental unit to a government business enterprise normally result in an increase to the assets and contributed surplus of the government business enterprise. When tangible capital assets are transferred, an unrealized increase in the financial position of the government reporting entity may be created. When tangible capital assets are transferred to a government business enterprise, they are recorded by the government reporting entity as an investment and reported as a financial asset in government consolidated financial statements. Any unrealized gains on tangible capital assets would be eliminated when the government business enterprise is included in government consolidated financial statements on a modified equity basis.

.33 The situation in paragraph PS 3070.32 is analogous to that which arises regarding tangible capital assets when a governmental unit changes in status to be a government business enterprise as described in ADDITIONAL AREAS OF CONSOLIDATION, paragraphs PS 2510.46-.49. The amount of the adjustment to eliminate an unrealized gain arising on the transfer of a tangible capital asset to a government business enterprise in any given period would vary depending on whether the transferred asset is depreciable and, if so, the extent of the depreciation recorded on the asset by the government business enterprise. Any impairment or other adjustment made by a government business enterprise to the recorded value of a tangible capital asset transferred from a governmental unit to the government business enterprise would also affect the amount of the elimination entry.

.34 *The transfer or sale of a tangible capital asset from a governmental unit to a government business enterprise should not improve the net operating results of the period or otherwise improve the net financial position of the government reporting entity*

Inter-organizational bond holdings

.35 From the point of view of the government reporting entity, constructive debt retirement occurs when:

(a) Another government organization purchases the bonds, notes or other debt instruments of a government business enterprise; or

(b) A government business enterprise purchases the bonds, notes or other debt instruments of another government organization, from an organization external to the government reporting entity.

The debt retirement is "constructive" because the debt remains outstanding from the viewpoint of the issuer as a separate legal entity and remains an investment from the point of view of the acquirer as a separate legal entity. As a result of such purchases, a constructive gain or loss, equal to the difference between the carrying value of the debt in the accounts of the issuer and the cost to the acquirer, is recognized in government consolidated financial statements at the date of acquisition. The gain or loss is "constructive" because it is realized and recognized at acquisition from the viewpoint of the government reporting entity, but no gain or loss is recognized at acquisition in the books of the issuing or the acquiring government organization. A constructive gain or loss arises because the acquirer has purchased the debt at a premium or discount and/or the issuer originally issued the debt at a premium or discount.

.36 Neither the carrying values of the inter-organizational bond holdings between a government business enterprise and another government organization, nor the related interest income and expense would be eliminated when the government business enterprise is included in government consolidated financial statements by the modified equity method. However, the amortization of the premium or discount on the books of the acquirer and the amortization of the premium or discount on the books of the issuer would be eliminated. The eliminations would be reflected in the government's investment in a government business enterprise and its income from an investment in a government business enterprise.

.37 Because the debt remains outstanding from the viewpoint of the acquirer and the issuer, they would continue to account for the portion of the debt deemed to be constructively retired, and any related premiums or discounts, and would, therefore, recognize the constructive gain or loss in their own accounts over the period to the maturity or sale of the debt. As the constructive gain or loss was recognized by the government reporting entity in the period the debt was constructively retired, elimination of the gain or loss being recognized by the acquirer and the issuer in each subsequent accounting period through the amortization of any premium or discount related to the debt will be required when the government business enterprise is included in government consolidated financial statements by the modified equity method. In making such eliminations, the government's proportionate ownership of the government business enterprise would need to be taken into account when the government business enterprise is the issuer of the debt.

.38 Regardless of whether the government or a government business enterprise is the acquirer in such a transaction, the government's investment in a government business enterprise and its income from an investment in a government business enterprise would be adjusted to recognize the constructive gain or loss in government consolidated financial statements in the year of the acquisition. In recognizing the gain or loss, the government's proportionate ownership of the government business enterprise would need to be taken into account when the government business enterprise is the issuer of the debt.

WHEN AN ORGANIZATION NO LONGER MEETS THE DEFINITION OF A GOVERNMENT BUSINESS ENTERPRISE

.48 The circumstances affecting a government organization may change so that it no longer meets the definition of a government business enterprise. Failure to meet any of the four characteristics of the government business enterprise definition would require such a change in status of the enterprise.

.49 **When the nature of a government organization changes such that it no longer meets the definition of a government business enterprise, the organization would become a governmental unit and would be consolidated in government financial statements in accordance with BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500 and ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, instead of being accounted for on a modified equity basis. (i.e., line-by-line consolidation)**

.50 When the change in status of a government business enterprise to a governmental unit is the result of an observable event, a government would apply both modified equity and consolidation accounting to the organization in the period, as appropriate. The individual revenues and expenses of the former government business enterprise would be included with those of the other governmental units and recognized in the consolidated statement of operations subsequent to the date the status of the organization changes. Prior to the date of change, only income from an investment in a government business enterprise would be recorded, calculated in accordance with the modified equity method.

.51 When the change in status of a government business enterprise to a governmental unit is not a specific observable event, but occurs over time, a government would account for the organization as a governmental unit for the reporting period in which the change in status occurs.

.52 When an organization ceases to meet the definition of a government business enterprise and that organization applies accounting policies that differ from those of the government reporting entity, the accounting policies of that organization must be conformed to those of the government reporting entity for the purposes of its consolidation in government financial statements. For example, when an acquired government business enterprise changes its status to a governmental unit, any remaining unamortized purchase premium would be written off to consolidated operating results in the period the status changed in accordance with the accounting treatment for purchase premiums required by ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510.

.53 *In the period that a government organization no longer meets the definition of a government business enterprise, the effect of conforming its accounting policies to those of the government reporting entity for the purposes of consolidation should be included in the determination of consolidated operating results.* [APRIL 2000]

.54 When part of a government business enterprise, such as a division or other discrete component, is sold, but the government still retains control of the organization that remains, that organization is still considered to be part of the government reporting entity. If the part of the organization that remains does not on its own meet the definition of a government business enterprise, it would be consolidated in government financial statements. If the part of the organization that remains continues on its own to meet the definition of a government business enterprise, it would continue to be accounted for on the modified equity basis as a government business enterprise.

.55 **When the circumstances affecting a government organization change so that it no longer meets the definition of a government business enterprise, the change in accounting treatment would not be applied retroactively**. The alteration of an accounting treatment necessitated by events or transactions that reflect a difference in substance from those previously occurring is not considered to be a change in accounting policy 3 or a change in classification. 4 The financial position and results of prior periods would not be adjusted to reflect the change in status of the organization as if it had always been a governmental unit. It is important for government consolidated financial statements to show that a government business enterprise has changed its status to become a governmental unit.

.56 *When the circumstances affecting a government organization change such that it no longer meets the definition of a government business enterprise, the resulting change in accounting treatment, the underlying reasons for the change, and the financial effect of the change should be disclosed.* [APRIL 2000]

.65 Government business enterprises may enter into significant transactions with other government organizations in the government reporting entity. Since the modified equity method of accounting does not eliminate inter-organizational transactions and balances, such as loans and advances, users need supplementary information to identify amounts

owing to or receivable from, and revenues received from or paid to, other government organizations in the government reporting entity.

.66 In addition, because unrealized gains or losses on amounts that remain within the government reporting entity are eliminated, users need information on any adjustments that have been made to the reported net assets and net income of the government business enterprise. Furthermore, users need information on any contractual obligations and contingencies of government business enterprises to understand and assess the future revenue requirements of the government reporting entity.

.67 One result of accounting for a government business enterprise by the modified equity method is that the outstanding debt issued by a government business enterprise is not included in the debt reported by the government reporting entity on its consolidated statement of financial position. Disclosure in government consolidated financial statements of the nature and terms of any government guarantees relating to debt issued by a government business enterprise would serve to highlight a government's contingent exposure to and responsibility for any debt of government business enterprises arising as a result of specific guarantees.

.68 When the nature of the business of a government business enterprise is not self-explanatory, governments are also encouraged to disclose by enterprise, or category of enterprise where appropriate, the nature of the business in which the enterprise(s) are engaged

SECTION PS 1300 – Government Reporting Entity

.27 *Government financial statements should consolidate the financial statements of governmental units comprising the government reporting entity.* 2 [Former paragraph PS 1300.27 retained in Archived Pronouncements.] [JUNE 1996 *]

Defining a government business enterprise

.28 A government business enterprise is an organization that has all of the following characteristics:

(a) It is a separate legal entity with the power to contract in its own name and that can sue and be sued;

(b) It has been delegated the financial and operational authority to carry on a business;

(c) It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and

(d) It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity

.29 Selling goods and services involves a direct exchange relationship between the revenues and the goods and services provided. Selling prices are related to the quantity and quality of goods or services sold, and not just to the recovery of administrative costs. Imposed fees and penalties, such

as licenses and fines, do not represent sales of goods and services. Insurance premiums charged by a government organization are a sale of a service and not an imposed fee.

.30 A government business enterprise should, in the normal course of its operations, be able to maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity. These revenues include not only amounts from the sale of goods and services, but also transfers received from other governments or sources outside of the government reporting entity.

.31 When determining if an organization can maintain its operations and meet its liabilities with revenues received from outside of the government reporting entity, the following factors should be considered:

(a) The organization's history of maintaining its operations and meeting its liabilities;

(b) Whether the organization would continue to maintain its operations and meet its liabilities without relying on sales to, or subsidies in cash or kind from, the government reporting entity;

(c) Past, present and future economic conditions within which the organization operates; and

(d) Whether the organization has realistic and specific plans that show how it expects to be able to maintain its operations and meet its liabilities in the future.

Accounting for a government business enterprise

.32 A government business enterprise differs from other government organizations in its relationship to the government, and its objectives, and operations. A government enterprise represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, equity accounting is appropriate.

.33 Accounting for a government business enterprise by the equity method avoids commingling the independently-managed business enterprise's budget and actual results with those of other government organizations on a line-by-line basis. It also avoids including the business enterprise's gross debt with that of other government organizations as the business enterprise is expected to repay that debt from its own revenues.

.34 Because a government enterprise carries on a business, its financial statements should be prepared on the same basis as a private sector business. This basis is most appropriate for measuring the government's investment in the organization and the impact it has on the government's financial position and results. As such, the modified equity method is the most suitable form of equity accounting.

.35 Government business enterprises should be accounted for by the modified equity method. [JUNE 1996]

.36 Accounting for government business enterprises by the modified equity method is outlined in INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070.

SECTION PS 3230 – Long-term Debt

.09 If a government charges little or no interest to the government business enterprise for the use of debt proceeds, the difference between the interest cost to the government and the interest charged to the government business enterprise is in the nature of a subsidy. Such circumstances would be taken into account in assessing if the organization continues to meet the financial self-sustainability requirement inherent in the definition of a government business enterprise in GOVERNMENT REPORTING ENTITY, Section PS 1300.

.10 ***When there is sufficient evidence that debt has been issued by a government specifically on behalf of a government business enterprise:***

(a) The debt issued on behalf of the government business enterprise and the related receivable from the government business enterprise should be presented on a net basis in the consolidated statement of financial position; and

(b) The interest expense on the debt issued on behalf of the government business enterprise and the related interest revenue from the government business enterprise should be presented on a net basis in the consolidated statement of operations. **[APRIL 2000]**

Appendix B – OPG Global Adjustment White Paper Conditions

A. Ability to Recognize an Asset and Record Revenue

Accounting Requirements under International Financial Reporting Standards (IFRS)

1) It is our understanding that the IESO and KPMG have concluded that the sale of this 'right to collect' future revenue (or regulatory asset) is not a financing transaction and will not be recorded as a financial liability. Based on that conclusion, the right to collect will be accounted for as an intangible asset in the SPV.

2) In order to the SPV to record this right as an intangible asset, the right must meet the following conditions:

- The intangible asset must be separable and arise from a contractual or legal right (i.e. mandated by the Legislation and SPV Indenture Agreement).
- The SPV must have the control and power to obtain future economic benefits from the intangible asset.
- The SPV must be able to demonstrate that the intangible asset is purchased at fair value.

3) In order for the SPV to recognize appropriate revenue to offset any ongoing costs, the **Legislation must require interest, carrying and administrative costs to be paid to the SPV on a monthly basis**. **This may result in additional amounts to be deferred to achieve the desired customer impact**. Payment of revenue to the SPV is also important to service the interest expenses of the debt.

B. Ability to Consolidate the SPV into OPG under IFRS

OPG 'Control' of the SPV - Accounting Requirements

1) In order to meet the accounting definition of 'control', accounting guidance must be considered. There are no bright lines to determine whether OPG has exposure, or rights, to variable returns from its involvement with the SPV, or whether it has the ability to affect the returns of the SPV through its power over the SPV. Rather, all facts and circumstances are considered when assessing whether an entity has control over another entity. Based on the relevant accounting guidance under IFRS, OPG has proposed terms necessary to demonstrate that OPG has control over the SPV. OPG's external auditors, Ernst & Young, has provided their concurrence that based on the information provided to them to date that the following conditions should permit consolidation of the SPV by OPG.

Directive:

1. **The SPV must be undertaken by OPG as a business initiative on its merits**. A Shareholder Directive is to be limited to direct OPG to investigate the option of establishing a SPV vehicle to administer, finance and operate the Global Adjustment plan. The control, risk and rewards of that SPV will determine its consolidation into OPG as a business enterprise.

SPV:

2. **The SPV should not operate in a predetermined way such that OPG does not have decision-making authority over the SPV's ongoing activities after its formation** (i.e. should not operate on 'autopilot').

3. **OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the SPV.**

4. The Province cannot have the right to veto OPG's decisions about the relevant activities of the SPV. **OPG must have the power over the relevant activities of the SPV and be compensated**. The relevant activities of the SPV include (but are not limited to) the evaluation and decisions on financing alternatives, duration, and the strategy to minimize financing costs. **OPG must have the power to establish operating and capital budgets of the SPV.**

5. OPG must have the power to determine or change operating and financing policies of the SPV, which will affect the variability of risks and returns.

6**. The Province or its agencies must not directly or indirectly fund (through debt or equity) more than 50% of** the following:

- **The SPV**
- **Any of OPG's investments in the most subordinated debt of the Trust**

7. OPG must own greater than 50% of the most subordinated debt and targeted to be no less than 5%[2] of the total debt of the SPV. **Such ownership must be financed entirely by OPG through operating cash flows or external debt, without assistance from Provincial sources**. A quantitative analysis should be performed at a later date to corroborate the **appropriateness of the 5% threshold to support that the 5% subordinated debt investment is sufficient to absorb most of the expected variability in the SPV.**

8. OPG must have the ability to earn variable returns by exercising its authority, which shall be accomplished as follows:

a. The cash flow from the restructured asset shall include interest determined based on a relevant benchmark that is appropriate relative to the restructured asset, plus an appropriate margin consistent with the relevant market and other risks

b. OPG shall have the authority to determine the financing strategy, which will vary the financing costs with the objective of enabling the SPV to achieve a more favourable return compared to the return from the restructured asset

c. The SPV shall establish classes of liabilities (senior, subordinated and the most subordinated). The classes would allow the SPV to delineate financing of lower risk investment and investment that would bear higher residual risk. The delineation would

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[2] *While the rest of the letter refers to a 10% investment in the most junior subordinated debt with OPG owning 5%, it should be noted that OPG should own more than 50% of the most subordinate debt. For simplicity, the degree to which OPG's ownership beyond 50% is not shown in this letter.*

limit OPG's self-funded investment to a reasonable level in order to allow OPG to remain a self-sustaining entity.

d. OPG shall, through its ownership of the most subordinated liability, be able to capture and retain the pricing difference between cost of financing and benchmark for interest on the restructured asset, or any residual risk of restructured asset. The targeted return of the subordinated liability should be reflective of the underlying risks and compensate holders for active management that would be required.

e. OPG should participate in the detailed design of the above and the SPV documentation to ensure that it has substantive power and variability, which will allow OPG's Board of Directors to evaluate the opportunity as a business initiative instead of through a shareholder directive.

Notwithstanding the above, under certain Defined Forced Majeure for emergency events (e.g. unlikely credit market event or disruption where it is not possible to borrow from the market at a reasonable rate), the OEFC may provide bridge financing beyond the designated percentage for a defined period. The relevant terms should ensure that this temporary measure does not detract from the rights of OPG to direct all of the relevant activities of the SPV. Additionally, OPG should not be protected from risk of loss by the OEFC with respect to its subordinated investment, nor should it lose its right to derive the residual returns should such bridge financing be required.

Legislation

9. **The Legislation must require interest, carrying and administrative costs to be paid to the SPV on a monthly basis, so that the SPV is able to recognize appropriate revenue to offset any ongoing costs.**

10. The Legislation must dictate the manner in which the restructured asset would be determined, collected, and the period of collection, so that the determination of the restructured asset will not be subject to the Province's decisions on an ongoing basis, but determined based on a formula. Alternatively, the Legislation may allow for an adjustment to the pre-determined deferral formula based on specific parameters that would limit the adjustment to the restructured asset. Adjustments beyond the specific parameters would require approval by the Board of Trustees.

11. The Legislation must be written to avoid legal or constitutional challenges and be irrevocable to reduce the cost of borrowing and with a specific formula which determines the deferral amount. As irrevocability would be difficult under Canadian law one mitigation would be to provide a Provincial guarantee which only applies with cancellation or amendment of the legislation.

12. The spirit of the above terms should be reflected in the SPV Indenture Agreement as well as Legislation, wherever possible.

2) The Trust is expected to be financed as follows:

- 51% senior secured debt from external markets
- 39% senior subordinated debt from OPG (via Province equity injection into OPG)
- 10% junior subordinated debt from OPG (5% from external markets and 5% from Province equity injection into OPG).

When assessing control, an investor shall consider the nature of its relationship with other parties and whether those parties are acting on the investor's behalf (i.e. they are 'de facto agents'). If OPG is assessed to be a 'de facto agent' of the Province, it will compromise the ability for OPG to consolidate the Trust. The split above is to meet the following conditions to ensure that OPG is not considered a 'de facto agent' of the Province:

- The Province or its agencies must not directly or indirectly fund (through debt or equity) more than 50% of the following:
    - The Trust
    - Any of OPG's investments in the most subordinated debt of the Trust
- OPG must own greater than 50% of the most subordinated debt and targeted to own no less than 5% of the total debt of the Trust. Such ownership must be financed entirely by OPG through operating cash flows or external debt, without assistance from Provincial sources.

3) The Province will need to conclude on whether OPG still meets the definition of a Government Business Enterprise as defined under Public Sector Accounting Board standards in order to obtain the preferred consolidation treatment after the transaction. We also recommend that the Province to undertake the analysis deemed necessary to confirm the accounting treatment in its consolidated Public Accounts, **including if the recognition of the intangible asset would result in an offsetting liability in the Public Accounts.**

Appendix C – Cabinet Submission Reference to SPV and GBE

- Special Purpose Vehicle (SPV) will be used to raise the GA financing and ring fence OPG from its legal obligations.
- SPV will be structured to allow for GBE accounting consolidation into OPG
- Given that SPV will be consolidated into OPG for accounting purposes, the significant amount of debt required to fund the GA deferral will have a severe impact on OPG's credit rating. If 100% of the requirement is funded by debt OPG would be downgraded.
- To manage the exposure and minimize the cost of funding. The required funding would be split into 2 buckets:
  1. 56% from capital markets; and
  2. The remainder provided by the Province via equity injection, which would be loaned to SPV as subordinated debt.
- The use of equity to fund a portion of the GA deferral allows for an improvement in both Net Income and EBITDA as incremental revenue is captured by the increase in the value of the deferral which would offset the fiscal impact of the borrowing at Province level.
- Credit rating metrics are generally maintained within established limits.

Appendix D – RRB Historical Issuances

ESOT DEF 2016-A ($1,294m) Duke Energy Florida IncRBC, GUG Jun 15, 2016

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A2018	183	2	Aaa	AAA	AAA	-	-	-	Fixed	Tsy	-	-	1.20%	1.20%	99.999
A2021	150	5	Aaa	AAA	AAA	-	-	-	Fixed	Tsy	-	-	1.73%	1.73%	99.998
A2026	436	10	Aaa	AAA	AAA	-	-	-	Fixed	Tsy	-	-	2.54%	2.54%	99.996
A2032	250	15.2	Aaa	AAA	AAA	-	-	-	Fixed	Tsy	-	-	2.86%	2.86%	99.995
A2035	275.29	18.7	Aaa	AAA	AAA	-	-	-	Fixed	Tsy	-	-	3.11%	3.11%	99.994

ESOT ENOI 2015-1 ($99m) Entergy CorporationCTI Jul 14, 2015

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A	98.73	4.97	Aa1	AAA	-	-	-	-	Fixed	Swaps	-	90	-	2.67%	99.9756

ESOT HGEMS 2014-A ($150m) State of HawaiiGSC Nov 4, 2014

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	50	3.05	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	30	1.47%	1.47%	-
A2	100	10.21	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	75	3.24%	3.24%	-

ESOT LCDA 2014-ELL ($244m) Louisiana Local Government Environmental Facilities and Community Development AuthorityCTI Jul 29, 2014

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A	91.7	3	Aaa	AAA	-	-	-	-	Fixed	Swaps	-	51	1.66%	1.67%	-
B	152.15	8.91	Aaa	AAA	-	-	-	-	Fixed	Swaps	-	77	3.24%	3.24%	-

ESOT LCDA 2014-EGSL ($71m) Louisiana Local Government Environmental Facilities and Community Development AuthorityCTI Jul 29, 2014

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
-	71	6.73	Aaa	AAA	-	-	-	-	Fixed	Swaps	-	70	2.86%	2.86%	-

ESOT CMS 2014-A ($378m) Consumers Energy CompanyCTI, GSC Jul 14, 2014

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A	123.4	3	Aaa	AAA	-	-	-	-	Fixed	Swaps	30a	27	1.33%	1.33%	-
A2	139.4	8	Aaa	AAA	-	-	-	-	Fixed	Swaps	65a	57	2.96%	2.96%	-
A3	115.2	12.26	Aaa	AAA	-	-	-	-	Fixed	Swaps	75a	70	3.53%	3.53%	-

ESOT UDSA 2013-T ($483m) Long Island Power AuthorityMOS, GSC Dec 12, 2013

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
T1	100	4.91	Aaa	AAA	AAA	-	-	-	Fixed	-	-	50	2.04%	2.04%	99.999
T2	100	5.92	Aaa	AAA	AAA	-	-	-	Fixed	-	-	63	2.55%	2.55%	99.995
T3	100	6.79	Aaa	AAA	AAA	-	-	-	Fixed	-	-	73	2.94%	2.93%	99.997
T4	182.93	8.77	Aaa	AAA	AAA	-	-	-	Fixed	-	-	75	3.44%	3.43%	99.994

ESOT AEPWV 2013-1 ($380m) Appalachian Power CompanyMOS, RBS Nov 6, 2013

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	215.8	5	Aaa	AAA	-	-	-	-	Fixed	-	-	54	-	-	-
A2	164.5	12.24	Aaa	AAA	-	-	-	-	Fixed	-	-	70	-	-	-

ESOT AEPOH 2013-1 ($267m) Ohio Power CoCTI, RBS Jul 23, 2013

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	164.9	2.25	Aaa	AAA	-	-	-	-	Fixed	Swaps	-	40	0.96%	0.96%	99.9988
A2	102.51	5.08	Aaa	AAA	-	-	-	-	Fixed	Swaps	-	52	2.05%	2.05%	99.9987

ESOT FEOH 2013-1 ($890m) FirstEnergy OhioCTI, CAG, GSC Jun 12, 2013

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	111.83	1.6	-	-	-	-	-	-	Fixed	EDSF	-	25	0.68%	0.68%	99.9999
A1	111.97		Aaa	AAA	AAA	-	-	-	Fixed	EDSF	-	25	0.68%	0.68%	99.9999
A2	70.31	5.07	-	-	-	-	-	-	Fixed	Swaps	-	40	1.73%	1.73%	99.9954
A2	70.47		Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	40	1.73%	1.73%	99.9954
A3	262.56	13.69	-	-	-	-	-	-	Fixed	Swaps	-	70	3.45%	3.45%	99.9979
A3	262.48		Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	70	3.45%	3.45%	99.9979

ESOT AEPTC 2012-1 ($800m) Appalachian Power CompanyMOS, CTI Mar 7, 2012

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	307.3	3	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	20	0.88%	0.88%	99.9997
A2	179.4	7	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	40	1.98%	1.98%	99.9997
A3	313.3	10.76	Aaa	AAA	AAA	-	-	-	Fixed	-	-	70	2.84%	2.84%	99.9995

ESOT CNP 2012-1 ($1,695m) CenterPoint Energy Houston Electric LLCCTI, MOS Jan 11, 2012

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	606.22	3	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	18	0.90%	0.90%	99.9999
A2	407.52	7	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	55	2.16%	2.16%	99.9998
A3	681.26	10.81	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	90	3.02%	3.03%	99.9993

ESOT ELL 2011-A ($207m) Entergy CorporationMOS Sep 15, 2011

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	207.16	5.38	Aaa	AAA	AAA	-	-	-	Fixed	-	-	75	2.04%	2.04%	99.9835

ESOT EAI 2010-A ($124m) Entergy CorporationMOS Aug 11, 2010

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	124.1	5.45	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	55	2.30%	2.31%	99.9712

ESOT EGSL 2010-1 ($713m) Entergy CorporationCTI Jul 15, 2010

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	97	3	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	30	1.52%	1.53%	99.9794
A1	112	2	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	25	1.11%	1.12%	99.9849
A2	60	7	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	70	3.22%	3.22%	99.973
A2	111	5	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	50	2.47%	2.47%	99.97
A3	87.1	10.4	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	95	3.99%	4.00%	99.883
A3	121	8	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	73	3.45%	3.45%	99.9621
A4	124.9	10.9	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	85	3.96%	3.96%	99.9507

ESOT CNP 2009-1 ($665m) CenterPoint Energy Houston Electric LLCGSC Nov 18, 2009

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	224.79	3	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	20	1.83%	1.83%	99.9973
A2	160.15	7	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	45	3.46%	3.46%	99.9907
A3	279.92	10.82	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	70	4.24%	4.24%	99.9841

ESOT ETRF 2009-1 ($546m) Entergy CorporationMOS Oct 30, 2009

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	182.5	3	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	20	2.12%	2.12%	99.9933
A2	144.8	7	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	40	3.65%	3.65%	99.9704
A3	218.6	10.87	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	65	4.39%	4.38%	99.9249

ESOT EGSL 2008-A ($278m) Entergy CorporationCTI Aug 21, 2008

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	103	2.66	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	145	4.95%	4.95%	99.9458
A2	90	6.24	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	170	5.88%	5.88%	99.9396
A3	85.4	8.97	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	210	6.55%	6.54%	99.9728

ESOT EGSL 2008-A ($688m) Entergy CorporationCTI Jul 22, 2008

ESOT CLECO 2008-1 ($181m) Cleco Corporate Holdings LLCCSG Feb 28, 2008

Class	$(M)	WAL	MO	SP	FI	DR	KR	MS	FX/FL	BNCH	GDNC	SPRD	CPN	YLD	Price
A1	113	5	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	80	4.41%	4.41%	99.9379
A2	67.6	10.58	Aaa	AAA	AAA	-	-	-	Fixed	Swaps	-	115	4.41%	4.41%	99.9379

Appendix E – Key Aspects of DBRS Credit Rating Methodology

DBRS Limited (DBRS) has today confirmed the Issuer Rating and the Unsecured Debt rating of Ontario Power Generation Inc. (OPG or the Company) at A(low) as well as its Commercial Paper rating at R-1 (low). All trends are Stable. OPG's ratings continue to be supported by (1) the reasonable regulatory regime in place for the Company's generation facilities, (2) continuing financial support from its shareholder, the Province of Ontario (rated AA (low), Stable, by DBRS) and (3) strong cash flow-to-debt and debt-to-capital ratios.

http://www.dbrs.com/research/308279/dbrs-confirms-ontario-power-generation-inc-at-a-low-r-1-low-stable-trends.html

DBRS Criteria: Preferred Share and Hybrid Security Criteria for Corporate Issuers DBRS.COM 6

Hybrid Features	25%	50%	75%	100%
Subordination	Required – to ALL debt types	Required - to ALL debt types	Required - to ALL debt types	Required – to ALL debt types
Assumed Remaining Term to Maturity (as determined by DBRS)	> Five years	> Ten years	> 50 years	> 100 years
Interest Deferral	Optional; Cumulative for up to five years; Payable with cash	Optional; Cumulative for up to ten years; Payable with cash	Optional; Non-cumulative or cumulative and payable with equity	Mandatory; Non-cumulative or cumulative and payable with equity
Redemption Rights without Make-Whole and Replacement Language	Acceptable	Acceptable	Acceptable	**Not acceptable while senior debt is outstanding**
Tax- and Rating Agency Event-Based Redemption Rights with no Make-Whole	Acceptable	Acceptable	**Not Acceptable**	**Not Acceptable**

CASH FLOW-TO-DEBT = CASH FLOW FROM OPERATIONS / TOTAL DEBT

Cash flow from operations = core net income + depreciation + amortization + deferred taxes + other non-cash items from income statement (before changes in non-cash working capital items).

Total debt = short-term debt + long-term debt + hybrid debt portion + capital leases.

Gross interest expense = all interest expense + debt hybrid interest expenses + capitalized interest (excludes any International Financial Reporting Standards (IFRS) adjustments).

DEBT-TO-CAPITAL = TOTAL DEBT / TOTAL CAPITAL

Total capital = total debt + total preferred equity + total common equity + minority interest + capital leases.

EBIT-TO-INTEREST = EBIT / GROSS INTEREST EXPENSE

EBIT = revenue – cost of goods sold – selling, general and administrative expenses – depreciation – amortization.

Gross interest expense = all interest expense + debt hybrid interest expenses + capitalized interest (excludes any IFRS adjustments).

- To determine the BRA for regulation (see page 6), DBRS reviews the eight considerations found below, which assess the regulatory framework in which the utility conducts its business.
- The ranking of the factors is based on a five-point scale (excellent, good, satisfactory, below average and poor).
- The first four factors are generally of greater importance than the others when assessing regulatory risk; however, the factors are not given a specific weighting when assessing the regulatory framework.

Consideration 1: Deemed Equity Ratio

Definition

The deemed equity ratio is the percentage of equity investment in the rate base on which a utility could earn a return. In general, the higher the deemed equity ratio, the higher the earnings for a utility.

Score	Item	Definition
Excellent	50.00%+	• The deemed equity ratio represents 50.00% or more of the utility's rate base. • The treatment of the deemed equity ratio is consistent historically.
Good	45.00% to 49.99%	• The deemed equity ratio represents 45.00% to 49.99% of the utility's capital structure. • The treatment of the deemed equity ratio is consistent historically.
Satisfactory	40.00% to 44.99%	• The deemed equity ratio represents 40.00% to 44.99% of the utility's capital structure. • The treatment of the deemed equity ratio has not been consistent historically.
Below Average	35.00% to 39.99%	• The deemed equity ratio represents 35.00% to 39.99% of the utility's capital structure. • The treatment of the deemed equity ratio has not been consistent historically.
Poor	Below 34.99%	• The deemed equity ratio represents less than 34.99% of the utility's capital structure. • The treatment of the deemed equity ratio has not been consistent historically.

Consideration 2: Allowed ROE

Definition

Allowed ROE is a measurement of returns on the deemed equity portion of the rate base. The regulator assesses and sets an allowed ROE based on a utility's business risk level. These allowed ROE levels assume a current North American or Western European inflationary environment.

Score	Item	Definition
Excellent	10%+	• An allowed ROE is set at 10.00% or higher. • The regulatory treatment of allowed ROE has been consistent historically.
Good	9.00% to 10.00%	• An allowed ROE is set at 9.00% to 10.00%. • The regulatory treatment of allowed ROE has been consistent historically.
Satisfactory	8.00% to 8.99%	• An allowed ROE is set at 8.00% to 8.99%. • The regulatory treatment of allowed ROE has been consistent historically.
Below Average	7.00% to 7.99%	• An allowed ROE is set at 7.00% to 7.99%. • The regulatory treatment of allowed ROE has not been consistent historically.
Poor	Below 7.00%	• An allowed ROE is set at below 7.00%. • The regulatory treatment of allowed ROE has not been consistent historically.

Consideration 3: Energy Cost Recovery

Definition

Fuel and purchased energy cost (F&PE) recovery certainty and the timing of recovery are critical in DBRS's assessment of a regulatory system within a certain jurisdiction. DBRS looks at the following factors: (1) whether F&PE costs are fully passed through to the customers, (2) how often a utility is allowed to adjust the F&PE costs in retail rates charged to customers and (3) if there is a mechanism within a jurisdiction to allow utilities to make F&PE cost adjustments with no or minimal regulatory review. In addition, DBRS also focuses on the generation mix within a certain market. A high power cost market could have an impact on the utility's ability to recover the purchased power costs in a timely manner. DBRS notes that this factor is not applicable for water and waste-water utilities.

Score	Item	Definition
Excellent	Monthly/bimonthly	• F&PE costs are fully passed through. • Adjustment is made on a monthly basis. • There is an automatic adjustment mechanism. • The jurisdiction is in a favourable generation mix market, resulting in low power cost.
Good	Quarterly	• F&PE costs are fully passed through. • Adjustment is made on a quarterly basis. • There is an automatic adjustment mechanism. • The jurisdiction is in a favourable generation mix market, resulting in low power cost.
Satisfactory	Quarterly with regulatory review	• F&PE costs are fully passed through. • Adjustment is made on a quarterly basis. • F&PE cost deferrals are subject to some regulatory review. • The jurisdiction is in a good generation mix market.
Below Average	Annually with automatic adjustment	• F&PE costs are fully passed through or utilities have minimal exposure to energy price volatility. • Adjustment is made on an annual basis and is subject to minimal or some regulatory review. • The jurisdiction is in an above-average power cost market.
Poor	Annually with no automatic adjustment mechanism	• F&PE costs are fully passed through or utilities have minimal exposure to energy price volatility. • Adjustment is made on an annual basis. • F&PE cost deferrals are subject to regulatory review. • The jurisdiction is in an above-average power cost market.

Consideration 4: Capital and Operating Cost Recoveries

Definition

In assessing CCR and OCR, DBRS focuses on the likelihood of a utility's capex being added to its rate base, along with the timing of such an addition. In addition, DBRS focuses on cost-inflation adjustments that could affect the timing of the OCR. In particular, DBRS looks at the following factors: (1) the utilization of future test periods for rate decisions, (2) whether the spending is allowed to be added to the rate base during the construction or will only be added when the project is completed, (3) the level of upfront capital spending required without regulatory approval, (4) the degree of regulatory lag and uncertainty with respect to the CCR and (5) whether or not there is a reasonable mechanism to deal with cost overruns.

Score	Item	Definition
Excellent	Minimal CCR and OCR lag risk	• Work-in-progress costs can be added to the rate base if capex is significant. • Interim base-rate increases have been frequently authorized. • Future test periods are fully incorporated for rate-case decisions. • Rate cases are typically decided well within one year unless the rate cases are litigated or unusual circumstances occur. • There is a reasonable mechanism to deal with cost overruns.
Good	Reasonable CCR and OCR lag risk	• Capital costs are added to the rate base after completion of work. • Interim base-rate increases have been authorized from time to time. • Future test periods are at least partially incorporated for rate-case decisions. • Rate cases are typically decided within one year unless the rate cases are litigated or unusual circumstances occur. • There is a reasonable mechanism to deal with cost overruns.
Satisfactory	Modestly elevated CCR and OCR lag risk	• Capex is generally pre-approved by the regulator, but there is some modest upfront capital spending before regulatory approval. • Interim base-rate increases have been rarely authorized. • Historical test periods are commonly incorporated for rate-case decisions. • Rate cases are typically decided within one year unless the rate cases are litigated or unusual circumstances occur. • There is a reasonable mechanism to deal with cost overruns.
Below Average	Below-average CCR and OCR lag risk	• There is significant upfront capital spending before regulatory approval. • Interim base-rate increases have been rarely authorized. • Historical test periods are commonly incorporated for rate-case decisions. • Rate-case decisions typically take more than one year because of frequent court cases and other circumstances. • There are some mechanisms to deal with cost overruns.
Poor	Significant CCR and OCR lag risk	• Capex is generally not pre-approved by the regulator. • Capital costs are added to the rate base after completion of work. • Utilities face significant regulatory lag risk with respect to the CCR and the OCR. • There is no meaningful mechanism to deal with cost overruns.

Consideration 5: COS versus IRM

Definition

In general, under COS, regulated utilities are allowed to recover prudently incurred operating costs and earn a reasonable return on their investment. Under IRM, revenue requirements for the year are based on a COS base year, adjusted for inflation (using the consumer price index (CPI)) and subtracted a productivity factor, which is set by the regulator. This forces utilities to maintain their operational efficiency to achieve allowed ROE. DBRS views COS as lower risk than IRM. In addition, DBRS also considers the length of an IRM period between COS years. DBRS's scoring system gives a higher score for a shorter IRM period.

Score	Item	Definition
Excellent	COS	• The COS regime allows utilities to recover prudently and reasonably incurred operating costs.
Good	IRM (three years or shorter)	• The IRM regime is a maximum of three years between COS years. • For an IRM period of more than three years, there are reasonable mechanisms in place to mitigate unexpected capital investment and operating costs. In addition, key IRM assumptions, including CPI and productivity factors, are reasonable.
Satisfactory	IRM (four- to five-year framework)	• The IRM period is four to five years.
Below Average	IRM (six- to ten-year framework)	• The IRM period is six to ten years.
Poor	IRM (ten-plus years)	• The IRM period is over ten years.

Consideration 6: Political Interference

Definition

Political interference refers to political risk that could occur within a jurisdiction. Political interference could be in the following forms: (1) influence on the regulator's ability to independently and impartially arrive at a decision, (2) passing legislation to override a decision made by the regulator and (3) the regulator being elected instead of being appointed.

Score	Definition
Excellent	• There is no government influence on the regulatory decision-making process. • There has been no adverse legislation in the regulated utility sector. • The regulator is appointed.
Good	• There is a low degree of government influence on the regulatory decision-making process. • There has been no adverse legislation in the regulated utility sector. • The regulator is appointed.
Satisfactory	• There is a low degree of government influence on the regulatory decision-making process. • There has been no adverse legislation in the regulated utility sector. • The regulator is appointed or elected.
Below Average	• There is a modest degree of government influence on the regulatory decision-making process. • There has been no adverse legislation in the regulated utility sector. • The regulator is appointed or elected.
Poor	• There is a high degree of government influence on the regulatory decision-making process. • There has been some adverse legislation in the regulated utility sector. • The regulator is appointed or elected.

Consideration 7: Stranded Cost Recovery

Definition

Stranded costs occur when a utility has already incurred costs (F&PE, operating cost or capital spending) and faces uncertainty as to when it can recover these costs. In some cases, stranded costs are written off if it is certain that these costs cannot be recovered. DBRS looks at the following factors: (1) whether stranded costs exist and their magnitude, (2) the likelihood of recovering stranded costs, (3) the frequency and materiality of writedowns and (4) the time it takes to recover these costs.

Score	Item	Definition
Excellent	No stranded cost	• No stranded costs associated with legitimate or reasonable costs incurred by utilities.
Good	Full recovery	• Some stranded costs exist. • Stranded costs are fully recovered in a timely manner. • No historical stranded cost writedowns.
Satisfactory	Occasional writedowns	• Some stranded costs exist. • Stranded costs are recovered but subject to some regulatory lag. • Occasional writedowns.
Below Average	Frequent writedowns	• Some stranded costs exist. • Stranded costs are sometimes recovered. • Frequent writedowns. • Takes considerable time to recover costs.
Poor	Frequent significant writedowns	• Significant stranded costs exist. • Stranded costs are not fully recovered. • Significant writedowns occur. • Significant regulatory lag associated with the recovery.

Consideration 8: Rate Freeze

Definition

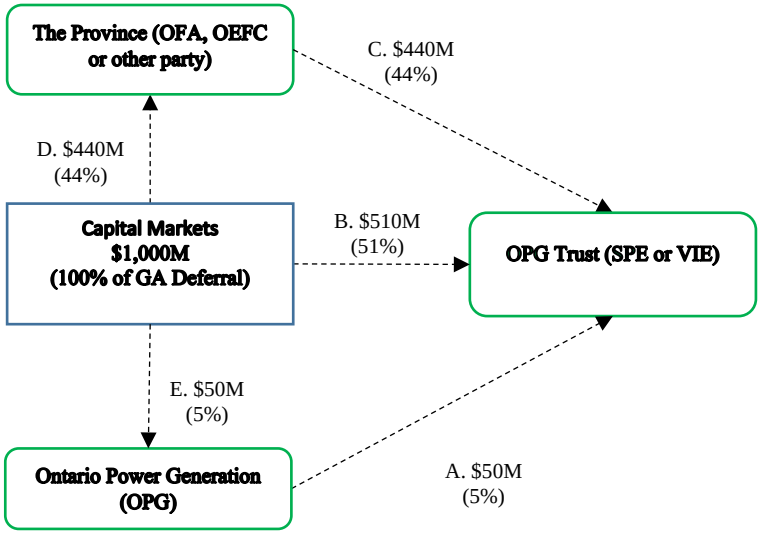
A rate freeze refers to a fixed retail rate that is charged to customers during a period of time (more than two years). During the rate-freeze period, utilities are exposed to increases in operating and energy costs. The longer the rate-freeze period or the more frequency with which a rate freeze occurs within a jurisdiction, the riskier it is for the utility.

Score	Item	Definition
Excellent	Never	• Rates are never frozen.
Good	Potential	• Rates have the potential to be frozen.
Satisfactory	Occasional	• Rates are occasionally frozen. • The frozen period is fewer than three years.
Below Average	Frequently	• Rates are frequently frozen. • The frozen period is fewer than three years.
Poor	Rate freeze	• Rates are currently frozen. • The frozen period is three years and longer.

Appendix F. GA Deferral Structure – Accounting Considerations for Consolidation of SPV

Assumptions: Year #1 – GA Deferral of $1B
Rate Charged to ratepayers – 5%
Interest Collected Year 1 - $50M*
Tranche A – 4.0%, $20.4M annually
Tranche B – 5.5%, $24.2M annually
Tranche C - 10.8%, $5.4M annually (the **residual return**)
**Assume straight interest for simplicity, 5% x $1B = $50M*

Scenario



Under US GAAP (OPG's Perspective)

- The relevant standard is FASB ASC Topic 810 [*Consolidation*]
- An SPE is an enterprise created to accommodate specific needs of the sponsoring entity.
- A SPE is classified as a VIE if
  - **Total equity at risk is insufficient to finance activities without financial support from other parties, or**
  - Equity investors lack any one of the following:
    - The ability to make decisions
    - The obligation to absorb losses
    - **The right to receive returns**
- The **primary beneficiary** of a VIE must consolidate it as its subsidiary **regardless of how much of an equity investment it has in the VIE**.
- The primary beneficiary (**usually the sponsor**, **which in this case is OPG)** is the entity that is expected to **absorb the majority of the VIE's expected losses**, receives the **majority of the VIE's residual returns,** or both.
- The primary beneficiary has the **power to direct the activities of the VIE that most significantly impact the entity's economic performance**.
- If one entity will absorb the majority of the VIE's expected losses and another unrelated entity will receive a majority of the VIE's expected residual returns, the entity absorbing a majority of the losses must consolidate the VIE.
- The SPE borrowing from the debt market acquires or constructs an asset – the asset may be acquired from the sponsoring company (i.e., OPG) or from an outside source (e.g., IESO).
- Under US GAAP, with the Province indirectly or directly financing the SPV, since OPG will absorb the majority of the **expected** losses from the equity tranche, will receive the **majority** of the **residual returns**, and will have the **power to direct activities of the VIE**, it would likely be considered the primary beneficiary and would consolidate the VIE.

Setting up the Trust (in no particular order)
A. OPG Trust, the Special Purpose Entity (SPE) under IFRS and Variable Interest Entity (VIE) under US GAAP, receives 5% of the GA Deferral to fund the purchase of the IESO's regulatory asset. This 5% represents the junior "equity" tranche ("Tranche C").
B. The SPE funds 51% **(or more)** of the GA deferral by issuing **debt securities** to the capital markets. This forms the senior tranche ("Tranche A").
C. The SPE funds 44% (**or less**) of the GA deferral by issuing **debt securities** to the Province. This could form part of Tranche A or a more subordinated debt ("Tranche B") that is higher than Tranche C. The alternative option is from Figure 1.
D. The Province uses general borrowing to finance the 44% of the GA deferral given to the SPV as **debt**. Or given to OPG → SPV.
E. OPG borrows the 5% (**minimum**) from the capital markets directly (minimum based on white paper).

Under PSAB (Province's Perspective for the SPV)

- OPG already receives all its financing from the Province through standard debt issuances, credit facilities, and non-recourse project financing.
- The white paper states that the Province cannot "indirectly or directly" fund the SPV through debt or equity.
- Arguably, the Province investing directly into the SPV (with debt not equity) rather than OPG directly is more arm's length, with the Province securing a better chance of return than with equity injections.
  - A lower interest rate can be secured due to the securitization of the regulatory asset (or intangible asset once purchased) – as the assets in a SPV are bankruptcy remote.
  - The fact that the debt, treated as an interorganizational loan under PSAB, is related to cashflows from a rate regulated asset should not impact its recognition on the balance sheet (similar to how OPG and Hydro One have debt and equity from the Province that gain a return from regulated assets).
  - There is a risk that if the SPV structure dissolves, then the rate regulated assets would be the recourse for the debt, resulting in a fiscal impact with their inability to be recognized on Provincial Accounts.
- **To be confirmed by external accountants – regardless of if the Province invest directly in the SPV or indirectly through OPG, all else being equal, there would be no line-by-line consolidation.**

Under IFRS (Province's Perspective for OPG modified equity method)

- The Province is required under PSAB to consolidate OPG in its books **under the modified equity method, but under IFRS**.
- Thus, OPG Trust must also be considered an SPE for OPG under IFRS for the preferred accounting treatment to be attained.
- The relevant standard is IFRS 10 (below taken from **2017 IFRS standards**) are similar to US GAAP:
- **Par 7** - an investor controls an investee if and only if the investor has **all the following:**
  - **power over the investee**
  - **exposure, or rights, to variable returns** from its involvement with the investee; and
  - **the ability to use its power over the investee to affect the amount of the investor's returns**.
- **Par 17** - An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.
- **Relationship with other parties: Par B73** - When assessing control, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf (i.e. they are 'de facto agents'). The determination of whether other parties are acting as de facto agents requires judgement, considering not only the nature of the relationship but also how those parties interact with each other and the investor.
- **Par B74** - Such a relationship need not involve a contractual arrangement. A party is a de facto agent when the investor has, or those that direct the activities of the investor have, the ability to direct that party to act on the investor's behalf. In these circumstances, the investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee.
- **Par B75** - Here are examples of parties that, by the nature of their relationship, might act as de facto agents for the investor:
- (a) the investor's related parties. **Criterion is met as Province is a related party.**
- (b) a party that received its interest in the investee as a contribution or loan from the investor. **OPG's only interest in the investee is the 5% if Province funds SPV directly – 5% from capital markets. Criteria not met (TBC).**
- (c) a party that has agreed not to sell, transfer or encumber its interests in the investee without the investor's prior approval (except for situations in which the investor and the other party have the right of prior approval and the rights are based on mutually agreed terms by willing independent parties). **Criterion met based on latest legislation draft**.
- (d) a party that cannot finance operations without subordinated financial support from the investor. **OPG is self-sufficient GBE.**
- (e) an investee for which the majority of the members of its governing body or for which its key management personnel are the same as those of the investor. **Test not met – OPG governing body (Board of directors) is separate from the Province.**
- (f) a party that has a close business relationship with the investor, such as the relationship between a professional service provider and one of its significant clients**. Criterion met**.
- **CEFD interpretation**: The Province directly funding the SPV has the same consolidation effect as indirect funding through OPG.

From: Ronald Kwan
To: John Kim; Emily Kerr; Bruno Amara
Subject: Fw: Latest version of the ENE - OFHP note
Date: Tuesday, May 09, 2017 1:43:31 PM
Attachments: 1 FINAL CO DLEG-847_ID49011_LRC_CBN- OFHP Implementation- V11.docx

---

Hi,

Not sure what the last one you saw. Please review.

Thanks,
Ron

From: Strang, James (TBS) <James.Strang@ontario.ca>
Sent: May 9, 2017 1:40 PM
To: Ronald Kwan
Subject: RE: Latest version of the ENE - OFHP note

Sure

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: May 9, 2017 1:34 PM
To: Strang, James (TBS)
Subject: Re: Latest version of the ENE - OFHP note

Hi James,

And would you have the latest version of the CBN that you could share as well?

Thanks,
Ron

From: Ronald Kwan
Sent: May 9, 2017 11:57 AM
To: James Strang (MOF)
Cc: John Kim; Bruno Amara
Subject: Re: Latest version of the ENE - OFHP note

Hi James,

Would "finance" be more accurate than "cover" -- at least at this time as per the intent? Cover might suggest funding, vs financing.

Also, the OIC we think would go to LRC. And the authority would be under CIPA.

I'd need to check with staff, and your advice, if such an OIC would need to go to TB.

Ron

> On May 9, 2017, at 11:38 AM, Strang, James (TBS) <James.Strang@ontario.ca> wrote:
>
> Does this work...essentially the same.
>
> iii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.
>
> Does the OIC come to TB?
>
>
> -----Original Message-----
> From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
> Sent: May 9, 2017 11:35 AM
> To: Strang, James (TBS)
> Cc: Kim, John (OFA)
> Subject: RE: Latest version of the ENE - OFHP note
>
> Hi James,
>
> How about this?
>
> iii)Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time or for a period of time, does not purchase any portion of the deferred Global Adjustment amounts payments. Note that an OIC to allow the OFA to provide an expanded credit facility will be requested.
>
> Ron
>
> -----Original Message-----
> From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
> Sent: May-09-17 11:11 AM
> To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> Cc: John Kim <John.Kim@ofina.on.ca>
> Subject: RE: Latest version of the ENE - OFHP note
>
> Please, you tell me - what is the minute you want to see.
>
> -----Original Message-----
> From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
> Sent: May 9, 2017 11:09 AM
> To: Strang, James (TBS)
> Cc: Kim, John (OFA)
> Subject: Re: Latest version of the ENE - OFHP note

>
>> Hi Janes,
>
>> Subsection (iii) of the proposed minute notes that the IESO is seeking a new credit facility, but it doesn't mention that it will be from us. Should the OFA be added in to the minute to make that clear?
>>
>>> Ron
>>>
>>> From: "Strang, James (TBS)" <James.Strang@ontario.ca<mailto:James.Strang@ontario.ca>>
>>> To: "John Kim" <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
>>> Cc: "Ronald Kwan" <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
>>> Subject: FW: Latest version of the ENE - OFHP note
>>>
>>> Latest version..
>>>
>>> From: Fung, Felix (TBS)
>>> Sent: May 8, 2017 6:41 PM
>>> To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
>>> Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
>>> Subject: RE: Latest version of the ENE - OFHP note
>>>
>>> Sorry! The file didn't work in my previous email. Please find attached the note again.
>>>
>>> From: Fung, Felix (TBS)
>>> Sent: May-08-17 6:34 PM
>>> To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
>>> Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
>>> Subject: Latest version of the ENE - OFHP note
>>>
>>> Hi everyone,
>>>
>>> Please find attached the latest version of the OFHP assessment note - incorporating feedback from folks today.
>>>
>>> Patrick - two things to point out:
>>>
>>>
>>> - the Ministry requested a new TP line to support "future rate mitigation initiatives". We struck out the minutes related to this request, given a TP can be created in the future once we have a specific future rate mitigation initiative (rather than just creating a placeholder now). However, we thought we would include it on page 12 in case folks do want that minute included.
>>>
>>> - We also included the Minute for media buy / ARB request. Let us know if there are any concerns with the language.
>>>
>>>
>>> Thanks - let us know if there are any concerns. Patrick - we will wait for your ok before we share the note with Energy.
>>>

>>> And many thanks to OCPD and COE for all your help and support on this.
>>>
>>> Felix
>>>
>>> <3 RAN Ontario Fair Hydro Plan Proposed Leg v5.doc>
>
> _____
>
> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
>
>

CABINET BRIEFING NOTE
AND LRC RECOMMENDATION

Energy
Implementation of Ontario's Fair Hydro Plan

Cabinet (info)	TB/MBC	Cabinet	Announcement	TB/MBC	Cabinet	Introduction
Feb 15, 2017	March 1, 2017	March 1, 2017	March 2, 2017	May 9, 2017	May 10, 2017	May 11, 2017

Summary of Proposal

The proposed legislation contains a variance from Cabinet direction, which is detailed in the ministry's variance memo and within this note.

Context for Decision:

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. Up to 500,000 small businesses and farms would also benefit. These measures include the 8% rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills. OFHP includes some benefits for all consumer classes as well as targeted benefits to those with the greatest need, and includes the following major components:

- Refinancing the Global Adjustment (GA);
- Helping vulnerable electricity consumers;
- Extending the Industrial Conservation Initiative (ICI);
- Improving sector efficiency; and
- Modernizing Ontario's electricity market.

Since March 2, 2017, the Affordability Fund and ICI expansion have been implemented.

This proposal follows Cabinet direction to the Ministry of Energy to take the necessary steps to implement electricity price mitigation initiatives that support OFHP to provide additional rate relief to Ontario electricity ratepayers.

The proposed legislation, the *Fair Hydro Act, 2017*, if enacted, enables approaches to fairly allocate a portion of GA amongst specified current and future electricity rate payers ("Schedule 1- *Ontario Fair Hydro Plan Act, 2017*"), and help the most vulnerable Ontarians through enhancements to electricity support programs through government funding ("Schedule 2- Amendments to the *Ontario Energy Board Act, 1998*"). To fully implement the initiative, the ministry will be seeking future approvals for regulations identified in the proposed bill.

The proposed legislation:

1. Establishes a framework to refinance a portion of the GA costs in order to reduce costs for eligible electricity ratepayers ("specified consumers") in the near term while recovering these costs over the mid- to long-term:
   - July 1, 2017, to April 30, 2018, reduces, on average, after-tax electricity costs for prescribed typical consumers by 25% (inclusive of the 8% rebate and shifting of support program to be government funded).
   - May 1, 2018, to June 30, 2021, electricity rates will be prescribed by regulation. This regulation making authority would enable the government keep increases in line with the Consumer Price Index (CPI) (see page 17- Fiscal Pressure)
   - July 1, 2021, to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs (see page 14- Future Impacts to Electricity Rates). Time period may be extended by regulation.
   - Provides for amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*, to enable Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to address payment, settlement and cost-recovery obligations and to manage the refinanced GA costs. (see page 19- OPG Mechanism).
2. Expands electricity support programs for the most vulnerable consumers and moves program costs from the rate base to the tax base. The bill amends the *Ontario Energy Board Act, 1998* to:
   - Move the recently expanded Ontario Electricity Support Program (OESP) to government funding, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program (ODSP) and Ontario Works (OW) to potentially allow for automatic enrolment procedures to be established;
   - Enable the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial revenues, rather than from electricity customers.
   - Enable a broader government funded Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge.
   - Enable the provision of a government funded on-reserve First Nations Delivery Credit (FNDC), which would cover 100% of the delivery charge for on-reserve First Nation residential customers.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price in order to

recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.

- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.) LDCs recover their costs through distribution rates. LDCs are licensed to serve a specific geographic area by the Ontario Energy Board (OEB). An LDC must receive Ontario Energy Board approval to charge a distribution rate.
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:
  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable per unit charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates for residential customers are moving to a fully-fixed charge by 2019 for most LDCs. Some LDCs, such as Hydro One and Algoma Power are transitioning over a longer period.
  - Line Loss: The costs to recover electricity that is lost when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One –** Customer service classes are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. Lower customer density increases the cost to serve. Residential class R1 customers are considered ‘medium density’ customers and residential class R2 are considered ‘low density customers.’ Hydro One also served urban residential customers, considered “high density” through its UR class. Hydro One also has urban and non-urban general service classes.
- **Ontario Power Generation (OPG) –** A business corporation owned by the Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario’s electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario’s electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to participate in quasi-judicial

proceedings and formal stakeholder consultations.

- **Independent Electricity System Operator (IESO) –** An independent corporation established under the *Electricity Act, 1998* that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Special Purpose Vehicle (SPV)** – **Special Purpose Vehicle (SPV) –** A Special Purpose Vehicle (SPV) sometimes referred to as a Special Purpose Entity (SPE) is an off-balance sheet legal entity created by the sponsor or originator. SPVs can be viewed as a method of isolating the risks of an underlying pool of exposures held by the sponsor and reallocating them to the SPV and often investors. This allows investors access to investment opportunities which would not otherwise exist, and provides a new source of revenue generation for the sponsor.
- **Security Interest –** A security interest is a type of property interest created by agreement or by operation of law over assets to secure the performance of an obligation, usually the payment of a debt. It gives the beneficiary of the security interest certain preferential rights in the disposition of secured assets.

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. On March 2, 2017, the Ontario government announced OFHP, and since then, there has been increased media attention and public pressure for the government to bring forward the legislation which would enact the commitments made in the Plan. The government has committed to implement further rate relief measures by the summer 2017. On April 20, 2017, the OEB announced that, starting in May, electricity rates would be 17% lower than would have otherwise been without the 8% rebate (OREC), the anticipated move of OESP costs to government funding, and a portion of the reductions estimated under OFHP based on a comfort letter sent from the Minister of Energy.

What is the expected cost to government?

While the GA refinancing structure is intended to result in no fiscal impact to the province, the total projected cost to the electricity rate base is $24.7B amortized until 2047, or longer as may be prescribed. In 2017-18, the GA refinancing cost is forecast to be $2.5B which would eventually be recovered through the rate base. Enhancing electricity support programs and moving to government funding will cost government $499M in 2017-18.

TABLE 1: Cost Impact ($M)	2017-18	2018-19	2019-20	2020-21
Moving Social Programs to Government-Funded (details provided in the chart below)	499	753	829	892
GA Financing (Assumes funded from the electricity rate base)*	2,500	2,600	3,000	3,500
Cumulative Total	2,933	3,353	3,829	4,392

***Note:** GA Financing includes equity injection from the province to OPG. $1.1B investment operating asset in 2017-18 (Ministry has received appropriations)

The GA refinancing portion of the bill establishes a structure in which the IESO records the GA cost recovery deferral as a regulatory asset (regulated by the OEB). The IESO may then sell the regulatory asset, at which time it becomes an investment asset. The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or "financing entities") may then further sell or securitize all or part of the investment asset to other parties in exchange for a funding obligation. Under this structure, OPG, acting as the "Financial Services Manager," would therefore take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from IESO. OPG would finance these purchases through a combination of an equity investment by the Province flowed through the OFA ($1.1 B in 2017-18; see Table 1) and external private sector financing. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. The Province's net debt will remain unchanged as the equity investment in OPG will offset the additional Provincial borrowing. This is expected to be fiscally neutral to the Province.

The estimate for the combined impact of the support programs for the most vulnerable consumers would begin in 2017-18 and is expected to be $499M in 2017-18, growing to $753M in 2018-19 and rising. This investment has been factored into the 2017 Ontario Budget's fiscal plan. These estimates are based on variable inputs such as program uptake, future energy consumption of various consumer groups and future distribution rates, and are therefore subject to change.

TABLE 2: Fiscal Impact ($M) of Social Programs	2017-18 Budget
Rural or Remote Rate Protection	344
Ontario Electricity Support Program	140
On-Reserve First Nations Delivery Credit	15

Note: As approved in the TB/MBC submission of Mach 1, 2017, and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31, 2018. ENERGY will return updated out-year figures following program implementation

There is inherent risk in the financial estimates given the number of variables that are included in the calculations (e.g. cost of borrowing (projections assume 5%), electricity demand and electricity market conditions and accounting assumptions). Under the mechanism, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future (see page 17- Fiscal Pressure).

What are the key steps to deliver this proposal?

- May 11, 2017 - Introduce legislation.
- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of OFHP.

- Energy will post a proposal to the regulatory registry in early May outlining proposed new regulations and amendments needed to support implementation.
- Early June 2017 [TBD]- Energy to bring regulations to TB/MBC.
- Early June 2017 [TBD]- Energy to bring regulations to Cabinet/LRC.
- July 1, 2017- the remaining reductions and initiatives associated with the OFHP would take effect. Programs that are not established on this day for technical implementation issues will have benefits that are retroactively applied to customers once program is operational in individual LDCs.

How will the changes be communicated?

On March 2, 2017, the Premier announced OFHP, which would lower electricity bills by 25% for all residential customers including many small businesses and farms. Communications was sustained through minister announcements, local MPP echoes, a radio campaign, and a webpage that features all the programs and initiatives the government is taking to reduce electricity costs.

On May 11, 2017, there will be a news release to announce the introduction of legislation to implement OFHP. Phase two of the marketing campaign will start this summer and will include radio and television.

A robust issues management plan will be developed to mitigate the GA financing risks.

Notes and Recommendation from LRC

LRC item direct to Cabinet.

Cabinet Office Analysis

The proposed legislation allows for the implementation of the key elements of Ontario's Fair Hydro Plan (OFHP) announced on March 2, 2017, to provide further rate relief to Ontario electricity ratepayers. The Global Adjustment (GA) partial refinancing proposal will provide, on average, 25% in electricity rate relief (including the 8% announced in 2016 and shifting of support program costs to the tax base) to "specified consumers" (i.e., residential, farms, small businesses, condominiums, long-term care homes and co-operative housing as prescribed) between July 1, 2017, and April 31, 2018 ("The Fair Adjustment"). Electricity rates would then change by amounts prescribed in the regulations. Regulation making authority would enable the government to keep rate increases in line with Consumer Price Index (CPI) between May 1, 2018, and June 30, 2021 (see page 17- Legal Risks). Additional relief will be provided to Ontarians most in need through enhancements to electricity support programs through government funding.

1. Partial Refinancing of the Global Adjustment:

The proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these

generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future. Similarly, conservation costs are currently recovered through the GA in the year they occurred while conservation initiatives can provide benefits to the system over many years.

The proposed *Fair Hydro Act, 2017* attempts to balance several key factors including financeability, accounting treatment and legal considerations by:

- Supporting financeability through a number of features, including a provincial undertaking not to interfere with clean energy adjustments once determined, which will be backstopped by a guarantee, and provisions intended to reduce borrowing costs and attract a wide investor base;
- Addressing the necessary accounting requirements through mechanisms to record funding, interest and the transfer of regulatory assets to avoid a fiscal impact to the province; and
- Mitigating legal risk by developing a methodology that attempts to ensure an alignment of costs with benefits to future rate payers.

In order for the clean energy adjustment to be characterized as a regulatory charge, the amount that could be refinanced would need to reflect the true value of the underlying assets being amortized over a longer period of time. According to a legal opinion by former Supreme Court Justice Binnie, there is a moderately high risk that the proposed change would be characterized as an unconstitutional tax rather than a valid regulatory charge because future consumers are being required to subsidize current consumers (see page 16- Legal Risk).

The bill establishes a structure in which the Independent Electricity System Operator (IESO) records the GA cost recovery deferral as a “regulatory asset” (regulated by the Ontario Energy Board (OEB)), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time from “specified consumers” (“the Fair Adjustment” and “IESO deferral”). Specified consumers would receive a reduction in electricity rates from July 1, 2017 to June 30, 2018 as based on a 25% reduction for a prescribed typical residential consumer. IESO may then sell the regulatory asset, at which time it becomes an “investment asset.” The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or “financing entities”) may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

The Minister, following the principles in the bill, would regularly calculate the “Fair Allocation Amount” to ensure a proper match of the allocation of the intergenerational costs and benefits in relation to each on the next 60 six month “reference periods.” The financings will be backed primarily by the clean energy adjustments payable by specified consumers. The clean energy adjustments will track the actual payment obligations incurred by the financing entities when they become due and payable.

OPG, in its role as the Financial Services Manager, will calculate the aggregate clean energy adjustment payable in each month of the reference period, and, to ensure intergenerational fairness, these amounts will be managed to align with the fair allocation amounts determined by the Minister. OEB would calculate the rates at which the clean energy adjustment could be collected from specified consumers. To recoup the costs associated with the fair adjustment, consumers would be invoiced the clean energy adjustment on their electricity bills through existing IESO and Local Distribution Companies' (LDC) processes, which will be channeled through to pay each financing entity's related funding obligations. However, electricity rates are projected to remain lower than would have otherwise been until about 2026-27 (pending the development of the fair allocation amount), and the clean energy benefit will appear on customer's bills once repayment of the accumulated debt begins.

OPG is planning to create a SPV or Trust to finance the partial GA refinancing. To maintain the integrity of the structure, OPG must have the ability to appoint and remove the Trustee (or Board of Trustees) of the SPV/Trust, with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the SPV/Trust. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. OPG will have the ability to direct the financing of the SPV/Trust and both benefit from its financing strategy and be at risk as a result of it.

Once the OPG Trust/SPV has purchased the regulatory asset, which it is under no obligation to do, it will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG's debt would be funded through a combination of an equity investment by the Province through the OFA (see page 4: Table 1) and external financing through sale or securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG (to offset the interest on debt).

The legislation also provides that no action or omission by the OEB, the Minister, or the Crown is effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay the clean energy adjustment. Additionally, to support the program, the government will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The legislation enables these agreements. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be to achieve the highest rated securities, although that will depend on issues such as the strength of the undertaking not to adversely affect the program through subsequent legislation.

The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future (see page 14- Risks and Considerations).

Key elements of this schedule of the bill include:

Specified Consumers

- The defined group of consumers to whom the “Fair Adjustment” applies. Prescribed consumers include residential consumers, farms, small businesses, condominiums, long-term care homes and co-operative housing. These are primarily consumers eligible for the RPP, and aligns with the eligibility under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA).

Clean Energy Costs

- Clean energy costs are those costs that arise from the “clean energy initiative” and are allocated to the specified consumers for past, present and expected costs.
- The clean energy costs include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act*, *1998* (basically, the GA) which relate to contracts for:
    - Renewable energy generation or capacity, conservation and demand management, energy storage, and energy efficiency;
    - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act, 1998* or as prescribed);
    - Payments made under section 78.5 of the *Ontario Energy Board Act, 1998*; and,
    - Other costs as may be prescribed.

Fair Adjustment

- The adjustment to rates to ensure intergenerational fairness.
- July 1, 2017- April 30, 2018- reduction in rates for “specified consumers” based on a 25% reduction for a prescribed typical consumer.
- May 1, 2018- June 30, 2021- the bill allows for rates to be set by regulation (see page 17- Fiscal Pressure).

Fair Allocation Amount

- Principles established in the bill require proper alignment over time between the costs of providing facilities for clean electricity generation and conservation (“clean energy costs”) and the consumers who benefit from these investments.
- The Minister of Energy sets the fair allocation amount, and is required to:
    - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the “specified consumers” for applicable “reference periods” (typically every 6 months); and,
    - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (see page 16- Legal Risk; page 17- Fiscal Pressure);

  - Align these costs with clean energy benefits expected to be received by rate payers in the future.

- Subsequent calculations may be undertaken by other agents as prescribed.

Clean Energy Adjustment

- Determined by Financial Services Manager (OPG), the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principal, interest, transaction costs and administrative costs associated with the fair adjustment and consistent with the fair allocation amount.
- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- July 1, 2017- June 30, 2021- OPG to internally capitalize the costs related to the fair adjustment, which will result in increased financing costs during this time.
- July 1, 2021- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing IESO and LDC processes. Note: it is not certain when the clean energy adjustment will ultimately appear on electricity bills as this will be tied to when repayment of the accumulated debt begins.
- In accordance with the regulations, the OEB to calculate the rate at which specified consumers are invoiced to recover the clean energy adjustment.

Regulatory Asset and Investment Asset

- A regulatory asset is created as IESO defers its right collect a portion of the rates that it would have otherwise received from customers/LDCs if not for the implementation of the Fair Adjustment.
- Subject to OEB approval, IESO records the funding shortfall as a regulatory asset, as IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until July 1, 2021.
- The Financing Plan contemplates the Financial Services Manager (OPG) establishing financing entities (OPG Trust/SPV) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset for the investment asset owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 4 years (July 1, 2021) the IESO has the right to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority (OFA) (see page 17- Fiscal Pressure).

- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

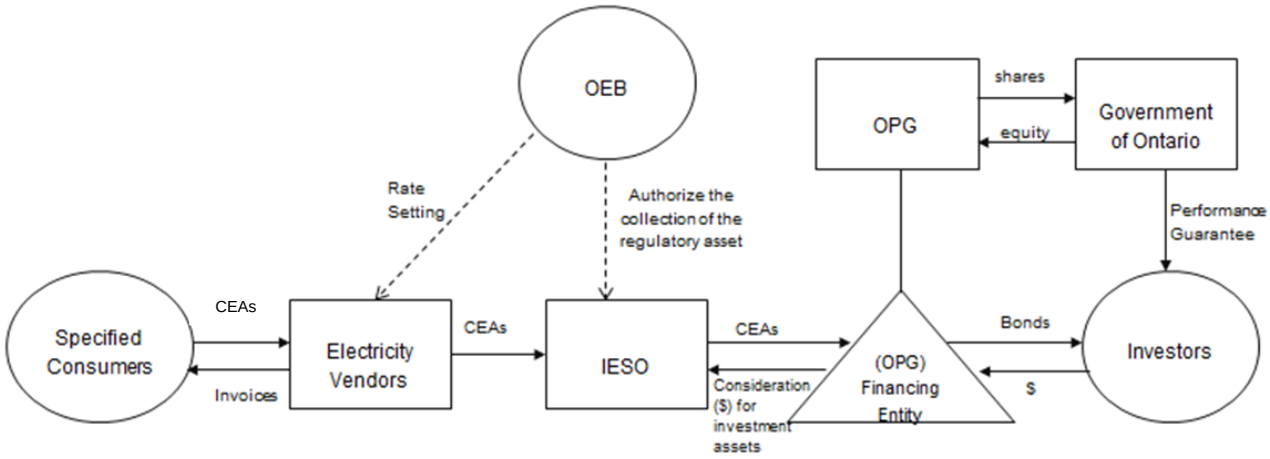
Financing Plan

- In practical terms, the Financing Plan is intended to show how debt (with varying incurrence dates, maturities and interest rates) will be used over time.
- Prepared by the Financial Services Manager (OPG), the Financing Plan is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO. Plan to be provided to the Minister of Energy.

Crown Undertaking (Guarantee or Backstop)

- The bill provides that no action or omission of the Crown, OEB, or the Minister would be effective to reduce, impair, or postpone or terminate the obligations of specified consumers to pay the clean energy adjustment.
- The Ministers of Energy and Finance together, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill, including regarding the performance of the IESO or electricity vendors under the bill.
- The Ministers of Energy and Finance together, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.

Figure 1: Financing Structure



Note: CEAs are "clean energy adjustments".

External Opinions

The proposed structure's impacts on IESO has been extensively reviewed by KPMG (IESO auditor), and the firm has provided a final draft accounting opinion confirming the validity of the structure under Public Sector Accounting Board (PSAB) standards, which will be updated after the legislation, regulations, and commercial arrangements are complete. KPMG advises that the variance account created by the proposed legislation meets the accounting criteria for the recognition of a "regulatory asset". The KPMG

opinion is highly technical and contains information pertaining to the proposed legislation. While it would be possible to make the opinion public, the ministry is not recommending this approach and is considering alternative options to propose.

If the government intends to keep rate increases to the pace of CPI from May 2018 to July 2021, this may require recourse to the fiscal plan to maintain the constitutionality of the GA refinancing structure.

For clarity, the below requirements were to be met to ensure the structure was defensible, and, based on the opinions received, the ministry is confident that the bill achieves these objectives:

- IESO requirements:
    - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB; IESO can derecognize regulatory asset upon sale to OPG; “Market books” are reflected on corporate books; and, OEB to act as regulator.
- OPG requirements:
    - OPG Trust/SPV purchases regulatory asset from IESO – classifies as intangible asset; OPG consolidates Trust/SPV; and, OPG retains GBE status.

The ministry retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

However, despite the fact that the structure has satisfied the fiscal, and accounting requirements and mitigated to the extent possible the legal risks outlined in the policy submission, there remain some fundamental risks:

- The structure is unique in Canada and possibly the world, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the Unites States, but officials are currently unaware of any example that would compare to the size, complexity or fluidity of the proposal;
- Complexity of the structure and length of deferral/recovery increases risk and decreases transparency;
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan;
- Government would not know the price of private borrowing that would be required for the OPG Trust to work and will have limited control over OPG’s direct operations as the Financial Services Manager; and,
- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and

therefore its saleability. This could in turn, decrease the amount of rate reduction achievable under this mechanism.

2. Enhancing Electricity Supports and Shifting Costs to Government Funding:

Moving the Ontario Electricity Support Program (OESP) to Government Funding

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The program was launched in January 2016 and has had roughly 30% enrolment. Under OFHP the program was recently expanded to increase the existing benefit credit amounts by 50% and provide additional credits to more households. Under the expanded program the basic OESP benefit scale increased from $30-$50 to $35-$75 a month and the enhanced OESP benefit scale would increase from $45-$75 to $52-$113 a month for eligible consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to allow for the program to transition from the rate base to the government funding, and allow for the potential transition of the program administration to the Crown or other entity. The cost to the fiscal plan would be $186 million in 2017-18. The bill provides further amendments designed to allow information sharing between the Ontario Works (OW) and the Ontario Disability Support Program (ODSP) and the entity responsible for OESP. The intention is that this information sharing will allow for the automatic enrolment of individuals that are already enrolled under the ODSP or OW, but it is currently unknown to what extent this will significantly impact new enrolment under the program. The ministry is continuing to work with MCSS to increase the uptake of the program and automate enrolment of current social assistance clients. The ministry and OEB are also working with the Canada Revenue Agency (CRA) to eliminate the CRA requirement for “wet signatures” on OESP application forms to streamline the application process.

Enhancing RRRP (Delivery Charge Relief) and Moving to Government Funding

Rural or Remote Rate Protection (RRRP) helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. Currently, RRRP is a $290M program paid for by the ratepayers. For an average residential customer, the cost of supporting RRRP is roughly $1.58 per month. For other customers, the cost to support the RRRP can range from $65 for a greenhouse to $8,000 for a medium industrial.

The proposed bill amends the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The intention is to draft regulations permitted under this section to move the portion of RRRP costs used to support Hydro One R2 customers from rate payers to government funding. This is the majority of the cost associated with RRRP.

The bill would further amend the *Ontario Energy Board Act, 1998* to enable the creation of a government funded distribution rate protection program and the ability to prescribe a maximum distribution charge for prescribed classes of residential customers for certain prescribed high cost distributors. The intention is to draft regulations permitted under this section of the bill to prescribe residential customers of the following LDCs to receive distribution rate protection: Hydro One R1 and R2 rate classes, Algoma Power (excluding reclassified residential customers), Atikokan Hydro, Sioux Lookout Hydro, Lakeland Power – Parry Sound, InnPower, Chapleau PUC, and Northern Ontario Wires.

The OEB would continue its usual rate setting activities for prescribed LDCs, as authorized under the *Ontario Energy Board Act, 1998*, and prescribed LDCs would continue to collect the revenue they are entitled. However, prescribed customers (~800,000 customers) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up of out provincial funds.

Targeted broadened RRRP consumers would see additional savings on their monthly bill that would vary based on their consumption level. Cost to fiscal plan would be $344 million in 2017/18. If the legislation and required regulations are passed, the program would become active as of a prescribed effective date (planned: July 1, 2017).

On-Reserve First Nations Delivery Credit

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances related to lands affected by energy developments.

The proposed bill amends the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers with the details to be prescribed in the regulations. The intention is to enact regulations that would eliminate the delivery charge for all on-reserve First Nation residential customers served by licenced electricity distributors, and eliminate the monthly service charge for customers of licensed distributors that charge a bundled rate.

Eligible recipients would be automatically enrolled in the program. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed effective date (planned: July 1, 2017).

RISKS AND CONSIDERATIONS

Future Impacts to Electricity Rates

The impact of proposed legislation to a typical eligible customer’s bill in July 2017 is a 25% decrease (combined with the 8% rebate effective January 1, 2017, and shifting of the funding of OESP and RRRP to provincial revenues), followed by an increase in

price over time. Between May 2018 and June 2021 electricity rates will be set in accordance with a methodology established by regulation which would enable rate increases to be kept in line with CPI (see page 17 – Legal Risk). Customers that are eligible for the RRRP enhancement, OESP, and the On-reserve First Nations Delivery Credit will see further reductions in their electricity rates by as much as 40-50%.

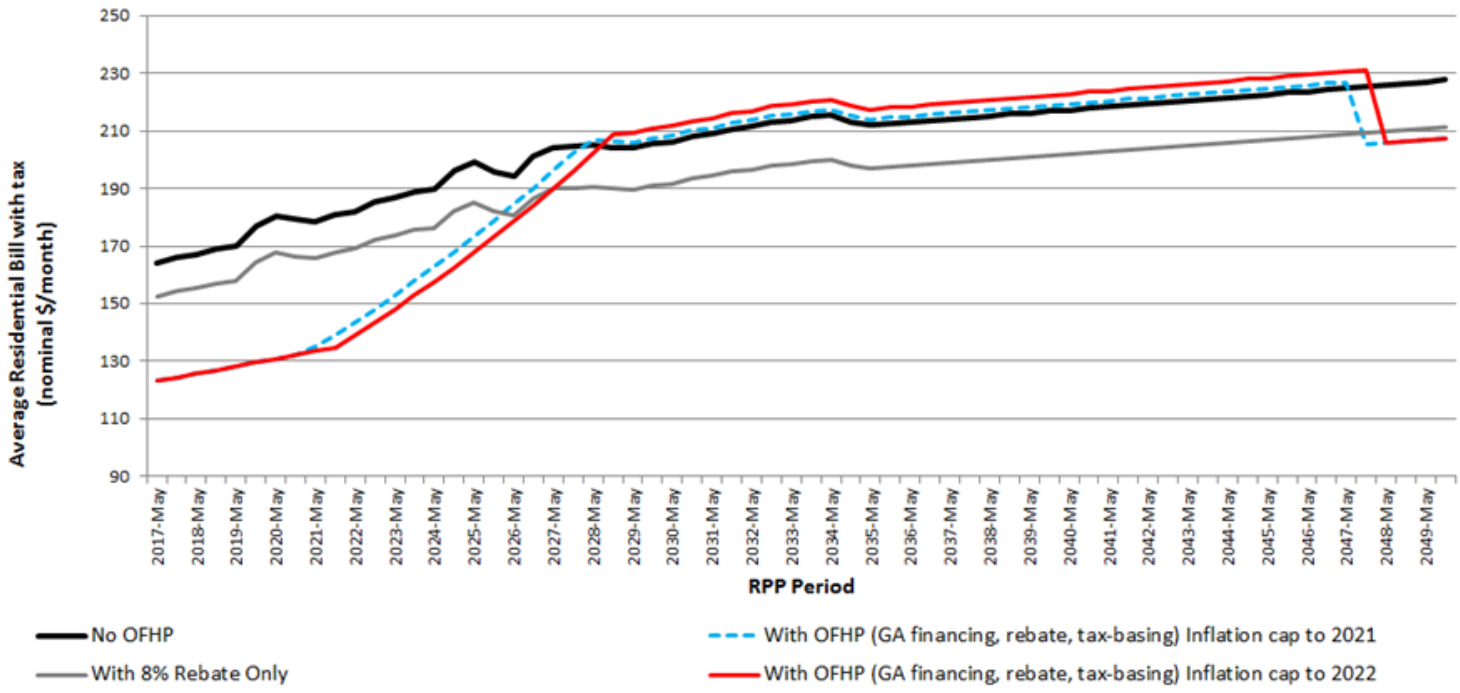
Original policy direction was to keep electricity rate increases in line with CPI until the end of 2021. While the government will have regulatory authority under the bill to establish rates after April 30, 2018, bills are expecting to begin to increase above the rate of inflation as of July 1, 2021 under current forecasts. This constitutes a variance from Cabinet direction. However, the government has publicly committed to 4 years of increases tied to the rate of inflation, which this plan addresses.

Borrowing money to refinance a portion of the GA costs for ratepayers lowers costs in the short term but results in substantial debt and higher electricity prices in the future. Under the plan, electricity prices have been projected to exceed forecast residential monthly bills by about 10% each year from what otherwise would have been from 2028 to 2047 (Note: Values are subject to change). Cabinet policy direction provided that electricity rates increases due to repayments should be capped at around 10% of the total electricity bill during the repayment phase of the plan. To maintain the integrity of the structure, the legislation does not provide a mechanism by which this level of bill increase can be ensured and therefore constitutes a variance from Cabinet direction. However, the debt rating will be impaired if the modelling suggests that rates could increase more than 10%, providing a cap in practical terms. The public may expect that the government is committed to reducing or holding constant the absolute cost of in the longer term and the government would not have the ability to control this portion of rates in the future.

Declining demand levels due to conservation, technology adoption, and self-generation would increase the costs borne by remaining customers to decease the debt associated with GA refinancing. IESO forecasted demand has historically been over-projected which also increases the risk of the static demand assumption. However, the reverse is also true, that if higher levels of electrification are achieved and demand increases, the cost of paying off the debt will be spread over a greater number of consumers. To partly mitigate against the risk that increased self-generation poses, the bill also provides that the clean energy adjustments may not be “set-off.” In other words, it would exist as a separate and distinct component of the bill that could not be reduced by methods such as net-metering.

The current model is based on a static interest rate of 5%. While this assumption is accurate within the current historically low interest rate environment, should interest rates increase above 5%, residential bills would also significantly increase during the repayment phase of the plan. All of these factors increase the risk that the province would have to absorb some of the debt in the future.

Figure 2: GA Smoothing for RPP-Eligible Only



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly bill with OFHP ($/month)	124	126	129	131	137	146	155	165	176	187	199	207	207	209	212	214	216	216	214	215	216	217	219	220	221	222	223	224	225	226	216	206
Year-over-year change (%)	n/a	2.01	2.01	2.01	4.25	6.44	6.44	6.44	6.44	6.44	6.44	3.61	0.08	1.20	1.29	1.14	0.93	-0.04	-0.88	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	-4.37	-4.61
Impact of GA financing and tax-basing ($/month)	-29.9	-30.0	-35.0	-34.4	-28.8	-24.0	-17.8	-14.2	-3.3	3.4	12.2	16.4	16.5	16.7	16.9	17.1	17.2	17.1	17.0	17.1	17.2	17.3	17.4	17.5	17.6	17.6	17.7	17.8	17.9	18.0	-3.9	-4.0
Total accumulated debt ($B)	2.5	5.2	8.2	11.6	14.7	17.5	19.9	22.0	23.5	24.1	24.2	23.7	23.1	22.5	21.8	21.0	20.1	19.2	18.3	17.2	16.1	14.9	13.7	12.3	10.9	9.3	7.7	5.9	4.1	2.1	0.0	0.0
Total change in accumulated debt ($B)	2.5	2.6	3.0	3.5	3.1	2.8	2.4	2.0	1.6	0.6	0.1	-0.5	-0.6	-0.6	-0.7	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2020 such that the average monthly residential electricity bill increases by 6.3% per year to a maximum of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Data shown above is by RPP period. Assumes RPP prices are adjusted in July 2021 instead of May 2021 to coincide with the end of the inflation cap. Fair allocation amounts subject to third party review.

Not all generating assets will continue operations at the end of their contract. If the fair allocation amount is not properly designed, future rate payers will be paying the cost for assets that are no longer in use, which would be unconstitutional, unless legislatively authorised as a tax (see page 16- Legal Risk). High capital costs, equipment obsolescence or surplus capacity / low demand conditions mean that some generators may shut down at the end of their contract. Future ratepayers would be paying for these assets that no longer produce power in paying down the refinanced GA and accumulated interest costs, and it would need to be justified that these assets are still providing some kind of benefit to the system after they cease operation.

Bill Presentment

Over the fall/winter of 2017, the Ministry will be working with LDCs to undertake a comprehensive review of electricity bill presentment regulations.

The ministry expects to prescribe LDCs:

- To include certain basic messaging on electricity bills;
- Starting July 1, 2017, for those eligible, include the On-reserve First Nations Delivery Credit as a line item; and
- Prescribe LDCs to include bill inserts over the next year with OFHP messaging.

With respect to the OFHP, while the 8% rebate is expected to continue to appear on eligible consumer's bills, the further reductions as part of the GA refinancing and moving social programs to government funding will not appear as a specific line item. It is uncertain when customers will begin to be invoiced the clean energy adjustment as a distinct item on their electricity bill. This will commence once repayment of the accumulated debt begins.

Accounting, Provincial Credit Rating and Borrowing

The significant amount of additional provincial borrowing needed to refinance the GA and associated risks and fiscal costs (interest rates, repayment timelines) could put pressure on the Province's credit rating and overall borrowing capacity.

The complexity of the structure and length of deferral (i.e., recovery of debt) increase the overall risk of the proposal and decrease transparency to the public. The structure of the GA refinancing was designed to result in an (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit. However, depending on funding to OPG from the Province, an increase in interest on debt and an increase on income from OPG will result. The structure is also contingent on the size of the partial GA refinancing that is seen as possible, which, as mentioned, increases the likelihood of pressures on the fiscal plan in the near future (see page 17- Fiscal Pressure).

In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt.

- The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line.
- The ministry has received an appropriation for $1.1 billion operating asset to support these injections for the fiscal year 2017/18, and will report back through PRRT for future funding. Based on the final fair allocation amount calculation, the equity injections would be required until the period of recovery begins.
- The injections will be fiscally neutral for the province as they will be offset with the value of shares purchased from OPG.
- To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements /documents. E&Y concurs with OPG's assessment that accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Rating agencies and investors in the Province's debt may view all of the borrowing (whether by the Province directly or the OPG Trust/SPV) as an obligation of the Province. Depending on the magnitude of the debt, the Province's borrowing cost may be impacted. The structure of the guarantees from the Province that will be required by the market at the transaction stage may also impact the accounting analysis. These will be negotiated at a later stage.

OPG will seek to achieve the highest possible credit rating (AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV/Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide.

The Ontario Auditor General (OAG) has been briefed on the proposal and has had access to the March 1, 2017, policy submission for Ontario's Fair Hydro Plan. While the auditors of OPG and IESO have provided assessments and the Office of the Provincial Controller Division (OPCD) has been engaged, the OAG has historically raised concern with "rate regulated accounting" and may take this into account when the provincial books are audited (i.e., it may impact whether the OAG qualifies the provincial books).

Based on early assessments, only a maximum of 18% rate relief can be justified by amortizing contracts over the useful life of the underlying assets. Reducing electricity rates up to or beyond this amount by this method could undermine the nature of the regulatory charge and could only be achieved by relying on increased borrowing.

Legal Risk

The current GA amount paid by consumers is a regulatory charge. One of the requirements of a valid regulatory charge (as opposed to a tax) is that the person paying the charge either benefits from the regulatory scheme or causes the need for regulation. In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional

tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Former Supreme Court Justice Binnie has provided legal analysis of this proposal, stating that the amount that could be constitutionally financed as a regulatory charge as opposed to a tax would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations would jeopardize the nature of this being a regulatory charge.

A proposal for refinancing the GA that appears to cross-subsidize near-term consumers at the expense of long-term consumers by back-loading costs more than if costs were spread equally over the estimated lifespan of generation and conservation assets presents a moderately high risk (more likely than not) of constituting a tax. If the government fails to establish that the relevant electricity generating assets and conservation investments will continue to perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge and would be characterized as a tax. If characterized as a tax, in the event of a challenge, it would be struck down by a court as unconstitutional and consumers would be entitled to recover their payments. This risk could be eliminated, either up front or retroactively, by the imposition of a valid tax.

The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and conservation and the group of consumers who benefit year to year from those facilities and investments. By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

Mr. Binnie concluded that the proposed charge faces a moderately high risk of being characterized as an unauthorized tax rather than as valid regulatory charge because (1) there is a disproportionate back-end loading of the charge on 2021-2047 consumers for the benefit of 2017-2021 consumers and (2) because an unknown number of generating assets whose financing costs will be partly recovered from 2021-2047 consumers will not benefit them as they will no longer be in operation.

In addition, the structure of the GA refinancing means that the infrastructure included as part of the clean energy adjustment (i.e. amortized over 30 instead of 20 years) will need to be in service over the entire 30 year amortization period or provide benefits to the system in some way over the whole period. In practice this may mean that the government will have limited ability to alter the generation mixture included under the clean energy adjustments, including natural gas generation facilities, which may at some point be seen as inconsistent with the province’s commitments to reduce greenhouse gasses.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs

with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill also provides for provincial assurances, guarantees and a statutory cause of action. The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction. The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- the Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
- the Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted.

A statutory cause of action may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

Fiscal Pressure

This proposal aligns with the 2017 Budget's fiscal plan, but involves significant ongoing risks. Parts of the proposal do not include a scheduled review period or an end date, resulting in an ongoing fiscal pressure, which may increase in the out years, and could only be removed by a legislative amendment.

The cost projections are highly sensitive to interest rates and other assumptions:

- The proposal assumes GA refinancing does not have a fiscal impact because the associated legal authority and accounting treatment requirements are met. If the costs of GA refinancing were accounted for as an expense to the fiscal plan, the fiscal impact would be significant ($2.5B in 2017-18, escalating annually).
- The term and timing of the GA refinancing are highly dependent on the IESO's forecast of GA costs and actual interest rates.

The extent of fiscal pressures is also dependent on other factors (i.e., OAG could qualify Ontario's books or issue an adverse opinion). Due to the complexity and size of the proposal, the government has commissioned external opinions on the fiscal and accounting requirements, and external legal advice. IESO auditor, KPMG, has provided a final draft accounting opinion that the principles of the structure are sound, which will be updated after the legislation, regulations and commercial agreements are complete. KPMG advises that the variance account created by the proposed legislation meets the accounting criteria for the recognition of a "regulatory asset." This opinion can be released publicly if desired; however, given that the KPMG opinion is highly technical and contains information pertaining to the proposed legislation, the ministry is not recommending its immediate release and is considering alternative options to propose. In addition, the opinion may not change the likelihood of a contrary opinion by the OAG, but does provide a tool for government to point to in justifying its decisions.

There is also a risk that credit rating agencies and the market may take a view as to the size of the GA refinancing that is possible before becoming unconstitutional. If the fair adjustment and fair allocation amounts exceeds this outlook, it may increase the perceived risk of the investment asset and therefore its financeability/saleability, which would result in reduced market uptake and reduce the amount of near term rate reduction that would be achievable under this mechanism. This may require rate increases greater than the rate of CPI to maintain the integrity of the structure. This is why the increases in electricity rates between May 2018 and June 2021 are to be set by regulation as opposed to legislating that they increase by CPI.

It may not be possible to legally hold the rate reductions to increase by CPI, and if the government wanted to hold to this commitment, the difference would need to come out of the tax base, which has not been forecasted nor included in the fiscal plan. Each percentage point of reduction that the structure cannot provide would need to be addressed by an appropriate alternative mechanism and would result in an approximate $125-150M cost to the government annually.

Further, if IESO is not able to sell the regulatory asset (i.e., the OPG SPV/Trust is unable to get financing to purchase it), then IESO would require financing from an alternative source. IESO has requested a backstop credit facility from the OFA. This would be associated with a fiscal impact risk.

<u>Legislative Officers</u>

The Ontario Auditor General (OAG) has expressed views on rate regulated accounting, which will likely be raised again upon the implementation of this suite of initiatives. The OAG was provided copies of the Cabinet Submission seeking policy approval for

Ontario's Fair Hydro Plan and has been briefed by officials from the Ministry of Energy. The OAG will have opportunities to publicly state her views through the 2017 Public Accounts based on the IESO adoption of regulated accounting in its 2016 financial statements, as well as in the Public Accounts committee in the summer of 2018 and in her pre-election report.

Data and assumptions that underpin the GA refinancing proposal have been submitted to the Financial Accountability Officer (FAO). The FAO is expected to have an opinion on how this proposal may impact the state of the province's finances.

OPG Mechanism

There are several risks associated with the proposed OPG mechanism:

- Accountability:
    - Bill attempts to balance the independence of the OPG Trust/SPV with regulatory oversight and the market's need for certainty in recovering the GA financing;
    - As mentioned, no party will have the ability to remove OPG in its role as the investment asset owner. The mechanism could be criticised for not providing for an appropriate level of accountability to the government or the public, due to the limited amount of government control of the entity, and future rate increases. However, this is seen by the markets as an essential component for the structure to operate.
- New structure:
    - The structure is complex and involves: IESO as originator of the regulated asset and responsible for flow of funds; OEB as regulator of the new mechanism; OPG responsible for financing and managing the mechanism; and Ontario providing ongoing equity capital infusions to OPG and backstop.
    - The addition of financial agency to the current operational obligations of OPG is not the current expertise of OPG. However, OPG has experience managing large financial assets and liabilities through the jointly managed Ontario Nuclear Funds as well as its own pension fund. In addition, this new role could possibly dilute OPG's focus on current high priority responsibilities (i.e., electricity generation and nuclear refurbishment).
    - This financing structure would be unique to Canada – uniqueness reduces likelihood of all risks being known/mitigated. Highly specialized expertise required.
    - There is a risk that at the next opportunity to review the OPG compensation framework, they make the case that there is no national comparator for this aspect of their work and they should therefore receive further exemptions from the rules (OPG nuclear executives do not need to find national comparators for compensation determination).
    - It is unknown what the magnitude of transaction, administrative, and consultant costs that OPG would incur would be. OEB would review OPG's cost as the Financial Services Manager to ensure appropriateness.

- Debt:
  - Opportunity for significant shifting of the Ontario's electricity sector over the lifespan of the repayment (30 years). Through sector/policy/government position shifting, possibility of new entity/structure abandoning debt and Ontario having to take a write down.
  - Risk transfer / portion of debt that Ontario would be responsible for would be the higher risk portion.
  - Repayment plan and impact on rate payers highly dependent on interest rates
- The public could claim that the government is simply putting off a problem and making it worse for future generations. The complexity of the structure may be seen as government attempting to cover up its actions.

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change.

- Program design will require an evaluation of whether the existing programs are effective and achieving their outcomes (e.g. the OESP has a current uptake of 30% and program changes are proposed in advance of an increased effort to reach 100% uptake)
- The OESP matrix no longer follows the Low Income Measure (LIM) which creates inconsistencies between how programs are applied and may put pressure other provincial programs to increase funding amounts.

Connection to the Province's Next Long-Term Energy Plan

Ontario produces and publishes a Long-Term Energy Plan (LTEP) every three to four years, with the next LTEP scheduled for release in the summer of 2017. LTEP principles that will guide decision-making are affordability, reliability, clean energy, community and Indigenous engagement, and conservation. Through extensive consultation with the public, stakeholders and Indigenous partners through the fall of 2016, the ministry has identified key priorities, and, OFHP combined with new policy or program announcements in the LTEP, will provide the comprehensive future planning perspective for Ontario's energy sector. Note: The legislation associated with GA refinancing establishes a framework for the period after the ratepayer relief is set. By design, to achieve financing requirements there is limited control once the plan is set.

STAKEHOLDER AND PARTNER CONSIDERATIONS

General public (including residential and small businesses) – Likely support a proposal that is projected to provide 25% in average rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but likely to question the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and

recent changes will heavily depend on government communications. There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral on the rest of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to cap and trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. Funding electricity support programs through government funding rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generators as part of the clean energy costs.

Solar PV sector – May react negatively to price relief as it can be seen to undercut the economics of net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

DELIVERY

If passed, the legislation will enable the price mitigation measures to begin to take effect on July 1, 2017. The 2017 LTEP will be released to the public in the summer 2017 and would reinforce/integrate with Ontario's Fair Hydro Plan. Regulations are required under the major components of the legislation in order to fully implement the initiative and clarify program details.

1. Partial Refinancing of the Global Adjustment:

The ratepayer benefit of the OFHP will be in place as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the coming into force of the enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

2. Enhancing Electricity Supports and Shifting Costs to Government Funding:

OESP Enhancements

Changes to regulation will be required to establish and define the parameters for the proposed changes. The financial flow-through mechanism would likely be modeled after processes used for the ORECA (8% rebate). The amendments made in this bill allow for a transition period where the program continues to draw on the existing IESO variance account. IESO is required to notify the Ministry of Energy when it expects the variance account to be depleted (likely sometime in the fall).

The OEB and utilities implemented the 50% credit increase and added the additional eligibility so that more households could qualify for the program as of May 1, 2017.

RRRP Enhancement

Regulations would be required to establish the details of the program. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the prescribed effective date. In this case, the regulation will dictate the eligibility of July 1st and give until October 1, 2017 for LDCs to get their systems in place. The LDCs would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting.

On-Reserve First Nations Delivery Credit

The ministry is consulting with affected LDCs, the OEB, the IESO and Chiefs of Ontario (COO) to help develop a plan to identify eligible on-reserve consumers, as well as identify any potential implementation issues.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the prescribed effective date (planned: July 1, 2017). The bill includes transitional provisions that would ensure customers remain eligible for the delivery credit from the prescribed date. Once available, the rebate would appear on the eligible customer's electricity bills as a credit for their delivery line.

There is a risk that either non-status Indigenous communities without reserves or Metis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based

program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

LINKAGES

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer 2017. These plans identify needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The *Ontario Rebate for Electricity for Electricity Consumers Act, 2016*, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) – Was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB program ended on December 31, 2015.

Debt Retirement Charge – On January 1, 2016, the government ended the electricity DRC on residential users earlier than planned. For all other consumers the DRC will be removed by April 2018.

Industrial Conservation Initiative (ICI) – Implemented in January 2011 to help large industrial consumers reduce electricity costs by reducing consumption in peak periods. As part of OFHP, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – Approved as part of OFHP, and under development, the Affordability Fund is intended to provide energy efficiency measures to Ontarians who are not eligible for low income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the

two recent expansions to the ICI provides for significant potential savings. Funding electricity support programs through government funds rather than the rate base will also provide saving to Class A and B consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON) - is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and,
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed that the government consult on and develop options to mitigate the impact of carbon pricing and resulting increased utility costs on residential tenants. The mitigation is proposed because tenants do not usually have the opportunity to make changes to their building envelope (e.g. windows, insulation) or major appliances that would allow them to address utility costs themselves. On April 24, 2017, the government introduced the *Rental Fairness Act, 2017* which, if passed, would remove above-guideline rent increases for utilities, to protect tenants from carbon costs and encourage landlords to make their buildings more energy efficient.

Proposed Cabinet Minute

Approval of draft bill for introduction

Cabinet approved version 1-TP of this draft legislation for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.

2. ENERGY report back, pending Royal Assent, with regulation and associated regulatory amendments for approval.

3. ENERGY work with Cabinet Office and Premier's office to develop a communications plan.

From: Ronald Kwan
To: John Kim; Bruno Amara
Cc: Deena Padamadan; Emily Kerr
Subject: Fw: OFHP TB/MBC Asssessment Note
Date: Tuesday, May 09, 2017 1:53:23 PM
Attachments: 3 RAN Ontario Fair Hydro Plan Proposed Leg v7 FINAL.doc

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FYI All.

Any comments?

Ron

From: Strang, James (TBS) <James.Strang@ontario.ca>
Sent: May 9, 2017 1:51 PM
To: Martin Schlaepfer (MOF)
Cc: Felix Fung (MOF); Patrick Laughton (MOF)
Subject: RE: OFHP TB/MBC Asssessment Note

Hi Martin,

Energy's edits taken (mostly up front), except for the edit to the ICI minute (based on your clarification to stay with quarterly reporting process.

Also, OFA has asked to refine the credit facility note.

Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

From: Schlaepfer, Martin (ENERGY)
Sent: May 9, 2017 1:11 PM
To: Fung, Felix (TBS); Laughton, Patrick (TBS)
Cc: Gounden, Pratima (ENERGY); Strang, James (TBS); Arbabzadeh, Nina (TBS)
Subject: RE: OFHP TB/MBC Asssessment Note

Hi Felix,

Attached are our proposed edits. They are mostly technical. Let us know if you are able to incorporate them.

Thanks,
Martin

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – March 1, 2017	**Tracking to: Fast Track** LRC at Cabinet – May 10, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan – Implementation Update

I. DECISION BEFORE THE BOARD

Receive a report back on Ontario Fair Hydro Plan implementation, supporting implementation decisions and recommending the proposed Ontario Fair Hydro Plan Act to proceed to LRC and Cabinet for approval.

II. RECOMMENDATIONS:

• Receive a report back on Ontario Fair Hydro Plan implementation progress	*Receive*
• Proposed legislation: o Note key aspects of proposed legislation o Recommend proposed legislation o Direct the Ministry to return to TB/MBC with regulations supporting implementation prior to going to LRC.	*Recommend*
• Note outstanding report back requirements	*Note*
• Approve up to $3.5M funding for media buy procurement, to be followed later by a transfer from the Bulk Media program to fully recover costs for the public education campaign.	*Approve*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Affordability Fund	0.0	0.0	0.0
	Global Adjustment Refinancing*^	0.0	0.0	0.0
	Electricity social programs*	499.0	753.0	829.0
	Ontario Rebate for Electricity Consumers	939.0	882.0	882.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

* Subject to enacting proposed Ontario Fair Hydro Plan legislation.
^ As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget, linked to proposed legislation

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017 the Ministry received TB/MBC approval for additional rate mitigation actions that support a 25% electricity bill reduction (including the 8% reduction announced in 2016 for typical household in 2017). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017.

This submission deals with several elements of the OFHP:

- Refinancing Portion of Global Adjustment (GA) to provide immediate relief in the short-term for RPP eligible ratepayers (based on a planned non-fiscal impact approach over government funding).
- Expanding and enhancing ratepayer funded electricity social programs and shifting them to being government funded (OESP, RRRP), along with a new government funded On-Reserve First Nations Delivery Credit.
- Expansion of Industrial Conservation Initiative (ICI).
- Media buy approval for OFHP

The Ministry was directed to report back to the Board with proposed legislation supporting OFHP implementation, including the following specific direction regarding a non-fiscal mechanism (approach) to refinancing a portion of Global Adjustment costs (Appendix C provides the March 1, 2017 minute):

- Formal accounting opinions from OPG and IESO auditors.
- Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
- Report on the multi-year profile of GA smoothing, identifying specific assumptions.
- Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
- Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

Direction was also given to report back with final program details, regulations, sensitivity analysis of financial models, and performance metrics for electricity support programs.

OFHP Implementation Update:

The ministry's current submission does not address all required report back elements. The proposed legislation would establish the legislative framework but key details necessary to assess fiscal and legal risks are outstanding, including regulations, commercial agreements, sensitivity analysis etc. (Ministry is targeting regulations by June 2017 and commercial agreements subsequently).

Appendix D provides an overview of the Ministry's implementation update.

Financial Implications

Electricity Social Programs:

March 1, 2017 TB/MBC approvals supporting OFHP included full year projected costs. The 2017 Ontario Budget included refined projected costs shifting expanded/enhanced electricity social programs from ratepayers to being government funded starting in 2017-18, lowering the total amount from $665M to $499M to reflect rollout timing not full year costs. The table below shows expense amounts currently in the PRRT multi-year fiscal plan related to these support programs for the most vulnerable consumers.

Government Funded Social Programs ($million)	2017-18	2018-19	2019-20	2020-22
Rural or Remote Rate Protection (RRRP)	344	472	484	497
Ontario Electricity Support Program	140	261	325	375
On-Reserve First Nations Delivery Credit	15	20	20	20
Total	**499**	**753**	**829**	**892**

TBS Staff Comments:
The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate, and factors which can fluctuate from year to year. Also, fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. To mitigate risk, development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the forecasting models should be undertaken to inform future updates to cost forecasts for the programs above and the Ontario Rebate for Electricity Consumers (With 2017-18 costs estimated at about $1B).

GA Refinancing:

The proposed Fair Hydro Act, 2017 is a complex transaction and attempts to balance several key factors including financeability, accounting treatment and legal considerations by:

- Supporting financeability through a number of features, including a provincial undertaking not to interfere with clean energy adjustments once determined, which will be backstopped by a guarantee, and provisions intended to reduce borrowing costs and attract a wide investor base;
- Addressing the necessary accounting requirements through mechanisms to record funding, interest and the transfer of regulatory assets to avoid a fiscal impact to the province; and
- Mitigating legal risk by developing a methodology that attempts to ensure an alignment of costs with benefits to future rate payers.

Key elements of this schedule of the bill include (Appendix E provides more information on elements):

<u>Specified Consumers</u>
- The defined group of consumers to whom the “Fair Adjustment” and “clean Energy Adjustment” applies. Prescribed consumers include residential consumers, farms, small businesses, condominiums, long-term care homes and co-operative housing. These are primarily consumers eligible for the RPP, and aligns with the eligibility under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA).

<u>Clean Energy Costs</u>
- Clean energy costs are those costs that arise from the “clean energy initiative” and are allocated to the specified consumers for past, present and expected costs.
- The clean energy costs include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act*, *1998* (basically, the GA)

<u>Fair Adjustment</u>
- The adjustment to rates to ensure intergenerational fairness.
- July 1, 2017- April 30, 2018- reduction in rates for “specified consumers” based on a 25% reduction for a prescribed typical consumer.
- May 1, 2018- June 30, 2021- the bill allows for rates to be set by regulation (see page 17- Fiscal Pressure).

<u>Fair Allocation Amount</u>
- Principles established in the bill require proper alignment over time between the costs of providing

facilities for clean electricity generation and conservation ("clean energy costs") and the consumers who benefit from these investments.
- The Minister of Energy sets the fair allocation amount, and is required to:
  - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods" (typically every 6 months); and,
  - Take into account (in the fair allocation) funding obligations (financing) that have been incurred;
  - Align these costs with clean energy benefits expected to be received by rate payers in the future.

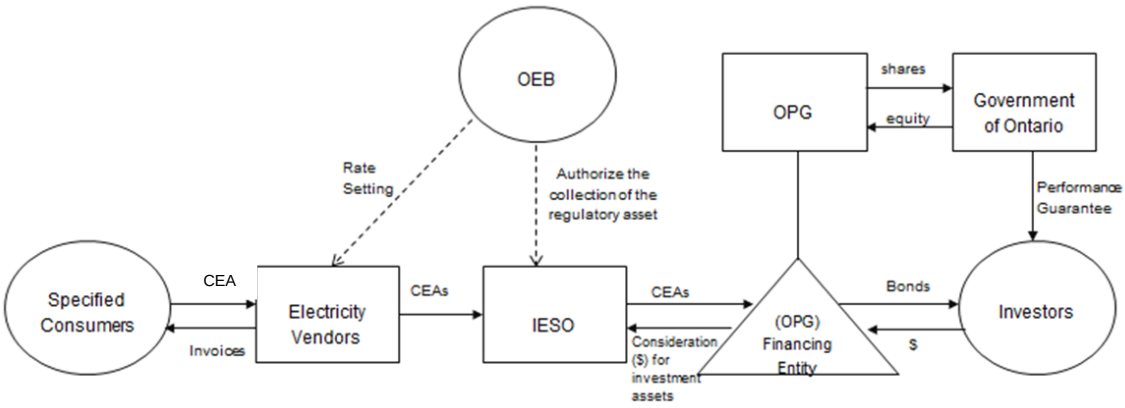
Clean Energy Adjustment
- Determined by Financial Services Manager (OPG), the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principal, interest, transaction costs and administrative costs associated with the fair adjustment and consistent with the fair allocation amount.
- In accordance with the regulations, the OEB to calculate the rate at which specified consumers are invoiced to recover the clean energy adjustment.

Regulatory Asset and Investment Asset
- A regulatory asset is created as IESO defers its right collect a portion of the rates that it would have otherwise received from customers/LDCs if not for the implementation of the Fair Adjustment.
- Subject to OEB approval, IESO records the funding shortfall as a regulatory asset. Collection rights are deferred until July 1, 2021.
- The Financing Plan contemplates the Financial Services Manager (OPG) establishing financing entities (OPG Trust/SPV) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset for the investment asset owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 4 years (July 1, 2021) the IESO has the right to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority (OFA) (see page 17- Fiscal Pressure).
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Financing Plan
- In practical terms, the Financing Plan is intended to show how debt (with varying incurrence dates, maturities and interest rates) will be used over time.
- Prepared by the Financial Services Manager (OPG), the Financing Plan is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO. Plan to be provided to the Minister of Energy.

Crown Undertaking (Guarantee or Backstop)
- The bill provides that no action or omission of the Crown, OEB, or the Minister would be effective to reduce, impair, or postpone or terminate the obligations of specified consumers to pay the clean energy adjustment.
- The Ministers of Energy and Finance together, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill, including regarding the performance of the IESO or electricity vendors under the bill.
- The Ministers of Energy and Finance together, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.

Financing Structure (Provided by Ministry)



Note: CEAs are "clean energy adjustments".

TBS Staff Comments – 2017 Ontario Budget:
The 2017 Budget also includes an investment operating asset of $1.1B related to the Province's equity injection to OPG, enabling the OPG Trust to regularly purchase IESO's regulatory asset through 2017-18. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt which would be offset by increased earnings of OPG from interest revenue. Under the anticipated accounting treatment, the Province's net debt would remain unchanged as the equity investment in OPG would offset the additional Provincial borrowing.

Projected annual amounts of GA deferrals (i.e., the regulatory asset) are shown below and are not part of the province's multi-year fiscal plan (2017 Budget (as they are assumed to be funded from electricity ratepayers under the proposed legislation). Appendix F provides analysis of financial models. The maximum amount of GA deferral under the proposed model would be about $3.5B in 2020, prior to the start of the rate recovery period.

($million)	2017	2018	2019	2020
GA Refinancing - (As part of Residential Bills lowered by 25%)	2,500	2,600	3,000	3,500

- *OPG intends to use a Special Purpose Vehicle (OPG Trust) to purchase for cash the "right to collect" the deferred amounts from the IESO which would be reflected as intangible assets by the Trust. OPG Trust will be structured to finance 51% of its funding requirements through the capital market with the remaining 49% being provided by OPG as subordinated debt. The 49% subordinated debt from OPG will be financed though debt from the capital markets (about 5%) and through equity injections from the Province (44%).*

- *The proposed legislation does not compel the OPG Trust to purchase 100% of the regulatory asset created by IESO at any given time. The IESO has noted that it may need to cover clean energy costs if for some reason the OPG Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. On behalf of IESO, the Ministry is requesting a credit facility for IESO, up to about $3B, and notes the use of this credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO, especially where GA deferrals remain on the IESO's books at fiscal year-end. Appendix G provides more information.*

<u>Financial, Accounting, Legal Risk Assessments:</u>

The March 1, 2017 TB/MBC Minute, refinancing the Global Adjustment to partially defer RPP eligible ratepayer GA costs, was subject to completed legal, accounting and financing risk assessments.

Appendix H provides more details from the Ministry to what appears below. TBS staff comments are flagged.

Financial

The Ministry indicates it has prepared legislation and is working on developing regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is not rendered not fully recoverable based on a future change made in the legislation.

- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year. The intention of the guarantees is to make them as narrow as possible.

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

The Ministry indicates the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost.

The Ministry also acknowledges given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term, and the rate of inflation.

TBS Staff Comments – (See Appendix I for a more in-depth discussion)

- *Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increases in line with CPI.*
- *If annual increases in bills or the commodity prices are subject to caps, additional borrowing/ provincial funding may be required.*
- *If a favourable legal and accounting treatment is not implemented, there could be a negative impact on the province's fiscal plan up to $2.5B in 2017-18 and rising.*
- *The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee.*
- *Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.*
- *Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.*
- *Credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.*

- *Providing a credit facility for IESO to manage while GA deferrals are pending sale, up to about $3B, could result in fiscal plan implications if GA deferrals remain on the IESO's books at the Province's fiscal year-end. IESO is consolidated onto the Province's books.*

Accounting

The ability to implement the GA deferral plan under a non-fiscal impact approach is subject to some uncertainty. While the legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y, many specifics remain outstanding and will only be addressed through future regulations and commercial agreements.

The Ministry indicates the following:

- Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations, satisfying accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

KPMG:

- The proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. KPMG's accounting opinion however, is in draft pending additional details to be addressed in regulations and commercial agreements.
- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.
- The regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset on IESO books to an investment asset on OPG Trust's books).

TBS Staff Comment – The Auditor General has raised concerns regarding the appropriateness of reporting rate regulated assets on the IESO's books under public sector accounting standards, which may lead to a qualified audit opinion on the consolidated financial statements of the Province.

OPG/E&Y:

- The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.
- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.
- Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

TBS Staff Comment – OPG's external auditors, E&Y, have provided feedback regarding the proposed

accounting treatment; however, it is subject to assumptions and limitations, including outstanding details to be addressed in supporting regulations and commercial agreements.

Legal

- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.
- Judges can be expected to take a careful look at the government's evidence in support of the re-allocation of Global Adjustment.
- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.
- The provincial assurance provision - Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes. The proposed legislation focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers.
- The provincial guarantee provisions are intended to backstop the provincial assurance provision Legal risk to the province will be assessed as the agreements are negotiated and drafted.
    - The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
    - The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.
- Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry indicates it retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements.

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. The Ministry indicates Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

The Ministry's signed submission included external opinions and assessments for Ontario Power Generation (Accounting), KPMG Letter to the Independent Electricity System Operator (Accounting Opinion), Ernst &Young (as auditors) letter to OPG concurring with OPG's description of OPG

accounting considerations of OFHP.

TBS Staff Comments Overall:
TBS staff note external opinions and assessments are supportive of the Ministry's intended plan for implementing Ontario's Fair Hydro Plan, noting the opinions and assessments must be revisited once key implementation details are finalised (e.g. draft legislation, regulations, special purpose vehicle documents, terms of conditions within various other agreements). Future reassessments, Navigant's analysis of expected lifecycle for existing generation infrastructure (key), and other factors such as Ontario electricity demand, interest rates in the medium to long-term, and the rate of inflation may contribute to fiscal plan implications emerging over time.

The Auditor General has raised concerns regarding the appropriateness of reporting rate regulated assets on the IESO's books under public sector accounting standards, which may lead to a qualified audit opinion on the consolidated financial statements of the Province.

TBS staff also note, while submission details and related discussions have not indicated a non-fiscal mechanism cannot be established, the complexity of the transaction and the time frame involved suggest it is not reasonable, at present, to support a claim of no impact on the province's fiscal plan as the Ontario Fair Hydro Plan is implemented (Appendix I includes a strategic level risk assessment prepared by TBS staff).

Ultimately, GA Refinancing being a sustainable strategy assumes electricity consumers' willingness to accept later to bear the extra costs of deferring electricity price hikes.

Media Buy Request

The Ministry is requesting approval up to $3.5M funding for media buy, to be followed later by a transfer from the Bulk Media program, $2.5M in 2017-18, to recover costs for the public education campaign in 2017-18 only.

- The Ministry indicates spending about $1M on media planning and buying for radio and digital media in 2016-17, forecasting $2.5M in 2017-18 as the cost for television media space is substantially higher than radio, and has indicated no ask for 2018-19. The $3.5M approval request looks to be partly retroactive to include the $1M in 2016-17.

Name of analyst:	James Strang With input from CO, COE, OPCD and OFA	**Phone number:**	416-327-2071
Date:	May 9, 2017	**Log number:**	
Branch / Division:	GGPR, PEMD, COE, OPCD/Treasury Board Secretariat Ontario Financing Authority/ Ministry of Finance		

APPENDIX A: PROPOSED MINUTE

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

i) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

a) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
b) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
c) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
d) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

a) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
b) Requirement for future consumers to pay the clean energy adjustment that backs financings.
c) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
d) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
e) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
f) Sets out that security interests can be granted in investment interests in the investment asset.

ii) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

iii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

iv) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of

proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.
b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.
c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.
d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

v) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
    - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
    - Establishing program performance management framework including targets for the broadened program now government funded
    - Report on and assessment of impacts of consolidation of LDCs
    - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
    - Identify eligibility criteria, and refinements being made.
    - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
    - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

vi) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.
b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX D: ONTARIO FAIR HYDRO PLAN IMPLEMENTATION UPDATE

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998 (Appendix E provides details of each):

- Legislative amendments for electricity social programs
- Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment partial refinancing)

Legislative amendments for electricity social programs

Electricity social programs becoming government funded under OFHP target residential electricity customers disproportionately affected by increased electricity costs.

- **High Distribution Cost Customers:** Some customers in rural areas where the cost to distribute electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
- **Low-Income Customers:** Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
- **First Nation On-Reserve Customers:** On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.

The proposed bill amends the *Ontario Energy Board Act, 1998* for various electricity social programs:

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001. The bill enables the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial appropriations, rather than from electricity.

Appropriated funds would be used to offset the cost of the RRRP program for electricity consumed on or after July 1, 2017.The implementation of the amended RRRP program (moving the majority of costs to the tax base) will require oversight of the government funding provided.

Distribution Rate Protection (Broadened RRRP)

While the RRRP program helps mitigate some of the higher distribution costs for Hydro One R2 customers, as well as certain customers served by Algoma Power, Hydro One Remote Communities and James Bay First Nation LDCs, there is an opportunity to provide further relief to consumers served by higher cost distribution cost LDCs.

The proposed legislation would enable a broader government funded Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge for consumption on or after July 1, 2017.

If passed, the eight high-distribution cost LDCs whose customers are eligible customers will be prescribed in regulation. Residential customers of Algoma Power and Hydro One R2 customers would be eligible for additional relief as these LDCs are the highest cost distributors in the province (as well as six additional higher-distribution cost LDCs).

The legislation contains retroactive application of the provisions to offset any potential lapses in implementation and ensure that consumers receive the benefit following the July 1st effective date through to the final effective date of October 1st, 2017.

On-Reserve First Nations Delivery Credit

The proposed bill would enable the provision of a government funded on-reserve First Nations Delivery Credit (FNDC), which would eliminate the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve customers prescribed in regulation.

The program is premised around the findings in an OEB Report submitted to the Ministry on December 29, 2016 providing advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers.

Ontario Electricity Support Program (OESP)

The OESP began on January 1, 2016 as a rate-payer funded program to provide relief to low income Ontarians who are struggling to afford their electricity bills. The OEB administers the program.

The Fair Hydro Plan committed to move the program to being government funded, and to expand the OESP by increasing the credit amounts by 50 per cent, making more Ontarians eligible for the program, and aligning the OESP with other social assistance programs to increase uptake.

On March 23, 2017, the OEB issued a Decision and Order to end the OESP volumetric charge paid by all Ontario consumers on May 1, 2017. On April 10, 2017, Cabinet approved amendments to the OESP regulation (O.Reg. 314/15) to increase credit amounts by 50% and introduce new eligibility categories so more Ontarians can access the program. These changes will come into effect on May 1, 2017.

The proposed bill would move the recently expanded Ontario Electricity Support Program (OESP) to government funding, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program (ODSP) and Ontario Works (OW) to potentially allow for automatic enrolment procedures to be established.

The Ministry indicates the proposed legislative amendments will be proclaimed into force at a later date when the OESP charges collected to date (which are being held in an IESO variance account) are depleted. Amendments to the OESP regulation (O.Reg. 314/15) will be needed to implement these legislative changes.

Legislation to provide for the fair allocation of costs of electricity over time (Global Adjustment (GA) Refinancing)

Refinancing a portion of GA is intended to provide significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

The Ministry indicates under OFHP, the electricity bills of current residential consumers would be reduced by 25 per cent on average starting in summer 2017 (This includes the 8% Ontario Rebate for Electricity Consumers). In addition, increases to electricity bill would be held to the rate of inflation for four years. Up to 500,000 small businesses and farms would also benefit.

Reflecting March 2017 approvals (See Appendix C for March 2017 TB/MBC minute), proposed legislation for GA Refinancing is designed to establish a non-fiscal impact mechanism. Minuting indicated proceeding with GA Refinancing requires completed legal, accounting and financing risk assessments.

The proposed approach to GA Refinancing is complex. Appendix E provides proposed legislative details.

- At a high level, the proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future.

    - July 1, 2017, to April 30, 2018, reduces, on average, after-tax electricity costs for "specified consumers" by 25% (inclusive of the 8% rebate and shifting of support program to be government funded).
    - May 1, 2018, to June 30, 2021, electricity rates will be prescribed by regulation with the intention to keep increases in line with the Consumer Price Index (CPI).
    - July 1, 2021, to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs.
    - Through the proposed bill and amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998, expands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to provide for appropriate oversight, put in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the refinanced GA costs.

Consumers would see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG, through a special purpose vehicle (OPG Trust) is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The proposed bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Expansion of Industrial Conservation Initiative (ICI)

As part of OFHP, the government announced plans to further reduce the ICI threshold from 1 megawatt (MW) to 500 kilowatts (kW) and to target more small manufacturing and industrial consumers.

Effective April 13, 2017, electricity consumers and market participants in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and "1114") in Ontario with an average monthly peak demand of greater than 500 kW and less than or equal to 1 MW are eligible to opt-in to ICI. Billing for electricity consumers that opt-in to ICI begins July 1, 2017.

Provisions were also provided to allow electricity consumers to continue their participation in ICI if their demand falls below the monthly peak demand threshold while participating in certain prescribed Conservation and Demand Management (CDM) programs and/or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) programs and pilots.

The Ministry is also undertaking targeted stakeholder outreach.

The rate-base impact of expanding ICI to consumers in the manufacturing and greenhouse sectors is expected to be modest for non-ICI participants.

- The extent of the impact will depend on the uptake in the newly expanded ICI. The Ministry of Energy regularly monitors electricity prices and electricity demand for all classes of electricity consumers and would be able to assess the potential impacts of the regulatory amendments, starting after July 2017.

APPENDIX E: PROPOSED FAIR HYDRO ACT OVERVIEW

The proposed Fair Hydro Act is an omnibus bill with 2 schedules: the Ontario Fair Hydro Plan Act, 2017 and amendments to the Ontario Energy Board Act, 1998, consisting of two schedules:

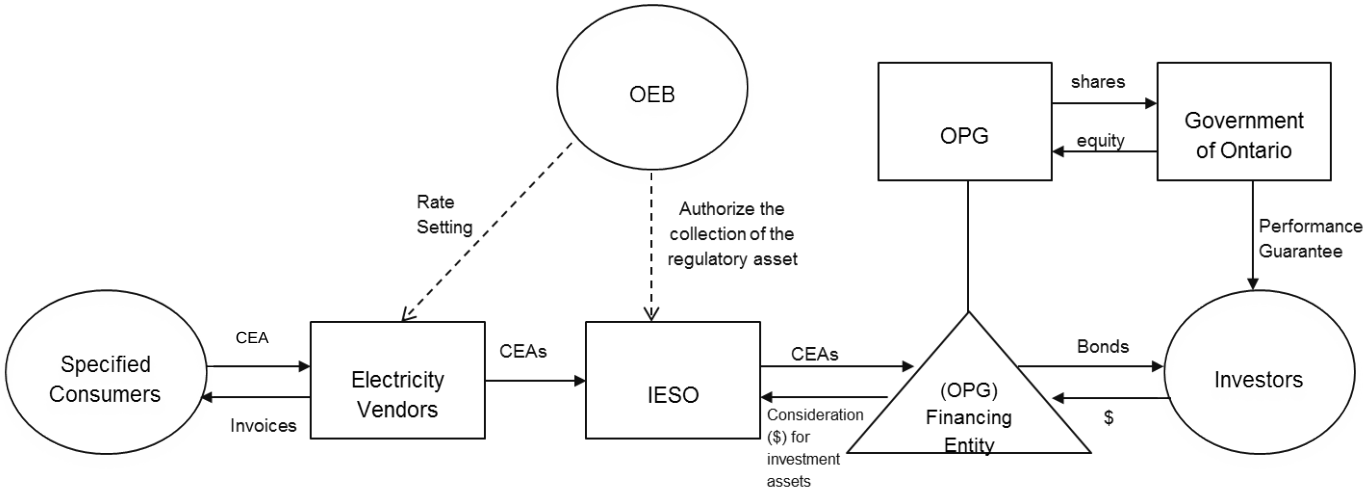
- Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (Dealing with Global Adjustment (GA) refinancing).
- Schedule 2: Legislative amendments for electricity social programs

The Ministry has provided the following overview of the proposed legislation:

Schedule 1: Legislation to provide for the fair allocation of costs of electricity over time (GA refinancing).

Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system (Clean Energy Initiative) creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations. The diagram below outlines how the refinancing of GA would be implemented.



Note: CEAs are "clean energy adjustments"

Clean Energy Costs and Benefits:

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (the Global Adjustment provisions) which relate to contracts for:
  - Renewable energy generation or capacity
  - Conservation and demand management, including shortage
  - Energy efficiency
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*
  - Other such costs to be included in "clean energy costs" may be prescribed

- These are the costs to be distributed fairly among the specified consumers through the "fair allocation amount".

Fair Allocation Adjustment:

- Part II establishes that the rate that will be payable by "specified RPP consumers" from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the "comparison rate". The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.
- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).
- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.
- The Minister sets the fair allocation amount.

    - The establishment of the "fair allocation amount" is required to,
        - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods"; and
        - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).
    - The "fair allocation amount" is to have regard to:
        - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the "specified consumers" (in the applicable "reference periods");
        - Reasonable assumptions regarding the time value of money, the number of consumers in the "reference period"; and
        - Expected electricity consumption for the reference period.

Regulatory Asset and Investment Asset:

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets.
- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a "regulatory asset". In simple terms, the regulatory asset is IESO's right to recover the revenues that it has deferred collecting.
- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities. OPG financing entities are not required to purchase the regulatory asset.
- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".
- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

Issuance and Payment of Debt:

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.
- The financings will be backed primarily by the "clean energy adjustments" payable by specified consumers. The "clean energy adjustments" will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the "fair allocation amounts" ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).
- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity's related funding obligations.
- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario's undertakings not to adversely affect the program through subsequent legislation.

Financing Plan:

- The Financing Plan is prepared by the Financial Services Manager (OPG).
- The Financing Plan is the plan which is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO.
- There are rules that apply to the Financing Plan:
  - It must align with the "estimated finance amount" that will become due and payable during a "reference period";
  - It must take into account the "fair allocation" and any "fair adjustment";
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancing, redemption opportunities and liquidity, and similar assumptions).
- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.
- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

Who Does What?

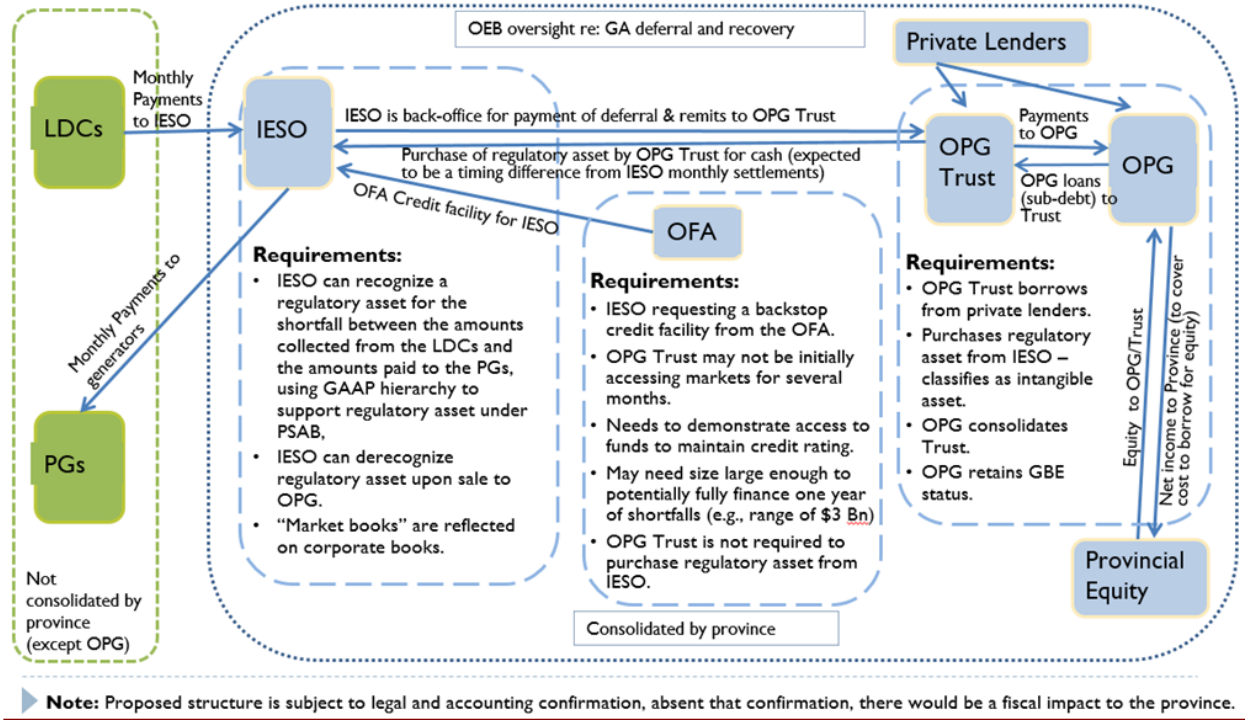
- Minister of Energy – Determine the "fair allocation amount" applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.
- Ontario Power Generation (OPG) – As financial services manager, OPG will be responsible for the following under the Act:
  - Prepare and implement Financing Plan.
  - Establish and administer the financing entities.
  - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.

- Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

- Independent Electricity System Operator (IESO):
  - Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.
  - Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.
  - Coordinates the collection of "clean energy adjustments" from Electricity Distributors.
  - Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.
  - Fund initial interest costs and expenses during the first 4 years.

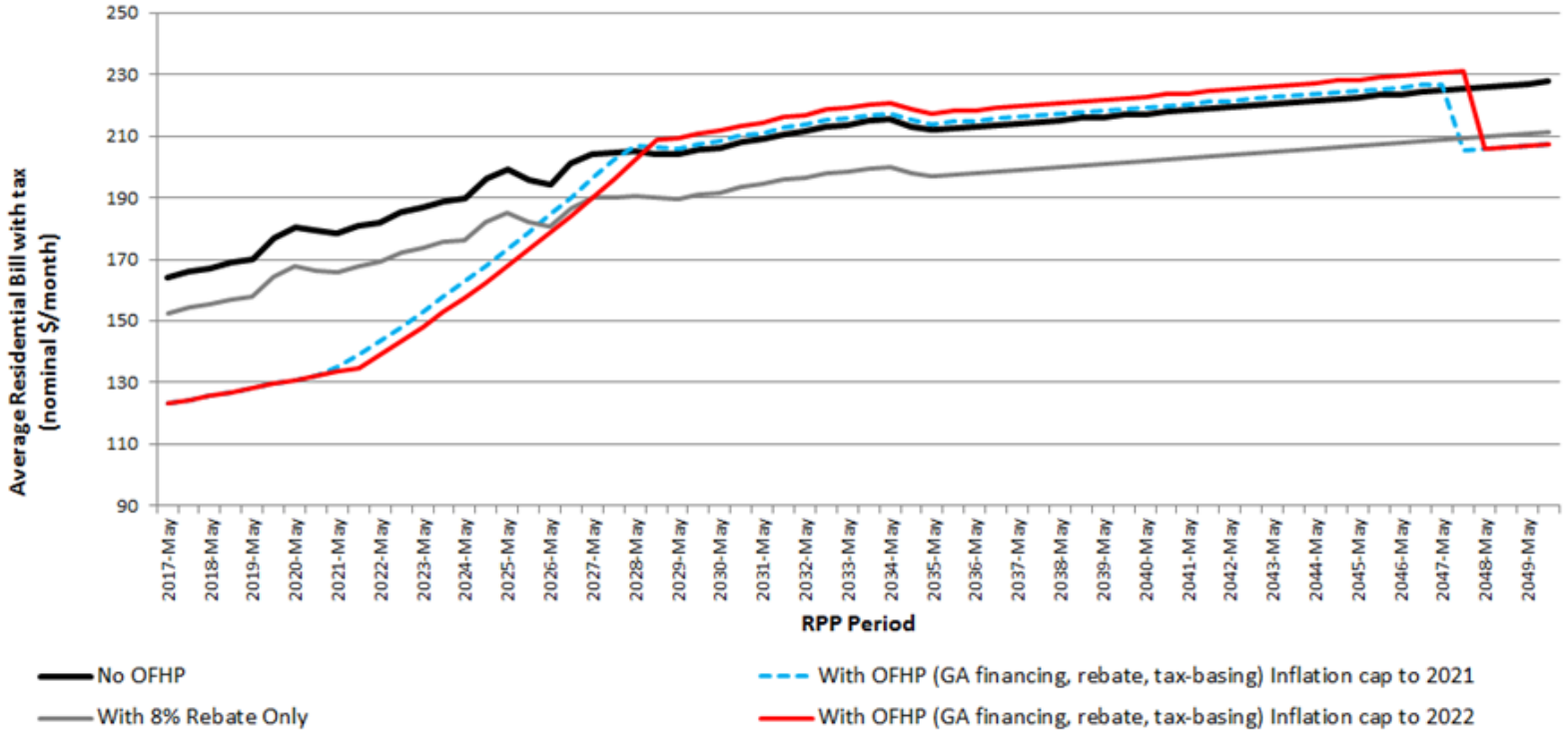
- Local Distribution Companies (LDCs):
  - Obligation to invoice specified consumers.
  - Collect, as agent of the investment interest owners, "clean energy adjustments" from specified consumers.
  - Hold money received for clean energy adjustments in trust until remittance to the IESO.

- Ontario Energy Board:
  - Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).
  - Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).
  - Review the administrative costs of OPG in connection with the administration of the program.



Note: Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

GA Smooting for RPP – Eligible Only



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly bill with OFHP ($/month)	124	126	129	131	137	146	155	165	176	187	199	207	207	209	212	214	216	216	214	215	216	217	219	220	221	222	223	224	225	226	216	206
Year-over-year change (%)	n/a	2.01	2.01	2.01	4.25	6.44	6.44	6.44	6.44	6.44	6.44	3.61	0.08	1.20	1.29	1.14	0.93	-0.04	-0.88	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	-4.37	-4.61
Impact of GA financing and tax-basing ($/month)	-29.9	-30.0	-35.0	-34.4	-28.8	-24.0	-17.8	-14.2	-3.3	3.4	12.2	16.4	16.5	16.7	16.9	17.1	17.2	17.1	17.0	17.1	17.2	17.3	17.4	17.5	17.6	17.6	17.7	17.8	17.9	18.0	-3.9	-4.0
Total accumulated debt ($B)	2.5	5.2	8.2	11.6	14.7	17.5	19.9	22.0	23.5	24.1	24.2	23.7	23.1	22.5	21.8	21.0	20.1	19.2	18.3	17.2	16.1	14.9	13.7	12.3	10.9	9.3	7.7	5.9	4.1	2.1	0.0	0.0
Total change in accumulated debt ($B)	2.5	2.6	3.0	3.5	3.1	2.8	2.4	2.0	1.6	0.6	0.1	-0.5	-0.6	-0.6	-0.7	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2020 such that the average monthly residential electricity bill increases by 6.3% per year to a maximum of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Data shown above is by RPP period. Assumes RPP prices are adjusted in July 2021 instead of May 2021 to coincide with the end of the inflation cap. Fair allocation amounts subject to third party review.

Schedule 2: Legislative amendments for electricity social programs moving to being government funded

As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:

- Enhancing and providing government funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates
- Enhancing and providing government funding for the Ontario Electricity Support Program (OESP)
- Creating a new First Nation On-Reserve Delivery Credit and providing for government funding

Overview of RRRP and Broadened Distribution Rate Protection:

- Section 79 of the Ontario Energy Board Act would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution cost.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program:

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.
- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.
- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.

- Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
- This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit:

- Energy is proposing legislative amendments that would establish a First Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.
- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

APPENDIX F: ANALYSIS OF FINANCIAL MODELS AND RISKS

Treasury Board Secretariat received two models related to global adjustment refinancing on April 12, 2017:

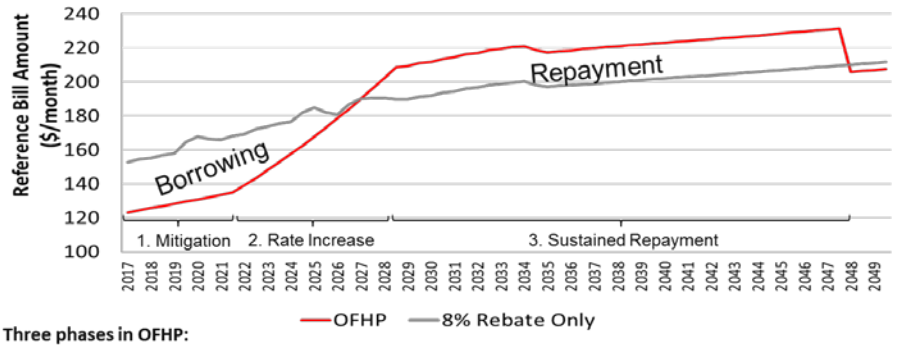
- The model the Ministry of Energy developed and used to support the March 2017 submission
- The financial model that was developed by the Ontario Power Generation (OPG) that provides details regarding the financing of the proposed structure

These models are based on high level aggregates and do not allow TBS to determine the financial impact of potential scenarios in which conditions and forecasts are different. TBS staff have met Ministry of Energy and OPG, and there is agreement for scenarios to be run and for further sensitivity analysis to be undertaken – both to create a risk-based outlook for the province, and to respond to questions that are expected from credit rating agencies.

The Model:

The OFHP can be thought of as having three phases (see diagram):

The model is high level and aggregate, built on other independent forecasts (e.g. IESO demand forecast). There are a large number of assumptions built into the model explicitly and implicitly (as a large number of assumptions are embedded into the other forecasts that are used as inputs into this model).



Three phases in OFHP:

Phase 1: Mitigation
- 2017 bill set 25% lower than original projection (that did not include 8% HST rebate)
- Increase in bill capped to 2% per year until 2021

Phase 2: Rate Increase
- Bill **increases 6.3% each year** to avoid exceeding borrowing limit of $28B
- Planned increases end in 2028 when sustained repayment starts

Phase 3: Sustained Repayment
- Bill remains **10.4% higher** than projected with 8% rebate until 2047
- Difference represents financing repayment
- Total interest paid: **$26.2B**

Model Inputs:

Exogenous Variables
- Interest Rates
- USD/CAD Exchange Rate
- Debt ceiling of $28B (borrowing limit 10% of bill)
- Natural Gas Prices

Policy Parameters
- Use of Toronto Hydro Customer @ 750 kWh as the reference bill
- 25% bill reduction in 2017
- Bill increase capped at CPI annually until 2021
- Rate increase accelerate starting in 2022 in order to never exceed the $28B cap
- Payments set to fully repay by 2047
- Implementation approach

Other Model Inputs
- IESO Demand Forecast (Outlook B)*
- IESO Global Adjustment Forecast*

* includes a large number of variables ranging from: generation costs, federal CO2 price, regulatory charges, energy conservation, technological disruption, exchange rates, load forecasting and seasonal adjustments, etc.)

Analysis of Variables and Risks:

- Interest Rates: the current model is based on a static interest rate of 5%. While this assumption is reasonable in the current low interest rate environment, an increase in interest rates would result in substantially higher residential bills after 2022. For instance, if the interest rates increase from 5% to 7% (historical 30 year average) between 2020 and 2024, financing costs would increase by $11.2B (for a total of $37B). Bill increases from 2022 to 2029 would need to

be 7.3% annually (compared to 6.3% in base case) and the bill would remain 12.5% higher from 2029 to 2047 (compared to 10.4% in the base case).

- Demand: The model uses electricity demand from IESO (Outlook B) as a key input.
    - While IESO forecasts have been very accurate in the short to medium term, historically the forecasts have overestimated demand in medium to long term. If the current forecast, used on the projections, has the same bias, the costs borne by customers in the future may be higher.
    - Similarly, other factors that lower demand (conservation, technology adoption, and self-generation) would increase the costs borne by remaining customers to decease the debt associated with GA refinancing.
    - It should be noted that the reverse is also true, that if higher levels of electrification are achieved and demand increases, the cost of paying off the debt will be spread over a greater number of consumers.

- Any scenario that results in higher financing costs for ratepayers in later years may increase the risk that the regulatory charge to repay would be characterized as an unauthorized tax.

- Appendix I provides a more detailed overview of risks.

Analysis is currently underway to better understand intergenerational costs and benefits and the impact of GA smoothing on recovery charges that would be allowed under the current Eurig compliance rules.

Depending on the legal determination, if the annual increases in bills or the commodity prices will be subject to caps, additional borrowing/provincial funding may be required.

With the shift of electricity social programs costs moving to being funded by government appropriations (Including the 8% rebate, total costs are forecast to be $1.4B in 2017-18), cost forecasting models/assumptions should also under go sensitivity analysis to inform future funding requests.

APPENDIX G: PROVIDING A CREDIT FACILITY TO IESO

After IESO's review of the proposed legislation, it has indicated to the Ministry and the Ontario Financing Authority (OFA)/MOF that IESO may need to cover clean energy costs if for some reason the Trust, at any time, chooses not to purchase a portion of the deferred Global Adjustment amounts. IESO noted that the proposed legislation does not compel the Trust to purchase 100% of the regulatory asset at anytime. Also, the establishment of the regulatory asset and purchase by the Trust is expected to take three to six months to implement following the introduction of enabling legislation.

The OFA currently provides a $975 million credit facility to the IESO for other purposes, it is proposed that the OFA provide a new credit facility to the IESO, in an amount of up to about $3 billion.

The use of this new credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO.

Approvals Required for OFA Financing

OFA indicates the recommended TB/MBC minute should note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An order-in-council will be sought to allow the OFA to be able to provide the new credit facility to the IESO, for an amount to be determined as per the requirements of the Fair Hydro Plan.

The following approvals are required by the OFA to accommodate the request to provide financing to the IESO:

1) An Order-in-Council is required for the Minister of Finance to lend to the OFA.
2) A Directive from Minister of Finance is required for the OFA to on-lend to the IESO.
3) An executed credit agreement between the OFA and the IESO.

1. Order-in-Council (OIC)

An OIC is required to authorize the Minister of Finance to lend to the OFA. Ministry of Finance Legal Services Branch would need to be engaged to facilitate the request.

- The existing $975 million credit facility was covered under OIC 675/97 which authorized the Minister of Finance to lend a revolving $2.16 billion to the OFA. This OIC was originally obtained in 1997.

It is understood that upon drafting the OIC (by MOF Legal), the OIC would need final approval from Lieutenant Governor in Council LGIC as required under section 22(1) of the *Capital Investment Plan Act*, 1993.

- The OIC would go through Deputy Minister of Finance, Minister of Finance, Chair of Cabinet for briefing/sign-offs and finally to the LGIC for approval.

To draft the OIC, the following details will be required:

i. Dollar Value of Loan from the Minister of Finance to the OFA
ii. Maturity Date of the Loan
iii. Interest Rate of the Loan

The following are recommended to accommodate IESO's need for financing:

i. Dollar Value of Loan:
   $3 billion, as per request. The OIC would provide the maximum limit of any loan to IESO and it may be advisable to add a cushion and provide an OIC for $3.5 billion.

ii. Maturity Date of the Loan:
OIC maturing March 31, 2048 would provide approximately 30-year term to match the Fair Hydro Plan. It may be advisable to add a cushion and set a maturity date to March 31, 2053 (cushion of 5-years).

iii. Interest Rate of the Loan
Interest rates on the loans from the Minister of Finance to the OFA have typically been a 1) Ontario 90-day t-bill rates, 2) flow-through of the rates charged to the third-party by the OFA and/or 3) the rate charged to the third-party by the OFA less 25bps.

OFA recommends to keep this unchanged to provide consistency with past OICs but also to provide flexibility in the rates that could potentially be charged to IESO, to be determined by the Minister of Finance, by way of the Minister's Directive.

2. Minister's Directive

Once the Minister of Finance has the authority under an OIC, a Minister's Directive can authorize the OFA to lend to IESO. The Directive can outline specific terms and conditions as needed.

3. Executed Credit Agreement

With a Minister's Directive approved, the OFA and IESO can work to execute a credit agreement, subject to any terms and conditions of the Directive and any policy considerations.

APPENDIX H: FINANCIAL, LEGAL, ACCOUNTING RISK ASSESSMENTS (MINISTRY)

The Ministry was asked to report back to TBS/MBC with on details on how financing, accounting and legal risks would be mitigated.

Financing

OFHP Legislation

The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of investments in the electricity system are allocated fairly among present and future generations of consumers. Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the (GA), including:

- Fair Allocation Amount: Is a calculation and allocation of clean energy costs over time. It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term. The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager (OPG). Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
- Fair Adjustment: Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018. Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force. The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021.
- Clean Energy Adjustment: Is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period. This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing. IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

The Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., TB, MOF, AG and CO), agencies (i.e., OEB, IESO, OPG) and third party financial advisors.

- The proposed legislation enables the province to provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework and the authority of the legislature to pass the legislation. The intent is to ensure that the full value of any investment is recoverable.
- The legislation also enables the Province to guarantee borrowing of the trust in the event of a market disruption to mitigate OPG's financing risk. Specifics of these guarantees will be determined in agreements to be negotiated later this year

It is still possible that the full value of the Regulatory Asset may not be purchased. In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.

In addition, the Ministry has been worked closely with the Ontario Financing Authority (OFA) and TD Securities (TD), as the Province's external financial advisor, on the financing structure (i.e., legislation, provincial guarantees, OPG's equity injections and IESO's enhanced credit facilities).

In particular, the proposed legislation enables a structure that OFA and TD believe will enable financing at a reasonable cost. Key elements that support this financing structure include:

- OPG issuances of subordinated debt to the SPV/Trust representing up to 49% of total borrowing; and
- Conditional (springing) guarantees by the Province to provide a backstop in the event of specific and limited events (e.g., changes to legislation that harm investor interests).

Note: The ability to finance and the cost of financing will only be known with certainty once OPG takes this structure to market.

<u>OPG Financing / OPG Equity Financing</u>

The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years. The proposed legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

IESO will have a funding gap resulting from the reduction in amounts collected over four years. The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a “Regulatory Asset”.

- OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.
- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

As part of supporting the financing and administration of the GA refinancing mechanism, it is expected that OPG would purchase the right to future cash flows from IESO on an ongoing basis.

The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an “Investment Asset”.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.

The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.

These purchases would be financed in part by capital infusions from the Province to OPG for the purposes of stabilizing OPG’s capital structure:

- OPG would require monthly “equity injections” from the Province which would be fiscally neutral as OPG would issue new shares to the Province in exchange;
- Funds from the Province would flow from the Ontario Financing Authority (OFA); and
- The Ministry, OFA and OPG are working through the specific mechanisms, timelines and share features.
- It is anticipated that the initial equity injection would take place as early as June 2017.

Through PRRT, the Ministry of Energy received approval for the creation of an operating asset ”OPG Share Purchase” and expenditure increase of $1.1billion in 2017-18 within Vote 2905-5, which is based on the latest estimates by IESO, and provides flexibility to account for forecasting uncertainty. This approval is pending passage of the proposed legislation.

OPG will provide a two year forecast of its equity requirements to the Ministry on annual basis, as part of OPG’s business plan process. Note: While included in the business plan, equity requirements will not form part of the Ministry of Energy’s concurrence process.

For future funding requirements, the Ministry will seek appropriation through the PRRT process.

OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide (described above).

In addition, given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.

- Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual ratepayers. Note: The reverse is also true in regards to decreasing demand.
- Should interest costs increase from the assumed 5%, total borrowing costs would rise. Given that this is a unique offering, managing investor confidence will be key to ensure borrowing costs don't rise. Note: The reverse is also true in regards to interest rates being lower than assumed.

IESO's Credit Facilities

IESO is in discussions with the Ontario Financing Authority (OFA) regarding an increase to its current "line of credit" with the OFA and OEFC (i.e., credit facilities). The increases are in response to IESO role in the delivery of OFHP and to provide a necessary buffer to fund short periods where OPG SPV/Trust does not fund a shortfall.

IESO advises that this is important not only for IESO solvency, but also to maintain its credit rating (i.e., IESO's contracted suppliers' credit arrangements are often based on IESO maintaining a certain rating).

IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period. OPG Trust is not expected to access public capital markets monthly, nor is it required to purchase the regulatory asset. Therefore, IESO will need a credit facility for interim financing. IESO may also require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.

Accounting

The legislation to enable GA refinancing has benefitted from the review and input of IESO/KPMG, OPG/E&Y and OPCD/E&Y.

The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.

Under the proposed legislation, OEB will issue an "accounting order" to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. This satisfies accounting concerns regarding OEB oversight in the establishment of the Regulatory Asset.

IESO will effectively sell the "right to collect" deferred future revenue from ratepayers to OPG in return for cash proceeds.

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement.

To recover its revenue shortfall, IESO will establish a Regulatory Asset that it would sell to OPG's SPV/Trust.

KPMG

The Ministry has worked closely with the Independent Electricity System Operator (IESO) and KPMG on the accounting considerations of GA Refinancing (i.e., legislation, applications of accounting standards/principles, minimizing consolidation risks and ability to establish a regulatory asset).

In particular, the proposed legislation provides a structure that IESO and KMPG believe meets the necessary accounting requirements. Key elements include:

- An IESO variance account created by the proposed legislation that would be recognized as a "regulatory asset".
- An Ontario Power Generation (OPG) special purpose vehicle (SPV) / Trust that would not controlled by IESO and thus have no consolidation risk for IESO.

In addition, KMPG provided some commentary on the accounting requirement for the "derecognition" of the regulatory asset once it's sold to OPG SPV/Trust. KPMG advised that the regulatory asset should be derecognized upon transfer to the OPG SPV/Trust as IESO no longer has rights or obligations to the asset (i.e., the transformation from a regulatory asset to an investment asset).

OPG

The Ministry has worked closely with the Ontario Power Generation (OPG) and E&Y, on the accounting requirements to enable GA Refinancing with respect to consolidation (i.e., legislation, applications of accounting standards/principles, establishing a special purpose vehicle (SPV) / Trust).

The proposed legislation and the associated amendments to the Electricity Act, 1998, enable OPG to create OPG's SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. Note: To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements/documents.

- OPG will have the authority to set up the SPV/Trust and assign it with powers regarding decision-making, funding and ongoing operation.
- OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

Based on the existing and proposed legislation, key operating conditions being addressed in regulations and supporting agreements/documents and no introduction of new conditions that would conflict with OPG's control of the SPV/Trust, E&Y concurs with OPG's assessment that the accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Legal

In principle, refinancing the Global Adjustment (GA) to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:

- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
- If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
- By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
- The judges can be expected to be aware of the difficult political problem of high energy costs in in Ontario, and will take a careful look at the government's evidence in support of the re-allocation of the GA.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill provides for provincial assurances, guarantees and a statutory cause of action.

The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction.

The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- The Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
- The Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted. **A statutory cause of action** may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

The Ministry retained Blakes to provide external legal advice in the development of the legislation.The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

Navigant Analysis

Navigant Consulting has been retained and is conducting research and analysis that would support the implementation of GA refinancing. Specifically, Navigant is conducting analysis that would inform the expected lifecycle of existing generation infrastructure. Navigant is also analyzing the financial benefits that could be achieved by more closely aligning the costs of this infrastructure with the period over which it is expected to provide benefits. In addition, the Ministry has asked for analysis of the social, health and environmental benefits of phasing-out of coal-fired generation in the province and identify which, if any of these benefits are already accounted for in generator contracts.

APPENDIX I: OVERVIEW OF RISKS

Prepared by TBS staff, the following chart provides an overview of strategic (versus operational) risks to inform the approval/decision making process regarding the proposed legislation. Each part, GA Partial Refinancing & Electricity social programs, is a separate table.

Global Adjustment Partial Refinancing:

Objective: Provide immediate ratepayer relief by capping rate increases at Consumer Price Index (CPI) for four years and refinancing GA costs over a longer period of time. Develop and implement a financing structure that increases provincial borrowing, but has no impact on annual provincial surplus/deficit.

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA smoothing being allocated to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there could be a negative impact on the province's fiscal plan up to $2.5B in 2017-18 and rising. • Rating agencies and investors in the Province's debt may view all of the borrowing as an obligation of the Province, especially taking into account the nature of provincial guarantees, which could put pressure on the Province's credit rating and overall borrowing capacity. • Proposed structure may result in a negative response from Ontario Auditor General (OAG) due to previous concerns regarding recognition of rate regulated assets and liabilities. The AG has already expressed concerns regarding the accounting treatment on the IESO's books which could lead to a qualification of the Province's consolidated financial statements. • Initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to justify structure of financial model and be utilized in discussions with the OAG. • Identify potential options to minimize the balance of rate regulated assets remaining on the IESO's books at fiscal year-end.

Risk	Level of Risk	Risk Response
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.
A legal determination that the Province is spreading the costs of GA financing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Medium **Risk Impact:** High **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and close monitoring of costs and changes in variables built into model. • Analyze the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Moderate **Time Scale:** 12 to 24 months **Rationale** • The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the government to offset a part of the scheduled increases. • Risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.	Risk can be avoided by: • Province providing a potential guarantee for the cost of borrowing – however, would redirect risk back to the Province and negate benefits of proposed financing structure. Risk can be mitigated by: • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • Proposed legislation to enable GA refinancing has been draft with input from third-party financers. Provides a 'narrow' provincial guarantee and ensuring that debt holders have the right of action against a future government to recover the amount outstanding including interest, fees, expenses and any damages.
Risk	**Level of Risk**	**Risk Response**

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA Refinancing having a fiscal impact to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there would be a negative impact on the province's fiscal plan of up to $2.5B in 2017-18 and rising. • Rating agencies and investors in Province's debt may view all of the borrowing as an obligation of the Province, which could put pressure on the Province's credit rating and overall borrowing capacity. • The proposed structure may result in an opinion from the Ontario Auditor General (OAG) considering previous concerns regarding recognition of rate regulated assets and liabilities. The OAG may take this into account when the provincial books are audited. • An initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards. Additional analysis is still required.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to support discussions of the financial model with the OAG.
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.

Risk	Level of Risk	Risk Response
A legal determination that the Province is spreading the costs of GA refinancing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Possible **Risk Impact:** Major **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and ongoing monitoring of costs and changes in variables built into model. • Analysis of the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Refinancing GA costs through an OPG SPV Trust may increase costs and/or require provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Major **Time Scale:** 12 to 24 months **Rationale** • The proposed borrowing structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on the interest rate for borrowing, the amount of equity / funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • There is a risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's own ratings and cost of borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B (in the March 1, 2017 Cabinet Submission) is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the province to offset a part of the scheduled increases. • Fiscal impacts will be subject to fluctuations in Ontario electricity demand, GA and interests rates in the medium-to long term.	Risk can be mitigated by: • Providing a "provincial guarantee" for the cost of borrowing. • Drafting legislation to provide assurance to OPG and investors regarding the permanence of the GA refinancing framework and the authority of the legislation to pass the legislation; and enable the Province to guarantee borrowing of the trust in the event of a market disruption. • Specifics of a guarantee are dependent on the negotiation of agreements not yet initiated. • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost.

Electricity social programs (Enhancing Electricity Support & Conservation Programs):

Objective: Shift funding of existing and new electricity support programs (RRRP, OESP, Affordability Fund, First Nations Credit) from rate to tax base.

Risk	Level of Risk	Risk Response
Uncertainty in forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated fiscal impacts for the Province.	**Risk Likelihood:** Possible **Risk Impact:** Major **Timescale:** 12 to 24 months **Rationale:** • The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate. • Fiscal projection is highly dependent on factors which can fluctuate from year to year, including: o electricity usage; o distributions costs; and o consumer consumption patterns that may change due to extreme weather or other factors. • Fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. o Enhanced RRRP may create disincentives from the eligible LDCs towards productivity and performance improvements and/or cause ineligible LDC's to drive up distribution costs to gain access to program.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the forecasting models.

From: Ronald Kwan
To: John Kim
Subject: Fwd: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
Date: Monday, June 12, 2017 3:09:07 PM

Hi John,

FYI, ands any view on a comfort letter vis-a-vis rating agencies?

Ron

Begin forwarded message:

> **From:** "Langleben, Ann (MOF)" <Ann.Langleben@ontario.ca>
> **Date:** June 12, 2017 at 2:55:39 PM EDT
> **To:** "Waterston, Michael (MOF)" <Michael.Waterston@ontario.ca>, "Kwan, Ronald (OFA)" <Ronald.Kwan@ofina.on.ca>
> **Cc:** "Lewis, Robin (MOF)" <Robin.Lewis@ontario.ca>, "Klassen, Daniela (MOF)" <Daniela.Klassen@ontario.ca>
> **Subject: FW: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan**
>
> Hi Michael, not sure if this has been forwarded to you or someone in your Branch. I just wanted you to be aware.
>
> CCTB involvement in this issue relates to a potential exemption for the entity. We are hindered in our ability to create one, since the structure has not been finalized and the options are still quite broad.
>
> Ron, we met with Sriram and he has asked me to contact you about whether a "comfort letter" regarding the tax issue would be sufficient for the credit rating agencies. If you have a minute later today, perhaps we can connect by phone (unless there is a straightforward answer).
>
> ---
>
> **From:** RYFA Ken -TREASURY [mailto:ken.ryfa@opg.com]
> **Sent:** June-12-17 12:22 PM
> **To:** Nelms, Scott (MOF); LEE John -TREASURY; WONG Leslie -LAWDIV; SHAH Ameet -FIN & C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA); MAUTI John -FIN & C CTRL; JORDA Jenny -FIN & C CTRL
> **Subject:** RE: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
>
> During today's call there was a general reference to potential credit rating agency concerns. That concern may not have come across clearly enough and here is some perspective on the specific concern. Given that this structure is very unique in the Canadian environment the credit rating agency will likely request a legal opinion – tax

neutrality or run flat for tax – establishing that any activity of the financing entity will not result in a tax liability that would rank ahead of security holders.

-----Original Appointment-----
From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: Wednesday, June 07, 2017 3:09 PM
To: Nelms, Scott (MOF); LEE John -TREASURY; RYFA Ken -TREASURY; WONG Leslie - LAWDIV; SHAH Ameet -FIN & C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA)
Subject: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
When: Monday, June 12, 2017 11:00 AM-12:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: 416-212-8013 Passcode 4075747# (SN MC 6665#)

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From: John Kim
To: Bruno Amara
Subject: Fwd: OPG
Date: Monday, June 12, 2017 6:20:35 PM

Could we take a look tomorrow?

Begin forwarded message:

> **From:** Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> **Date:** June 12, 2017 at 6:11:28 PM EDT
> **To:** John Kim <John.Kim@ofina.on.ca>
> **Subject: FW: OPG**
>
> Hi John,
>
> Do you think you could draft something high-level, consulting with CMD and Legal?
>
> Thanks,
> Ron
>
> -----Original Message-----
> From: Subrahmanyan, Sriram (MOF) [mailto:Sriram.Subrahmanyan@ontario.ca]
> Sent: June-12-17 18:10
> To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>
> Subject: RE: OPG
>
> Thanks. Can you provide some language on this to Rob and Daniela? We're writing a summary of our position for the MO in case OPG approaches them.
>
> From: Ronald Kwan <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
> Date: Monday, Jun 12, 2017, 5:25 PM
> To: Subrahmanyan, Sriram (MOF) <Sriram.Subrahmanyan@ontario.ca<mailto:Sriram.Subrahmanyan@ontario.ca>>
> Cc: Lewis, Robin (MOF) <Robin.Lewis@ontario.ca<mailto:Robin.Lewis@ontario.ca>>
> Subject: RE: OPG
>
> Hi Sriram,

A Provincial support agreement (or agreements) is being worked on, and there are services or performance guarantee portions discussed but a tax or PILs component does not sound familiar to me. I'll enquire.

It's more about a Provincial payment guarantee to bondholders of the financing entity under certain circumstances.

Ron

From: Subrahmanyan, Sriram (MOF) [mailto:Sriram.Subrahmanyan@ontario.ca]
Sent: June-12-17 12:58
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>
Subject: OPG

Ron, no sure if you were on the call this morning. OPG mentioned a provincial guarantee to negate tax or (I think) other liabilities, and that they're working on the wording. Do you have a copy of this, or any detail?

thanks

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From: John Kim
To: Bruno Amara; Shajee Kathirgamanathan; Salman Qadir
Subject: Let me know....
Date: Tuesday, June 13, 2017 8:39:00 AM
Attachments: OFHP Regulations RAN - draft v3_Markup2.doc

I left a bit of repetitiveness in there….take a look.

John

Y. John Kim
Director, Electricity Finance Branch
Ontario Financing Authority
e-mail: john.kim@ofina.on.ca
Ph: 416-212-6996

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	June 13, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – May 9, 2017	**Tracking to: Fast Track** LRC & Cabinet – June 14, 2017

SUBMISSION TITLE: Report back on Ontario Fair Hydro Plan – Regulations Part 1

I. DECISION BEFORE THE BOARD

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval

II. RECOMMENDATIONS:

• Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval including: o Global Adjustment Refinancing; o Electricity Social Programs; and, o Bill Presentment.	*Receive*
• Proposed regulations: o Note key aspects of proposed regulations; o Recommend proposed regulations; and, o Direct the Ministry to return to TB/MBC with any additional regulations with financial implications supporting implementation of the Ontario Fair Hydro Plan prior to proceeding to LRC.	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o The details of additional proposed regulations with financial implications prior to proceeding to LRC; and, o An update on previously minuted report back requirements.	*Direct*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Global Adjustment Refinancing*	0.0	0.0	0.0
	Electricity social programs – RRRP/DRP^	344.0	472.0	484.0
	Electricity social programs – FNDC^	15.0	20.0	20.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.
^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017 which includes refinancing a portion of the Global Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

In May 2017, the Ministry reported back to TB/MBC with an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

Proposed Regulations

The proposed regulations are the next step in implementation of the OFHP and would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016,* and the *Fair Hydro Plan Act, 2017*.

Implementation of Global Adjustment (GA) Refinancing

On March 2, 2017, as part of OFHP, it was announced that a portion of the GAs would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The Ministry is proposing a new regulations and amendments to existing regulations that would (for example):

- Define the typical consumer upon which the calculations to achieve the reduction will be based;
- Support the required calculations related to refinancing the GA which will implement rate reductions for the typical residential consumer; and,
- Authorize the Independent Electricity System Operator to borrow to fund the regulatory asset.

The Ontario Energy Board will calculate the electricity rates that consumers will pay as of July 1, 2017.

Delivery of Electricity Social Programs

To date, a number of electricity support programs exist and there is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base (including high distribution cost, low income and first nations on-reserve customers).

The Ministry is proposing new regulations and amendments to existing regulations to support the implementation, establish frameworks and clarify program details for the new and enhanced social programs which will be effective July 1, 2017.

Local Delivery Companies will be reimbursed for credits provided via social programs to customers by IESO, which is subsequently reimbursed by the Ministry's voted appropriation.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. The proposed new regulations and regulatory amendments will (for example):

- Identifies who is eligible for RRRP funding (Hydro One R2 customers);
- Establishes the DRP to complement RRRP whereby eligible residential customers would have their monthly base distribution charges held to a maximum amount (it is estimated that ~800,000 customers will benefit); and,
- Identifies the LDC's whose customers are eligible for enhanced protection.

On-Reserve First Nations Delivery Credit (FNDC)

The program will be available to on-reserve customers serviced by licensed distributors and would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The proposed new regulations and regulatory amendments will (for example):

- Set out the program particulars including eligibility for the program (it is estimated that ~21,000 customers will benefit);
- Limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs; and,
- Provides a transitional period for LDCs to deliver the rate assistance.

Bill Presentment

The Ministry is proposing new regulations and amendments to existing regulations to support transparency and communications of the changes made under the OFHP on consumer invoices.

See Appendix F for additional details on the proposed regulations.

Analysis/Risks

Financial

- The financials submitted by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board (OEB). TB/MBC has requested the details of the forecasting models and costing estimates including assumptions.

$M	2017-18	2018-19	2019-20	2020-21
Rural or Remoate Rate Protection (RRRP)	344	472	484	497
On-Reserve First Nations Delivery Credit (FNDC)	15	20	20	20
Total	359	492	504	517

- The regulatory amendments do not result in a fiscal impact however the Ministry notes it is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The social programs allocations are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis, which would allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives, has been requested by TB/MBC to support better decision making and support meeting the government's fiscal targets.

- Lastly, there are no sunset dates for the programs and it is important to understand the full cost of the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22.

Accounting

- *Placeholder for accounting issues… [OPCD]*

Legal

- *Placeholder for legal issues… [TBS Legal]*

The Ministry has also reported back with an update to key risks including mitigation strategies (see Appendix G). In addition, the Ministry has also sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY), and launched third party technical analysis to assist with implementation of GA refinancing.

In addition, in the implementation of the OFHP, a number of supporting arrangements are being sought by the IESO and OPG, including the following:

Commented [JK1]: May want to just list and add the details down below in Appendix G.

Commented [JK2R1]: Left the whole text but maybe cut the repetitiveness

IESO Credit Facility – FHP Requirements

- IESO raised the requirements for financing the Fair Hydro forecast variances.
  - A letter requesting incremental credit facility room of $1.5 Bn in potential borrowing requirements is requested, composed of a new FHP-purpose facility of $2 bn and a reduction of the existing $975 million facility to $475 million.
- MOF/OFA staff are preparing a draft Minister of Finance's Directive to the OFA to provide the new and revised facilities to the IESO.
- An Order-in-Council (OIC) will be required for the OFA to borrow money from the Province. The approval package has been provided to the Minister for signature and it's tracking towards the June 27th LRC date, together with Energy's LRC submission.

Section 28 Approval for Indemnities under the Financial Administration Act

- Ministry of Energy staff are putting together a s.28 approvals package for submission to the Minister of Finance for the Minister of Energy, on behalf of the Crown, to enter into Indemnity Agreements in favour of OPG, including its subsidiaries, and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.
  - The indemnities are expected to provide coverage for both organizations and their respective Board members, officers and employees involved in implementing the plan.
  - IESO and OPG have stated that these indemnities are required for their participation in the implementation of the OFHP Act.
  - In order for the OFHP Act to be successful, the draft materials, under review by MOF Legal and MOF/OFA staff, indicate that it is recommended by the Minister of Energy that the Minister of Finance approve this request.
- As currently proposed, the Minister will be requested to consider and sign the section 28 approval forms and the transmittal letter to Minister Thibeault.
  - Draft materials from Energy state that the likelihood of this indemnity being called upon is low and that the fiscal exposure is unquantifiable at this time.
  - Energy has confirmed in its draft request letter that it bears responsibility for funding, within its approved allocation, for payments associated with the indemnities provided under the Agreements.

- CEFD staff is working on a note and analysis on the request with MOF Legal and TBS staff, including OPCD members.
    - A set of questions on the draft materials have been provided to Energy Legal and relevant policy sections of the ministry.

Provincial Support Agreement or Provincial Guarantee Agreement

- As part of the OFHP and in order to provide support to those with claims against the Financing Entity (i.e., planned to be the OPG Trust) and with the ultimate objective of providing the highest possible credit ratings (and corresponding impact on interest costs to the ratepayers), the Province has been asked to provide both a Service Guarantee and a Performance Guarantee to support obligations of the IESO and the debt instruments issued by the Financing Entity.

Additional Report Backs

To continue to implement the OFHP, the ministry will be returning to TB/MBC on June 27, 2017 with part 2 of the report back on the creation and amendment of regulations (related to Global Adjustment and the Ontario Electricity Support Program) prior to proceeding to LRC including an update on previously minuted report back requirements.

Name of analyst:	Chris Skubel/ Afshin Malekzadeh	**Phone number:**	416-327-2151
Date:	June 13, 2017	**Log number:**	
Branch / Division:	GGPR / PEMD / Treasury Board Secretariat		

APPENDIX A: PROPOSED MINUTE

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval.

In this regard, the Board:

i) Note that the proposed regulatory amendments include the following program parameters:

Electricity Social Programs:

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary;
b) Hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit; and
c) Sets out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    a. Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Limits eligibility to 11 affected LDCs serving on-reserve consumers identified by the OEB including: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

Implementation of GA Refinancing:

a) Support the required calculations to be made by the Ontario Energy Board (OEB);
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,
d) Provides provide the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC on the details of additional proposed regulations with financial implications prior to proceeding to LRC.

iv) Direct the Ministry to report back to TB/MBC on June 27th with an update on previously minuted report back requirements.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: OFHP OVERVIEW

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

APPENDIX D: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

v) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

d) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
e) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
f) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
g) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

e) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
f) Requirement for future consumers to pay the clean energy adjustment that backs financings.
g) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
h) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
i) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
j) Sets out that security interests can be granted in investment interests in the investment asset.

vi) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

vii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

viii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different

demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.

b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.

d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

ix) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the broadened program now government funded
   - Report on and assessment of impacts of consolidation of LDCs
   - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Identify eligibility criteria, and refinements being made.
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

x) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX F: DETAILS OF PROPOSED REGULATIONS

Partial Refinancing of the GA

The Ministry is proposing new regulations that would support the implementation of refinancing the GA including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the *Ontario Fair Hydro Act, 2017*.

The ministry is also proposing amendments to an existing regulation to authorize Independent Electricity System Operators to borrow for the purposes of funding the regulatory asset, including borrowing from the Ontario Financing Authority.

Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The *Fair Hydro Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, making the escalating factor unnecessary.

The ministry is proposing a new regulation to create a government funded DRP program. The regulation establishes a mechanism for the Ontario Energy Board (OEB) to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

The *Ontario Fair Hydro Plan Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program.

The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. It is estimated that as many as ~7000 eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program as they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under *Ontario Rebate For Electricity Consumers Act, 2016*, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.
If the required regulations are approved, the program would be in effect July 1, 2017.

Ontario Electricity Support Program

Additional regulatory amendments will be forthcoming in late June 2017.

Bill Presentment

The ministry is proposing to create new regulations under the *Ontario Fair Hydro Plan Act, 2017* that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments message. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017. The requirement for Hydro One to provide an on-bill message related to RRRP (which has become out-of-date with these program updates) is also repealed with proposed amendments. For clarity, Hydro One would not be exempt from including the messaging related to OFHP.

In anticipation of these new OFHP invoicing requirements, the ministry has made an amendment to revoke the “8% provincial rebate” messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an “8% Provincial Rebate” line item remains.

APPENDIX G: UPDATE ON RISKS AND MITIGATION STRATEGIES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **Update:** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **Update:** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July. There could be potential interactions between the provincial guarantees and the indemnities sought by OPG and the IESO, discussed below. A due diligence is currently ongoing by MOF Legal, OFA and Energy staff. A final draft indemnities package is pending.
Indemnities provided to OPG are triggered/called	L	H	• Ministry of Energy staff are putting together a s.28 (under the Financial Administration Act) approvals package for submission to the Minister of Finance for the Minister of Energy, on behalf of the Crown, to enter into Indemnity Agreements in favour of OPG, including its subsidiaries, and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			o The indemnities are expected to provide coverage for both organizations and their respective Board members, officers and employees involved in implementing the plan. o As currently proposed, the Minister will be requested to consider and sign the section 28 approval forms and the transmittal letter to Minister Thibeault. **Update:** • Work is ongoing to finalize the s.28 (under the Financial Administration Act) approval for indemnities. Note: There could be potential interactions between the provincial guarantees and the indemnities sought by OPG and the IESO, discussed below. A due diligence is currently ongoing by MOF Legal, OFA and Energy staff. A final draft indemnities package is pending.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:**

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **Update:** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

From:	Montgomery, Kaitlin (MOF)
To:	John Kim; Bruno Amara; Carlos Yep
Subject:	OFHP - Outstanding business issues
Date:	Tuesday, May 30, 2017 11:28:50 AM
Attachments:	Outstanding Business Issues – Ontario Fair Hydro Plan.docx

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Hi all,

ENE MO asked for a quick note on 4 of the outstanding business issues that are being worked through and are hoping to see something tomorrow morning.

I've pulled together a high level explanation of each of the items and next steps/timing (to the extent I know).

Would greatly appreciate if you guys could take a look and provide any edits/comments today/early tomorrow if possible. I'm also not too involved in a few of these discussions so if there's others within OFA you think should review feel free to pass along.

Thanks in advance,
Kaitlin

Outstanding Business Issues – Ontario Fair Hydro Plan
Briefing Note

PURPOSE
Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Service and Performance Guarantees**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA and working towards the development of a term sheet
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - The Province would like to minimize to the extent possible , the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers
   - The Province is considering regulation changes to exempt the income arising as a consequence of the Fair Hydro Plan from PILs
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity
   - **Next Steps:**
     - The Ministries of Finance, OFA and OPG are working together to determine required regulation changes
     - Timing: [Next steps for a decision / when is a decision required / when would these regulation changes occur]

3. **Equity Injection Process**
   - OPG will require equity injections on a monthly basis in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province

- The Ministry of Energy received appropriation for $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT
- **Next Steps:**
    - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
    - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June

4. Management Fees

- OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
- The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations which are currently in development
- OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements
- **Next Steps:**
    - OPG and OEB will bring forward a recommended framework for developing management fees
    - Timing: For incorporation into regulations being brought forward in June

From: Bruno Amara
To: John Kim
Subject: OFHP Regulations RAN - draft v3_Markup2.doc
Date: Tuesday, June 13, 2017 9:27:53 AM
Attachments: OFHP Regulations RAN - draft v3_Markup2.doc

Will drop by

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	June 13, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – May 9, 2017	**Tracking to: Fast Track** LRC & Cabinet – June 14, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan – Regulations Part 1

I. DECISION BEFORE THE BOARD

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval

II. RECOMMENDATIONS:

• Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceeding to LRC and Cabinet for approval including: o Global Adjustment Refinancing; o Electricity Social Programs; and, o Bill Presentment.	*Receive*
• Proposed regulations: o Note key aspects of proposed regulations; o Recommend proposed regulations; and, o Direct the Ministry to return to TB/MBC with any additional regulations with financial implications supporting implementation of the Ontario Fair Hydro Plan prior to proceeding to LRC.	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o The details of additional proposed regulations with financial implications prior to proceeding to LRC; and, o An update on previously minuted report back requirements.	*Direct*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Global Adjustment Refinancing*	0.0	0.0	0.0
	Electricity social programs – RRRP/DRP^	344.0	472.0	484.0
	Electricity social programs – FNDC^	15.0	20.0	20.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.
^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017 which includes refinancing a portion of the Global Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

In May 2017, the Ministry reported back to TB/MBC with an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

Proposed Regulations

The proposed regulations are the next step in implementation of the OFHP and would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016,* and the *Fair Hydro Plan Act, 2017*.

Implementation of Global Adjustment (GA) Refinancing

On March 2, 2017, as part of OFHP, it was announced that a portion of the GAs would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The Ministry is proposing ~~a~~ new regulations and amendments to existing regulations that would (for example):

- Define the typical consumer upon which the calculations to achieve the reduction will be based;
- Support the required calculations related to refinancing the GA which will implement rate reductions for the typical residential consumer; and,
- Authorize the Independent Electricity System Operator to borrow to fund the regulatory asset.

The Ontario Energy Board will calculate the electricity rates that consumers will pay as of July 1, 2017.

Delivery of Electricity Social Programs

To date, a number of electricity support programs exist and there is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base (including high distribution cost, low income and F~~f~~irst N~~n~~ations on-reserve customers).

The Ministry is proposing new regulations and amendments to existing regulations to support the implementation, establish frameworks and clarify program details for the new and enhanced social programs which will be effective July 1, 2017.

Local Delivery Companies will be reimbursed for credits provided via social programs to customers by IESO, which is subsequently reimbursed by the Ministry's voted appropriation.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. The proposed new regulations and regulatory amendments will (for example):

- Identify~~ies~~ who is eligible for RRRP funding (Hydro One R2 customers);
- Establish~~es~~ the DRP to complement RRRP whereby eligible residential customers would have their monthly base distribution charges held to a maximum amount (it is estimated that ~800,000 customers will benefit); and,
- Identify~~ies~~ the LDC's whose customers are eligible for enhanced protection.

On-Reserve First Nations Delivery Credit (FNDC)

The program will be available to on-reserve customers serviced by licensed distributors and would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The proposed new regulations and regulatory amendments will (for example):

- Set out the program particulars including eligibility for the program (it is estimated that ~21,000 customers will benefit);
- Limit~~s~~ eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs; and,
- Provide~~s~~ a transitional period for LDCs to deliver the rate assistance.

Bill Presentment

The Ministry is proposing new regulations and amendments to existing regulations to support transparency and communications of the changes made under the OFHP on consumer invoices.

See Appendix F for additional details on the proposed regulations.

Analysis/Risks

Financial

- The financials submitted by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board (OEB). TB/MBC has requested the details of the forecasting models and costing estimates including assumptions.

$M	2017-18	2018-19	2019-20	2020-21
Rural or Remoate Rate Protection (RRRP)	344	472	484	497
On-Reserve First Nations Delivery Credit (FNDC)	15	20	20	20
Total	359	492	504	517

- The regulatory amendments do not result in a fiscal impact however the Ministry notes it is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The social programs allocations are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis, which would allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives, has been requested by TB/MBC to support better decision making and support meeting the government's fiscal targets.
- Lastly, there are no sunset dates for the programs and it is important to understand the full cost of

the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22.

Accounting

- *Placeholder for accounting issues… [OPCD]*

Legal

- *Placeholder for legal issues… [TBS Legal]*

The Ministry has also reported back with an update to key risks including mitigation strategies (see Appendix G). In addition, the Ministry has also sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY), and launched third party technical analysis to assist with implementation of GA refinancing.

In addition, in the implementation of the OFHP, a number of supporting arrangements are being sought by the IESO and OPG, including the following:

Commented [JK1]: May want to just list and add the details down below in Appendix G.

Commented [JK2R1]: Left the whole text but maybe cut the repetitiveness

IESO Credit Facility – FHP Requirements

- IESO raised the requirements for financing the Fair Hydro forecast variances.
  - A letter requesting incremental credit facility room of $1.5 Bn in potential borrowing requirements is requested, composed of a new FHP-purpose facility of $2 bn and a reduction of the existing $975 million facility to $475 million.
- MOF/OFA staff are preparing a draft Minister of Finance's Directive to the OFA to provide the new and revised facilities to the IESO.
- An Order-in-Council (OIC) will be required for the OFA to borrow money from the Province. The approval package has been provided to the Minister for signature and it's tracking towards the June 27th LRC date, together with Energy's LRC submission.

Section 28 Approval for Indemnities under the Financial Administration Act

- Ministry of Energy staff are preparing ~~utting together~~ a s.28 approvals package for submission to the Minister of Finance for the Minister of Energy, on behalf of the Crown, to enter into Indemnity Agreements in favour of OPG, including its subsidiaries, and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.
  - The indemnities are expected to provide coverage for both organizations and their respective Board members, officers and employees involved in implementing the plan.
  - IESO and OPG have stated that these indemnities are required for their participation in the implementation of the OFHP Act.
  - ~~In order for the OFHP Act to be successful, the draft materials, under review by MOF Legal and MOF/OFA staff, indicate that it is recommended by the Minister of Energy that the Minister of Finance approve this request.~~

~~As currently proposed, the Minister will be requested to consider and sign the section 28 approval forms and the transmittal letter to Minister Thibeault.~~

- ~~Draft materials from Energy state that the likelihood of this indemnity being called upon is low and that the fiscal exposure is unquantifiable at this time.~~
- ~~Energy has confirmed in its draft request letter that it bears responsibility for funding, within its approved allocation, for payments associated with the indemnities provided under the Agreements.~~

- CEFD staff is working on a note and analysis on the request with MOF Legal and TBS staff, including

OPCD members.

- A set of questions on the draft materials have been provided to Energy Legal and relevant policy sections of the ministry.

Provincial Support Agreement or Provincial Guarantee Agreement

- As part of the OFHP and in order to provide support to those with claims against the Financing Entity (i.e., planned to be the OPG Trust) and with the ultimate objective of providing the highest possible credit ratings (and corresponding impact on interest costs to the ratepayers), the Province has been asked to provide both a Service Guarantee and a Performance Guarantee to support obligations of the IESO and the debt instruments issued by the Financing Entity.

Additional Report Backs

To continue to implement the OFHP, the ministry will be returning to TB/MBC on June 27, 2017 with part 2 of the report back on the creation and amendment of regulations (related to Global Adjustment and the Ontario Electricity Support Program) prior to proceeding to LRC including an update on previously minuted report back requirements.

To provide a report back on the status of the additional supporting arrangement, including the s.28 approval for indemnities, the Provincial guarantees and the credit facility to the IESO.

Name of analyst:	Chris Skubel/ Afshin Malekzadeh	**Phone number:**	416-327-2151
Date:	June 13, 2017	**Log number:**	
Branch / Division:	GGPR / PEMD / Treasury Board Secretariat		

APPENDIX A: PROPOSED MINUTE

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceeding to LRC and Cabinet for approval.

In this regard, the Board:

i) Note that the proposed regulatory amendments include the following program parameters:

Electricity Social Programs:

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary;
b) Hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit; and
c) Sets out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    a. Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Limits eligibility to 11 affected LDCs serving on-reserve consumers identified by the OEB including: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

Implementation of GA Refinancing:

a) Support the required calculations to be made by the Ontario Energy Board (OEB);
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,
d) Provides provide the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC on the details of additional proposed regulations with financial implications prior to proceeding to LRC.

iv) Direct the Ministry to report back to TB/MBC on June 27th with an update on previously minuted report back requirements.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: OFHP OVERVIEW

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

APPENDIX D: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

v) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

d) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
e) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
f) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
g) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

e) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
f) Requirement for future consumers to pay the clean energy adjustment that backs financings.
g) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
h) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
i) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
j) Sets out that security interests can be granted in investment interests in the investment asset.

vi) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

vii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

viii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different

demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.

b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.

d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

ix) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the broadened program now government funded
   - Report on and assessment of impacts of consolidation of LDCs
   - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Identify eligibility criteria, and refinements being made.
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

x) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX F: DETAILS OF PROPOSED REGULATIONS

Partial Refinancing of the GA

The Ministry is proposing new regulations that would support the implementation of refinancing the GA including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the *Ontario Fair Hydro Act, 2017*.

The ministry is also proposing amendments to an existing regulation to authorize Independent Electricity System Operators to borrow for the purposes of funding the regulatory asset, including borrowing from the Ontario Financing Authority.

Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The *Fair Hydro Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, making the escalating factor unnecessary.

The ministry is proposing a new regulation to create a government funded DRP program. The regulation establishes a mechanism for the Ontario Energy Board (OEB) to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

The *Ontario Fair Hydro Plan Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program.

The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. It is estimated that as many as ~7000 eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program as they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under *Ontario Rebate For Electricity Consumers Act, 2016*, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.
If the required regulations are approved, the program would be in effect July 1, 2017.

Ontario Electricity Support Program

Additional regulatory amendments will be forthcoming in late June 2017.

Bill Presentment

The ministry is proposing to create new regulations under the *Ontario Fair Hydro Plan Act, 2017* that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments message. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017. The requirement for Hydro One to provide an on-bill message related to RRRP (which has become out-of-date with these program updates) is also repealed with proposed amendments. For clarity, Hydro One would not be exempt from including the messaging related to OFHP.

In anticipation of these new OFHP invoicing requirements, the ministry has made an amendment to revoke the “8% provincial rebate” messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an “8% Provincial Rebate” line item remains.

APPENDIX G: UPDATE ON RISKS AND MITIGATION STRATEGIES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **Update:** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **Update:** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July. There could be potential interactions between the provincial guarantees and the indemnities sought by OPG and the IESO, discussed below. A due diligence is currently ongoing by MOF Legal, OFA and Energy staff. A final draft indemnities package is pending.
Indemnities provided to OPG are triggered/called	L	H	• Ministry of Energy staff are putting together a s.28 (under the Financial Administration Act) approvals package for submission to the Minister of Finance for the Minister of Energy, on behalf of the Crown, to enter into Indemnity Agreements in favour of OPG, including its subsidiaries, and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			o The indemnities are expected to provide coverage for both organizations and their respective Board members, officers and employees involved in implementing the plan. o As currently proposed, the Minister will be requested to consider and sign the section 28 approval forms and the transmittal letter to Minister Thibeault. **Update:** • Work is ongoing to finalize the s.28 (under the Financial Administration Act) approval for indemnities. Note: There could be potential interactions between the provincial guarantees and the indemnities sought by OPG and the IESO, discussed below. A due diligence is currently ongoing by MOF Legal, OFA and Energy staff. A final draft indemnities package is pending.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:**

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **Update:** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

From: John Kim
To: Bruno Amara
Subject: OFHP Regulations RAN - draft v3_Markup2.doc
Date: Tuesday, June 13, 2017 8:57:34 AM
Attachments: OFHP Regulations RAN - draft v3_Markup2.doc

I added a sentence for report back. A bit rough.

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	June 13, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – May 9, 2017	**Tracking to: Fast Track** LRC & Cabinet – June 14, 2017

SUBMISSION TITLE: Report back on Ontario Fair Hydro Plan – Regulations Part 1

I. DECISION BEFORE THE BOARD

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval

II. RECOMMENDATIONS:

• Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval including: o Global Adjustment Refinancing; o Electricity Social Programs; and, o Bill Presentment.	*Receive*
• Proposed regulations: o Note key aspects of proposed regulations; o Recommend proposed regulations; and, o Direct the Ministry to return to TB/MBC with any additional regulations with financial implications supporting implementation of the Ontario Fair Hydro Plan prior to proceeding to LRC.	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o The details of additional proposed regulations with financial implications prior to proceeding to LRC; and, o An update on previously minuted report back requirements.	*Direct*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Global Adjustment Refinancing*	0.0	0.0	0.0
	Electricity social programs – RRRP/DRP^	344.0	472.0	484.0
	Electricity social programs – FNDC^	15.0	20.0	20.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.
^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017 which includes refinancing a portion of the Global Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

In May 2017, the Ministry reported back to TB/MBC with an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

Proposed Regulations

The proposed regulations are the next step in implementation of the OFHP and would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016,* and the *Fair Hydro Plan Act, 2017*.

Implementation of Global Adjustment (GA) Refinancing

On March 2, 2017, as part of OFHP, it was announced that a portion of the GAs would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The Ministry is proposing a new regulations and amendments to existing regulations that would (for example):

- Define the typical consumer upon which the calculations to achieve the reduction will be based;
- Support the required calculations related to refinancing the GA which will implement rate reductions for the typical residential consumer; and,
- Authorize the Independent Electricity System Operator to borrow to fund the regulatory asset.

The Ontario Energy Board will calculate the electricity rates that consumers will pay as of July 1, 2017.

Delivery of Electricity Social Programs

To date, a number of electricity support programs exist and there is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base (including high distribution cost, low income and first nations on-reserve customers).

The Ministry is proposing new regulations and amendments to existing regulations to support the implementation, establish frameworks and clarify program details for the new and enhanced social programs which will be effective July 1, 2017.

Local Delivery Companies will be reimbursed for credits provided via social programs to customers by IESO, which is subsequently reimbursed by the Ministry's voted appropriation.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. The proposed new regulations and regulatory amendments will (for example):

- Identifies who is eligible for RRRP funding (Hydro One R2 customers);
- Establishes the DRP to complement RRRP whereby eligible residential customers would have their monthly base distribution charges held to a maximum amount (it is estimated that ~800,000 customers will benefit); and,
- Identifies the LDC's whose customers are eligible for enhanced protection.

On-Reserve First Nations Delivery Credit (FNDC)

The program will be available to on-reserve customers serviced by licensed distributors and would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The proposed new regulations and regulatory amendments will (for example):

- Set out the program particulars including eligibility for the program (it is estimated that ~21,000 customers will benefit);
- Limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs; and,
- Provides a transitional period for LDCs to deliver the rate assistance.

Bill Presentment

The Ministry is proposing new regulations and amendments to existing regulations to support transparency and communications of the changes made under the OFHP on consumer invoices.

See Appendix F for additional details on the proposed regulations.

Analysis/Risks

Financial

- The financials submitted by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board (OEB). TB/MBC has requested the details of the forecasting models and costing estimates including assumptions.

$M	2017-18	2018-19	2019-20	2020-21
Rural or Remoate Rate Protection (RRRP)	344	472	484	497
On-Reserve First Nations Delivery Credit (FNDC)	15	20	20	20
Total	359	492	504	517

- The regulatory amendments do not result in a fiscal impact however the Ministry notes it is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The social programs allocations are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis, which would allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives, has been requested by TB/MBC to support better decision making and support meeting the government's fiscal targets.

- Lastly, there are no sunset dates for the programs and it is important to understand the full cost of the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22.

Accounting

- *Placeholder for accounting issues… [OPCD]*

Legal

- *Placeholder for legal issues… [TBS Legal]*

The Ministry has also reported back with an update to key risks including mitigation strategies (see Appendix G). In addition, the Ministry has also sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY), and launched third party technical analysis to assist with implementation of GA refinancing.

In addition, in the implementation of the OFHP, a number of supporting arrangements are being sought by the IESO and OPG, including the following:

Commented [JK1]: May want to just list and add the details down below in Appendix G.

Commented [JK2R1]: Left the whole text but maybe cut the repetitiveness

IESO Credit Facility – FHP Requirements

- IESO raised the requirements for financing the Fair Hydro forecast variances.
  - A letter requesting incremental credit facility room of $1.5 Bn in potential borrowing requirements is requested, composed of a new FHP-purpose facility of $2 bn and a reduction of the existing $975 million facility to $475 million.
- MOF/OFA staff are preparing a draft Minister of Finance's Directive to the OFA to provide the new and revised facilities to the IESO.
- An Order-in-Council (OIC) will be required for the OFA to borrow money from the Province. The approval package has been provided to the Minister for signature and it's tracking towards the June 27th LRC date, together with Energy's LRC submission.

Section 28 Approval for Indemnities under the Financial Administration Act

- Ministry of Energy staff are putting together a s.28 approvals package for submission to the Minister of Finance for the Minister of Energy, on behalf of the Crown, to enter into Indemnity Agreements in favour of OPG, including its subsidiaries, and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.
  - The indemnities are expected to provide coverage for both organizations and their respective Board members, officers and employees involved in implementing the plan.
  - IESO and OPG have stated that these indemnities are required for their participation in the implementation of the OFHP Act.
  - In order for the OFHP Act to be successful, the draft materials, under review by MOF Legal and MOF/OFA staff, indicate that it is recommended by the Minister of Energy that the Minister of Finance approve this request.
- As currently proposed, the Minister will be requested to consider and sign the section 28 approval forms and the transmittal letter to Minister Thibeault.
  - Draft materials from Energy state that the likelihood of this indemnity being called upon is low and that the fiscal exposure is unquantifiable at this time.
  - Energy has confirmed in its draft request letter that it bears responsibility for funding, within its approved allocation, for payments associated with the indemnities provided under the Agreements.

- CEFD staff is working on a note and analysis on the request with MOF Legal and TBS staff, including OPCD members.
    - A set of questions on the draft materials have been provided to Energy Legal and relevant policy sections of the ministry.

Provincial Support Agreement or Provincial Guarantee Agreement

- As part of the OFHP and in order to provide support to those with claims against the Financing Entity (i.e., planned to be the OPG Trust) and with the ultimate objective of providing the highest possible credit ratings (and corresponding impact on interest costs to the ratepayers), the Province has been asked to provide both a Service Guarantee and a Performance Guarantee to support obligations of the IESO and the debt instruments issued by the Financing Entity.

Additional Report Backs

To continue to implement the OFHP, the ministry will be returning to TB/MBC on June 27, 2017 with part 2 of the report back on the creation and amendment of regulations (related to Global Adjustment and the Ontario Electricity Support Program) prior to proceeding to LRC including an update on previously minuted report back requirements.

To provide a report back on the status of the additional supporting arrangement, including the s.28 approval for indemnities, the Provincial guarantees and the credit facility to the IESO.

Name of analyst:	Chris Skubel/ Afshin Malekzadeh	**Phone number:**	416-327-2151
Date:	June 13, 2017	**Log number:**	
Branch / Division:	GGPR / PEMD / Treasury Board Secretariat		

APPENDIX A: PROPOSED MINUTE

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval.

In this regard, the Board:

i) Note that the proposed regulatory amendments include the following program parameters:

Electricity Social Programs:

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary;
b) Hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit; and
c) Sets out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    a. Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Limits eligibility to 11 affected LDCs serving on-reserve consumers identified by the OEB including: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

Implementation of GA Refinancing:

a) Support the required calculations to be made by the Ontario Energy Board (OEB);
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,
d) Provides provide the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC on the details of additional proposed regulations with financial implications prior to proceeding to LRC.

iv) Direct the Ministry to report back to TB/MBC on June 27th with an update on previously minuted report back requirements.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: OFHP OVERVIEW

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

APPENDIX D: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

v) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

d) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
e) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
f) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
g) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

e) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
f) Requirement for future consumers to pay the clean energy adjustment that backs financings.
g) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
h) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
i) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
j) Sets out that security interests can be granted in investment interests in the investment asset.

vi) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

vii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

viii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different

demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.

b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.

d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

ix) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the broadened program now government funded
   - Report on and assessment of impacts of consolidation of LDCs
   - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Identify eligibility criteria, and refinements being made.
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

x) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX F: DETAILS OF PROPOSED REGULATIONS

Partial Refinancing of the GA

The Ministry is proposing new regulations that would support the implementation of refinancing the GA including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the *Ontario Fair Hydro Act, 2017*.

The ministry is also proposing amendments to an existing regulation to authorize Independent Electricity System Operators to borrow for the purposes of funding the regulatory asset, including borrowing from the Ontario Financing Authority.

Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The *Fair Hydro Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, making the escalating factor unnecessary.

The ministry is proposing a new regulation to create a government funded DRP program. The regulation establishes a mechanism for the Ontario Energy Board (OEB) to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

The *Ontario Fair Hydro Plan Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program.

The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. It is estimated that as many as ~7000 eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program as they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under *Ontario Rebate For Electricity Consumers Act, 2016*, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.
If the required regulations are approved, the program would be in effect July 1, 2017.

Ontario Electricity Support Program

Additional regulatory amendments will be forthcoming in late June 2017.

Bill Presentment

The ministry is proposing to create new regulations under the *Ontario Fair Hydro Plan Act, 2017* that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments message. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017. The requirement for Hydro One to provide an on-bill message related to RRRP (which has become out-of-date with these program updates) is also repealed with proposed amendments. For clarity, Hydro One would not be exempt from including the messaging related to OFHP.

In anticipation of these new OFHP invoicing requirements, the ministry has made an amendment to revoke the “8% provincial rebate” messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an “8% Provincial Rebate” line item remains.

APPENDIX G: UPDATE ON RISKS AND MITIGATION STRATEGIES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **Update:** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **Update:** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July. There could be potential interactions between the provincial guarantees and the indemnities sought by OPG and the IESO, discussed below. A due diligence is currently ongoing by MOF Legal, OFA and Energy staff. A final draft indemnities package is pending.
Indemnities provided to OPG are triggered/called	L	H	• Ministry of Energy staff are putting together a s.28 (under the Financial Administration Act) approvals package for submission to the Minister of Finance for the Minister of Energy, on behalf of the Crown, to enter into Indemnity Agreements in favour of OPG, including its subsidiaries, and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			o The indemnities are expected to provide coverage for both organizations and their respective Board members, officers and employees involved in implementing the plan. o As currently proposed, the Minister will be requested to consider and sign the section 28 approval forms and the transmittal letter to Minister Thibeault. **Update:** • Work is ongoing to finalize the s.28 (under the Financial Administration Act) approval for indemnities. Note: There could be potential interactions between the provincial guarantees and the indemnities sought by OPG and the IESO, discussed below. A due diligence is currently ongoing by MOF Legal, OFA and Energy staff. A final draft indemnities package is pending.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:**

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **Update:** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

From:	John Kim
To:	Ronald Kwan
Cc:	Bruno Amara; Deena Padamadan
Subject:	OFHP Regulations RAN - draft v3_Markup2.doc
Date:	Tuesday, June 13, 2017 9:33:14 AM
Attachments:	OFHP Regulations RAN - draft v3_Markup2.doc

Hi Ron,

Pls. see attached.

We can send as 'staff level' as an option given the requested timeline.

Thanks,

John

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	June 13, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – May 9, 2017	**Tracking to: Fast Track** LRC & Cabinet – June 14, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan – Regulations Part 1

I. DECISION BEFORE THE BOARD

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval

II. RECOMMENDATIONS:

• Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceeding to LRC and Cabinet for approval including: o Global Adjustment Refinancing; o Electricity Social Programs; and, o Bill Presentment.	*Receive*
• Proposed regulations: o Note key aspects of proposed regulations; o Recommend proposed regulations; and, o Direct the Ministry to return to TB/MBC with any additional regulations with financial implications supporting implementation of the Ontario Fair Hydro Plan prior to proceeding to LRC.	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o The details of additional proposed regulations with financial implications prior to proceeding to LRC; and, o An update on previously minuted report back requirements.	*Direct*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Global Adjustment Refinancing*	0.0	0.0	0.0
	Electricity social programs – RRRP/DRP^	344.0	472.0	484.0
	Electricity social programs – FNDC^	15.0	20.0	20.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.
^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017 which includes refinancing a portion of the Global Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

In May 2017, the Ministry reported back to TB/MBC with an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

Proposed Regulations

The proposed regulations are the next step in implementation of the OFHP and would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016,* and the *Fair Hydro Plan Act, 2017*.

Implementation of Global Adjustment (GA) Refinancing

On March 2, 2017, as part of OFHP, it was announced that a portion of the GAs would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The Ministry is proposing ~~a~~ new regulations and amendments to existing regulations that would (for example):

- Define the typical consumer upon which the calculations to achieve the reduction will be based;
- Support the required calculations related to refinancing the GA which will implement rate reductions for the typical residential consumer; and,
- Authorize the Independent Electricity System Operator to borrow to fund the regulatory asset.

The Ontario Energy Board will calculate the electricity rates that consumers will pay as of July 1, 2017.

Delivery of Electricity Social Programs

To date, a number of electricity support programs exist and there is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base (including high distribution cost, low income and F~~f~~irst N~~n~~ations on-reserve customers).

The Ministry is proposing new regulations and amendments to existing regulations to support the implementation, establish frameworks and clarify program details for the new and enhanced social programs which will be effective July 1, 2017.

Local Delivery Companies will be reimbursed for credits provided via social programs to customers by IESO, which is subsequently reimbursed by the Ministry's voted appropriation.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. The proposed new regulations and regulatory amendments will (for example):

- Identify~~ies~~ who is eligible for RRRP funding (Hydro One R2 customers);
- Establish~~es~~ the DRP to complement RRRP whereby eligible residential customers would have their monthly base distribution charges held to a maximum amount (it is estimated that ~800,000 customers will benefit); and,
- Identify~~ies~~ the LDC's whose customers are eligible for enhanced protection.

On-Reserve First Nations Delivery Credit (FNDC)

The program will be available to on-reserve customers serviced by licensed distributors and would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The proposed new regulations and regulatory amendments will (for example):

- Set out the program particulars including eligibility for the program (it is estimated that ~21,000 customers will benefit);
- Limit~~s~~ eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs; and,
- Provide~~s~~ a transitional period for LDCs to deliver the rate assistance.

Bill Presentment

The Ministry is proposing new regulations and amendments to existing regulations to support transparency and communications of the changes made under the OFHP on consumer invoices.

See Appendix F for additional details on the proposed regulations.

Analysis/Risks

Financial

- The financials submitted by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board (OEB). TB/MBC has requested the details of the forecasting models and costing estimates including assumptions.

$M	2017-18	2018-19	2019-20	2020-21
Rural or Remoate Rate Protection (RRRP)	344	472	484	497
On-Reserve First Nations Delivery Credit (FNDC)	15	20	20	20
Total	359	492	504	517

- The regulatory amendments do not result in a fiscal impact however the Ministry notes it is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The social programs allocations are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis, which would allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives, has been requested by TB/MBC to support better decision making and support meeting the government's fiscal targets.
- Lastly, there are no sunset dates for the programs and it is important to understand the full cost of

the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22.

Accounting

- *Placeholder for accounting issues… [OPCD]*

Legal

- *Placeholder for legal issues… [TBS Legal]*

The Ministry has also reported back with an update to key risks including mitigation strategies (see Appendix G). In addition, the Ministry has also sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY), and launched third party technical analysis to assist with implementation of GA refinancing.

In addition, in the implementation of the OFHP, a number of supporting arrangements are being sought by the IESO and OPG, including the following:

Commented [JK1]: May want to just list and add the details down below in Appendix G.

Commented [JK2R1]: Left the whole text but maybe cut the repetitiveness

IESO Credit Facility – FHP Requirements

- IESO raised the requirements for financing the Fair Hydro forecast variances.
  - A letter requesting incremental credit facility room of $1.5 Bn in potential borrowing requirements is requested, composed of a new FHP-purpose facility of $2 bn and a reduction of the existing $975 million facility to $475 million.
- MOF/OFA staff are preparing a draft Minister of Finance's Directive to the OFA to provide the new and revised facilities to the IESO.
- An Order-in-Council (OIC) will be required for the OFA to borrow money from the Province. The approval package has been provided to the Minister for signature and it's tracking towards the June 27th LRC date, together with Energy's LRC submission.

Section 28 Approval for Indemnities under the Financial Administration Act

- Ministry of Energy staff are preparing ~~utting together~~ a s.28 approvals package for submission to the Minister of Finance for the Minister of Energy, on behalf of the Crown, to enter into Indemnity Agreements in favour of OPG, including its subsidiaries, and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.
  - The indemnities are expected to provide coverage for both organizations and their respective Board members, officers and employees involved in implementing the plan.
  - IESO and OPG have stated that these indemnities are required for their participation in the implementation of the OFHP Act.
  - ~~In order for the OFHP Act to be successful, the draft materials, under review by MOF Legal and MOF/OFA staff, indicate that it is recommended by the Minister of Energy that the Minister of Finance approve this request.~~

~~As currently proposed, the Minister will be requested to consider and sign the section 28 approval forms and the transmittal letter to Minister Thibeault.~~

- ~~Draft materials from Energy state that the likelihood of this indemnity being called upon is low and that the fiscal exposure is unquantifiable at this time.~~
- ~~Energy has confirmed in its draft request letter that it bears responsibility for funding, within its approved allocation, for payments associated with the indemnities provided under the Agreements.~~

- CEFD staff is working on a note and analysis on the request with MOF Legal and TBS staff, including

OPCD members.

- A set of questions on the draft materials have been provided to Energy Legal and relevant policy sections of the ministry.

Provincial Support Agreement or Provincial Guarantee Agreement

- As part of the OFHP and in order to provide support to those with claims against the Financing Entity (i.e., planned to be the OPG Trust) and with the ultimate objective of providing the highest possible credit ratings (and corresponding impact on interest costs to the ratepayers), the Province has been asked to provide both a Service Guarantee and a Performance Guarantee to support obligations of the IESO and the debt instruments issued by the Financing Entity.

Additional Report Backs

To continue to implement the OFHP, the ministry will be returning to TB/MBC on June 27, 2017 with part 2 of the report back on the creation and amendment of regulations (related to Global Adjustment and the Ontario Electricity Support Program) prior to proceeding to LRC including an update on previously minuted report back requirements.

To provide a report back on the status of the additional supporting arrangement, including the s.28 approval for indemnities, the Provincial guarantees and the credit facility to the IESO.

Name of analyst:	Chris Skubel/ Afshin Malekzadeh	**Phone number:**	416-327-2151
Date:	June 13, 2017	**Log number:**	
Branch / Division:	GGPR / PEMD / Treasury Board Secretariat		

APPENDIX A: PROPOSED MINUTE

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceeding to LRC and Cabinet for approval.

In this regard, the Board:

i) Note that the proposed regulatory amendments include the following program parameters:

Electricity Social Programs:

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary;
b) Hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit; and
c) Sets out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    a. Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Limits eligibility to 11 affected LDCs serving on-reserve consumers identified by the OEB including: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

Implementation of GA Refinancing:

a) Support the required calculations to be made by the Ontario Energy Board (OEB);
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,
d) Provides provide the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC on the details of additional proposed regulations with financial implications prior to proceeding to LRC.

iv) Direct the Ministry to report back to TB/MBC on June 27th with an update on previously minuted report back requirements.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: OFHP OVERVIEW

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

APPENDIX D: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

v) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

d) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
e) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
f) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
g) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

e) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
f) Requirement for future consumers to pay the clean energy adjustment that backs financings.
g) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
h) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
i) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
j) Sets out that security interests can be granted in investment interests in the investment asset.

vi) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

vii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

viii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different

demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.

b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.

d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

ix) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the broadened program now government funded
   - Report on and assessment of impacts of consolidation of LDCs
   - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Identify eligibility criteria, and refinements being made.
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

x) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX F: DETAILS OF PROPOSED REGULATIONS

Partial Refinancing of the GA

The Ministry is proposing new regulations that would support the implementation of refinancing the GA including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the *Ontario Fair Hydro Act, 2017*.

The ministry is also proposing amendments to an existing regulation to authorize Independent Electricity System Operators to borrow for the purposes of funding the regulatory asset, including borrowing from the Ontario Financing Authority.

Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The *Fair Hydro Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, making the escalating factor unnecessary.

The ministry is proposing a new regulation to create a government funded DRP program. The regulation establishes a mechanism for the Ontario Energy Board (OEB) to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

The *Ontario Fair Hydro Plan Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program.

The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. It is estimated that as many as ~7000 eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program as they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under *Ontario Rebate For Electricity Consumers Act, 2016*, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.
If the required regulations are approved, the program would be in effect July 1, 2017.

Ontario Electricity Support Program

Additional regulatory amendments will be forthcoming in late June 2017.

Bill Presentment

The ministry is proposing to create new regulations under the *Ontario Fair Hydro Plan Act, 2017* that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments message. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017. The requirement for Hydro One to provide an on-bill message related to RRRP (which has become out-of-date with these program updates) is also repealed with proposed amendments. For clarity, Hydro One would not be exempt from including the messaging related to OFHP.

In anticipation of these new OFHP invoicing requirements, the ministry has made an amendment to revoke the “8% provincial rebate” messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an “8% Provincial Rebate” line item remains.

APPENDIX G: UPDATE ON RISKS AND MITIGATION STRATEGIES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **Update:** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **Update:** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July. There could be potential interactions between the provincial guarantees and the indemnities sought by OPG and the IESO, discussed below. A due diligence is currently ongoing by MOF Legal, OFA and Energy staff. A final draft indemnities package is pending.
Indemnities provided to OPG are triggered/called	L	H	• Ministry of Energy staff are putting together a s.28 (under the Financial Administration Act) approvals package for submission to the Minister of Finance for the Minister of Energy, on behalf of the Crown, to enter into Indemnity Agreements in favour of OPG, including its subsidiaries, and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			o The indemnities are expected to provide coverage for both organizations and their respective Board members, officers and employees involved in implementing the plan. o As currently proposed, the Minister will be requested to consider and sign the section 28 approval forms and the transmittal letter to Minister Thibeault. **Update:** • Work is ongoing to finalize the s.28 (under the Financial Administration Act) approval for indemnities. Note: There could be potential interactions between the provincial guarantees and the indemnities sought by OPG and the IESO, discussed below. A due diligence is currently ongoing by MOF Legal, OFA and Energy staff. A final draft indemnities package is pending.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **Update:** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **Update:**

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **Update:** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

From: Ronald Kwan
To: John Kim
Subject: OFHP
Date: Wednesday, May 10, 2017 6:37:57 PM

Hi John,

For our records, and future alignment and analysis, would you ask TBS staff for a copy of Energy's final TB submission.

Thanks,
Ron

From:	Adam Prokop
To:	John Kim
Cc:	Bruno Amara; Salman Qadir; Shajee Kathirgamanathan
Subject:	Preferred equity treatment
Date:	Tuesday, May 02, 2017 12:23:13 PM
Attachments:	dbrs-criteria-preferred-share-and-hybrid-security-criteria-for-corporate-issuers-archived.pdf

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There is an exception to preferred share 20% rule:

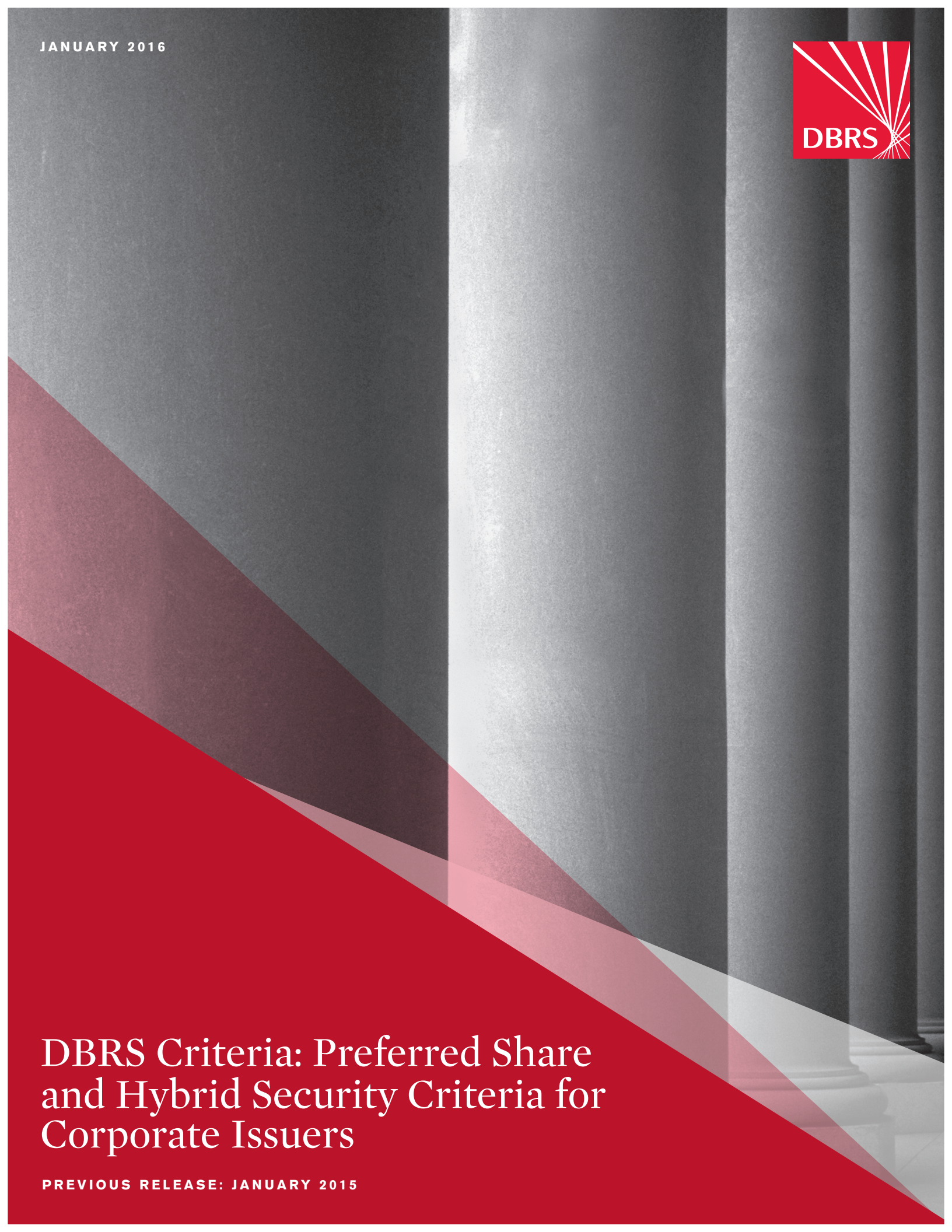
"There are cases where a parent may invest in a subsidiary through deeply subordinated debt for tax or other reasons with the intention that the security mirrors the attributes of equity. DBRS would typically assess a range of factors to establish if the latter has been achieved, such as cross-default trigger covenants, term and ability to defer interest. Regardless of these factors, the parent-subsidiary relationship is key and represents the only reason that DBRS would consider these debt instruments for high equity treatment. In these cases, the 20% cap rule does not apply."

See attached file.

Kind regards,

Adam Prokop
Economic Specialist
Office: 416-315-6462
adam.prokop@ofina.on.ca

JANUARY 2016



DBRS Criteria: Preferred Share and Hybrid Security Criteria for Corporate Issuers

PREVIOUS RELEASE: JANUARY 2015

Contact Information

Andrew Lin
Global Corporates
+1 416 597 7453
andrew.lin@dbrs.com

Eric Beauchemin
Global Corporates
+1 416 597 7552
ebeauchemin@dbrs.com

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Scope and Limitations

This criteria represents the current DBRS approach to preferred shares and hybrid securities (hybrids) for corporate issuers other than financial institutions. The methods described herein may not be applicable in all cases; the considerations outlined in DBRS methodologies are not exhaustive and the relative importance of any specific consideration can vary by issuer. This criteria applies to all non-banking/non-financial corporate sectors across the rating spectrum, investment-grade and non-investment grade issuers. Further, this criteria is meant to provide guidance regarding the DBRS methods used in the areas outlined and should not be interpreted with formulaic inflexibility, but understood in the context of the dynamic environment in which it is intended to be applied.

Overview

"Hybrid" is a term used by DBRS to describe financial instruments that combine both debt and equity characteristics. There is a wide variety of hybrids combining numerous features in the marketplace, with new versions emerging from time to time.

The following criteria outlines the DBRS approach to preferred shares and hybrids for corporate issuers other than financial institutions, with a primary focus on the equity treatment assigned by DBRS to these instruments. For non-banking financial institutions (insurance companies, finance companies, etc.), the main Equity Weightings section is not applicable but, in some cases, the *Rating the Instruments section may still be applicable.* For banking-related issuers, DBRS would instead typically use the criteria entitled *Rating Bank Capital Securities – Subordinated, Hybrid, Preferred and Contingent Capital Securities*. This criteria would not generally have any application to sovereign or public finance issuers since they do not generally issue such instruments. Also, with respect to considerations applied by DBRS to subordinated debt instruments in public-private partnership transactions, while some of the same broad principles discussed below will apply, given the nature of these transactions, DBRS applies a specific set of criteria to these subordinated debt instruments (see Appendix 1 to the *Rating Public-Private Partnerships* methodology).

This criteria is divided into two major sections summarized below:

Equity Weightings

- DBRS assigns to hybrids and preferred shares one of five potential equity weightings (0%, 25%, 50%, 75% or 100%) based on the extent of equity characteristics that are exhibited by each instrument.
- DBRS uses a two-stage determination process: the instrument is first scored based on primary considerations, after which secondary factors are incorporated into the analysis to finalize the equity weighting.
- DBRS generally caps the combined equity treatment assigned to all hybrid and preferred securities of an issuer to 20% of common equity (as adjusted by DBRS); the remainder is treated as debt. One exception in which the 20% rule does not apply is when the security is held by the parent of the issuer, as discussed in more detail in the Cap on Use of Hybrids and Preferred Shares section.
- Equity weightings are used by DBRS to adjust debt and equity levels in several leverage metrics, such as debt-to-EBITDA and cash flow-to-debt. Except for subordinated debt instruments qualifying for 100% equity weighting, however, no relief is provided to coverage ratios linked to interest expenses and preferred share dividends, such as interest and fixed-charge coverage ratios, as a result of equity treatment considerations.

Rating the Instruments

This section discusses the key considerations related to assigning an instrument rating to a given hybrid or preferred share security.

Equity Weightings

The determination of the equity treatment given to hybrid debt or preferred equity instruments is an important step in the assessment of an issuer's creditworthiness because it contributes to a more precise measurement of the financial burden carried by an issuer as those instruments are typically more flexible than traditional debt. When assessing hybrids or preferred shares for equity treatment, DBRS is guided by the following key question: how closely does the instrument replicate the attributes of common equity that are beneficial to the issuer and higher-ranking bondholders and creditors? In DBRS's view, those beneficial attributes include:

1. Subordination – equity provides a buffer or loss-absorption mechanism for all other creditors;
2. Permanence in the capital structure – there is no maturity date and therefore no liquidity or repayment risk posed at maturity; and
3. Servicing flexibility/cash flow relief – There are no ongoing payment obligations that could trigger default or cross default if missed.

The extent to which these aforementioned characteristics are present in a hybrid largely determines which of DBRS's 0%, 25%, 50%, 75% or 100% equity weightings is allocated to the instrument. As explained below, however, other factors can also influence the final determination.

Primary Factors

While the terms of hybrids can vary widely across issuers, certain fundamental characteristics are normally expected to be found in hybrids in order to justify any equity treatment. Such characteristics include:

i. Subordination in right of payment and security to all unsecured debt.

ii. A minimum assumed remaining term to maturity (as explained in the next section) of more than five years unaffected by issuer redemption rights with coupon step-up exceeding a certain threshold or debtholder redemption rights, except for hybrids where conversion to longer-term and/or more junior capital is a key factor.

iii. Ability to defer interest payments with no default for at least five years in order to provide operating flexibility.

The following provides details on the primary factors used by DBRS to assign equity treatment to hybrids.

i. Subordination

Although generally not as low-ranking as common equity, most hybrid instruments are deeply subordinated, typically ranking just above any traditional outstanding preferred shares. To qualify for equity treatment, DBRS generally expects a hybrid to be subordinated in right of payment and security to all other debt classes to provide loss absorption benefiting higher-ranking debt holders and creditors upon bankruptcy. The subordination requirement is the same for all equity weighting categories.

ii. Tenor and Redemption Rights

Term to maturity is an important consideration in the assessment of equity treatment of a hybrid and reflects the potential for equity-like permanence. Early redemption dates, however, particularly when combined with interest rate step-ups or triggers tied to rating agency downgrades or accounting changes, detract from the concept of permanence. Where an early redemption feature exists, DBRS will typically assume this early redemption date (rather than the contractual maturity) to be the maturity date for equity treatment purposes, subject to the discussion below.

Replacement Language

DBRS may consider the assumed remaining term to maturity to be later than a contractual early redemption date,[1] provided that there is written replacement language indicating an issuer's intention to replace notes that are redeemed at an early redemption date, with new notes having features that provide comparable rating agency equity treatment. Such replacement language need not be a contractual covenant; DBRS will accept written language in the offering documentation, provided that the language is sufficiently clear, transparent and has minimal exceptions. DBRS may also take into account qualitative considerations in the context of the issuer's past and expected future capital structure plans when gauging the issuer's intent to maintain the permanence of the hybrids in the capital structure.

Provided that there is proper written replacement language, DBRS may still extend the assumed maturity date beyond the contractual early redemption date even if there is no make-whole premium and even if the early redemption is triggered by changes in income tax treatment or weaker equity treatment resulting from a change to, or interpretation of, a rating agency's hybrid methodology or criteria. The contractual language describing income tax or rating agency triggers, however, must be narrowly defined. Early redemption triggers that have a broad scope, include a rating downgrade or entail a change in accounting rules seriously detract from permanence and may cause DBRS to assume that the maturity date will be the contractual early redemption date. In addition, where such triggers are present, DBRS may cap any equity treatment to 0% or, at most, 25%.

Step-Up in Coupon Rate

Even in the presence of replacement language, if there is a cumulative step-up in the hybrid note coupon of more than 1%, DBRS will assume the date of the 1% cumulative step-up to be the maturity date of the notes. For example, a hybrid (with suitable replacement language) that has a 60-year term, subject to an early redemption and step-up first exercisable in year ten but for which the step-up only reaches 1% in year 20, would be assumed to have a 20-year term for equity-treatment purposes.

Minimum Remaining Term to Maturity

Per the table below, for an equity weighting of 25%, DBRS requires an assumed remaining term to maturity of more than five years. Longer perceived permanence is expected for higher equity weightings, namely more than ten, 50 and 100 years for the 50%, 75% and 100% equity weightings, respectively.

iii. Interest Deferral

Interest deferability can provide significant shock absorption capability to an issuer's financial flexibility. The most favourable type of deferability is when accrued interest is non-cumulative and is cancelled when the issuer is unable to pay. In DBRS's view, this type of deferability is the closest to preferred equity and is required for equity weightings of 75% or 100%. To achieve 100% equity treatment, however, the deferral feature must be mandatory as opposed to optional and must be based on a meaningful test (e.g., cash flow-to-debt or debt service coverage) that forces deferability before the issuer's financial position gets unduly eroded. The second type of deferability occurs when interest is cumulative but payable with preferred or common equity. This form of deferability attracts the same equity treatment by DBRS as non-cumulative deferability as it also relieves the issuer of the liquidity pressure resulting from debt servicing obligations. The third and least favourable type of deferability occurs when interest is cumulative but payable with cash at the end of the grace period. While this feature provides relief, it is limited to the length of the grace period. As such, for hybrid notes with deferrable interest payable with cash, minimum grace periods of five years for 25% equity treatment and ten years for 50% equity treatment are required. A grace period shorter than five years results in a 0% equity weighting. To achieve equity treatment for the ability to defer interest, DBRS would expect restrictions in place that prevent dividend and/or interest payments to more junior instruments and the repurchase of common shares until the deferral period ends and all deferred payments are made.

The table below summarizes the primary characteristics used by DBRS to assign equity treatment to hybrids; however, the equity weighting can also be influenced by a wide range of secondary factors, some of which are described in the next section. While a negative consideration may sometimes be offset by a positive one, the absence of a primary characteristic is generally difficult to offset with any other consideration.

1. Acceptable replacement language can extend the maturity date beyond an early redemption date for all but the 100% equity weighting category. Acceptable replacement language is only of benefit up to the 75% equity weighting category; DBRS will not assign a 100% equity weighting benefit to any note with an early redemption feature.

Hybrid Features	25%	50%	75%	100%
Subordination	Required – to ALL debt types	Required - to ALL debt types	Required - to ALL debt types	Required – to ALL debt types
Assumed Remaining Term to Maturity (as determined by DBRS)	> Five years	> Ten years	> 50 years	> 100 years
Interest Deferral	Optional; Cumulative for up to five years; Payable with cash	Optional; Cumulative for up to ten years; Payable with cash	Optional; Non-cumulative or cumulative and payable with equity	Mandatory; Non-cumulative or cumulative and payable with equity
Redemption Rights without Make-Whole and Replacement Language	Acceptable	Acceptable	Acceptable	**Not acceptable while senior debt is outstanding**
Tax- and Rating Agency Event-Based Redemption Rights with no Make-Whole	Acceptable	Acceptable	**Not Acceptable**	**Not Acceptable**

Additional Factors

In addition to the primary factors described above, other considerations have the potential to influence DBRS' assessment of hybrid notes. The list below is not meant to be exhaustive, but outlines factors generally subject to enhanced scrutiny by DBRS. If deemed material, these additional factors are incorporated into the analysis to establish the final equity weighting. These factors are typically secondary in importance, but can be important considerations in selective cases.

Covenants and Events of Default: Events of default and covenants should be relatively benign and very limited in scope. Broad-reaching or unduly stringent debt terms may introduce vulnerability into the capital structure and can reduce the equity weighting of the hybrid notes.

Cross-Default: DBRS expects there to be no events of default that could automatically trigger a cross-default or cross-acceleration to higher-ranking debt noting, however, that the failure to pay amounts after application of all permitted deferral periods may trigger a wider default to higher-ranking debt, in which case lower equity treatment would likely result.

Standstill on Remedies: Standstill provisions prohibit holders of certain types of subordinated debt from taking any action upon an event of default to enforce their rights and remedies or to accelerate payment as long as senior debt is outstanding. This feature can provide resilience to an issuer and isolate senior bondholders from financial stress affecting lower-ranking debt instruments. Hybrids rarely carry a standstill provision as it significantly dampens the marketability of the notes, but DBRS requires it to achieve 100% equity treatment.

Voting Rights: By virtue of voting rights or required consent, subordinated debtholders should typically not be in a position to influence the issuer's decisions or its capital structure to the detriment of higher-ranking debtholders.

Lookback Provisions/Dividend Pushers: There can be provisions that may delay the issuer's ability to defer payments on a hybrid note because of the timing of common dividends or other capital instruments that rank in parity with the hybrid notes and, in some cases, the latter can also apply with declaration of such payments. DBRS would typically view these provisions as negative considerations in determining the equity weighting that would otherwise be possible. The degree of impact would depend on factors such as the length of time that deferral could be affected and the number of other securities to which the provision relates.

Payment in Kind (PIK) and Conversion Features: There are various types of securities with PIK or conversion features. From an equity treatment perspective, the most favourable structures involve mandatory payments with common equity or mandatory conversion to common equity at a future date. The sooner the conversion to common equity occurs, the more predictable it is and the more equity credit can be given to the hybrid; however, securities where conversion to equity depends on the ability of a trustee to sell common shares in the open market can be problematic in weak markets or when major company issues exist. As such, DBRS gives no equity consideration when this feature is present since the potential for the trustee to sell in an open market cannot be relied on. Securities where the conversion is at the option of the debtholder may attract partial equity treatment when the conversion price is deep in the money and the conversion is both possible and likely in the near term; however, a high level of equity treatment is normally precluded by the volatile nature of the stock market, which can quickly change an in-the-money position to one that is out of the money.

Preferred Shares

Preferred shares are normally less complicated than hybrids and, next to common equity, typically hold the ranking as the most junior security. Preferred shares are by, definition, equity and typically command a very high level of equity weighting. Preferred shares generally attract a 100% equity weighting, provided that DBRS is satisfied that the issuer has no intention to eventually replace the preferred shares with debt. This acknowledges the key features of the instrument such as permanence, the generally light terms (i.e., non-cumulative, contains no events of default or covenants) and the ability to defer dividends despite typical reluctance among issuers to suspend them. While issuers generally maintain the ability to redeem preferred shares with debt at any time after an initial non-call period, this element of uncertainty is more than offset by the broad above-mentioned benefits contributed by the instrument. Moreover, common stocks can also be bought back at any time. A reversal in the issuer's intention to preserve its preferred equity base would be treated by DBRS as an event, with potential implications for the rating(s) and any equity weightings assigned to the issuer's financial instruments. All preferred share dividend payments (not just those in excess of the 20% cap explained in the next section) are considered in coverage metrics as the fixed-charge coverage ratio and in the analysis of free cash flow.

It is not an event of default for preferred share dividends to be undeclared; however, failing to declare a preferred share dividend does not typically occur until a company is under severe stress. The same holds true for common dividends. As noted above, DBRS assesses both in the context of free cash flow. Preferred share dividends are seldom the leading factor for cash flow issues, which are more commonly the result of items such as reduced business prospects, high debt levels, common dividends and capital expenditure requirements.

Cap on Use of Hybrids and Preferred Shares

Even when all of these factors are satisfied, DBRS may still assign little or no equity treatment to a hybrid if an issuer uses such securities excessively. Accordingly, irrespective of the equity weighing assigned to a specific instrument, DBRS will treat as debt all incremental preferred shares and hybrids that lead the ratio of preferred equity and hybrids to common equity to exceed 20%. The amount of common equity will typically be the unadjusted figure reported by the issuer on its audited balance sheet, noting that DBRS retains flexibility to make certain adjustments to the numbers as deemed appropriate, such as for the accounting treatment of certain items (e.g., inclusion of non-cash marked-to-market derivative gains (losses) in retained earnings and in accumulated other comprehensive income).

There are cases where a parent may invest in a subsidiary through deeply subordinated debt for tax or other reasons with the intention that the security mirrors the attributes of equity. DBRS would typically assess a range of factors to establish if the latter has been achieved, such as cross-default trigger covenants, term and ability to defer interest. Regardless of these factors, the parent-subsidiary relationship is key and represents the only reason that DBRS would consider these debt instruments for high equity treatment. In these cases, the 20% cap rule does not apply.

Ratio Analysis

Where the amount of hybrids and preferred shares is material, DBRS will make adjustments to some of its key leverage ratios such as debt-to-EBITDA and cash flow-to-debt to reflect some of the flexibility contributed by these instruments. Except for deeply subordinated debt instruments qualifying for 100% equity treatment, DBRS does not make any adjustments to interest expenses and preferred share dividends for the purpose of calculating coverage ratios. Until an entity exercises its discretion to defer or adjust its payments per the terms of the instrument, DBRS expects payments to be made. As a result, related coverage ratios should include such payments.

Rating the Instruments

Relationship between the Instrument Rating and its Equity Weighting

Excluding normal notching considerations related to the ranking of securities, there is no direct correlation between the rating of a hybrid instrument and the level of equity weighting that it is assigned. This is because DBRS views the embedded covenants and other terms carried by hybrids as not materially affecting credit risk and, as such, does not penalize the rating of the instrument.

Nomenclature

As with the choice of rating scale, the name of the instrument is not to be viewed as a determining factor in DBRS's decision regarding equity value. Hybrids may be referred to as debt equivalents for tax, accounting or regulatory reasons, but this label does not preclude the fact that they may have significant equity value.

Choice of Rating Scale – Canadian-Only Issue

DBRS uses a separate rating scale for preferred shares issued in the Canadian securities market (Pfd-1 to Pfd-5) while debt hybrid instruments are rated using the global DBRS Long-Term Obligations Ratings Scale (AAA to C). Typically, there is a standard ranking relationship between debt and preferred share ratings whereby an entity with an "A" issuer rating will usually have its preferred shares rated as Pfd-2 and an entity with a BBB issuer rating will have a preferred shares rating of Pfd-3, and so on.

In those rare cases in which it is not automatically clear which scale should be used in rating a security, DBRS will look to elements such as the legal status of the instrument, whether payments are dividends or interest, the tax treatment of payments, the relative ranking of the issue in relation to other debt and outstanding preferred share issues and other relevant factors. It is thus possible that instruments with very similar underlying attributes could be rated on different scales. In these types of cases, DBRS believes that the choice of rating scale is independent of the decision on equity weighting and that securities with similar underlying attributes should receive similar equity weighting.

The sections that follow discuss situations in which ratings may deviate from the standard rating mapping.

Lower-than-Standard Mapping to Debt Ratings

When preferred shares become a proportionately large segment of the capital structure, the preferred share dividends will absorb a higher proportion of cash and earnings. DBRS may, in some situations, consider it appropriate to rate the preferred share rating one notch lower than suggested in the standard mapping; however, a very high level of preferred equity (and related dividend payments) could also be an issue for the issuer rating, which would in turn have an impact on all debt and preferred share ratings of the issuer. Because any preferred equity in excess of 20% of common equity (as adjusted) is already treated as debt, an additional notch reduction would only be considered necessary in unique circumstances where the ratio of preferred shares to common equity is at a high enough level that an issuer who is under pressure may have an additional incentive to pass on preferred dividends simply because of the relative size of the cash savings. DBRS approaches these situations on a case-by-case basis and would typically not consider such action unless the ratio of preferred to common equity is at least in the 40% to 50% range (based on preferred shares outstanding, not the amount that is given equity weighting) and the fixed-charge coverage ratio is considered weak. Credits with issuer ratings in non-investment grade territory are also more likely to encounter wider-than-typical notching differences.

Higher-than-Standard Mapping to Debt Ratings

In a case where an issuer has no or very minimal debt outstanding and no plans to issue in the future (including subordinated debt and intermediate hybrid instruments), the preferred shares may warrant a rating that is one notch higher than is typical as there are no debt obligations senior to it. The issuer would ideally document such intention in a covenant although, absent such covenants, DBRS may also consider management comments, past actions and whether the situation at hand supports making an exception; however, most issuers have non-debt unsecured obligations ranking higher than preferred equity, such as accounts payable and off-balance sheet liabilities, which are also factored into the analysis. This situation is rare and should not be considered the norm.

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From:	Nelms, Scott (MOF)
To:	Sriram Subrahmanyan (MOF); Ronald Kwan; Robin Lewis (MOF); John Kim
Subject:	Privileged and Confidential - Fair Hydro Plan - PILs Exemptions
Date:	Wednesday, May 31, 2017 1:10:33 PM
Attachments:	Memo re_ PILs Exemption.DOCX

Hi Sriram, Ron,

Further to our conversations from earlier this spring, we received the following from OPG on its request for PILs exemptions relating to Ontario's Fair Hydro Plan. Please let me know if you have questions or comments. Torys and OPG have also asked whether we would like to set up a call in the next few days to discuss.

Thanks,
Scott

Scott Nelms
Electricity Investment and Governance Secretariat | Ministry of Finance
7th Floor | 375 University ave. | Toronto, ON
w: (416) 212-6469 | c: (647) 330-2681
scott.nelms@ontario.ca

TORYS LLP

MEMORANDUM

PRIVILEGED AND CONFIDENTIAL

To	Ontario Power Generation Inc.	**Date**	May 17, 2017
From	Torys LLP, Toronto Tax		
Re	Fair Hydro Plan – PILs Exemption		

As part of the Fair Hydro Plan (the "Plan"), it is expected that Ontario Power Generation Inc. will act as the financial services manager and that Ontario Power Generation Inc., or a wholly-owned corporate subsidiary of Ontario Power Generation Inc. (in either case, "OPG"), will establish one or more new financing entities that will raise debt to acquire "investment assets" from the IESO. A Bill to implement the Plan has been introduced to the Provincial Legislature [1] and there is flexibility under the Bill for the new financing entity to be a corporation, a trust, a limited partnership or a partnership.

We understand that the Province would like to minimize, to the extent possible, Federal and Provincial taxes and "payments in lieu of taxes" ("PILs") under the *Electricity Act, 1998* (Ontario) (the "OEA") payable by a financing entity as the costs of any of those taxes payable by a financing entity will be passed on to ratepayers through the collection of the clean energy adjustment under the Bill and the associated regulations. Accordingly, we understand that the Province is considering the possibility of making regulation changes to exempt the income arising as a consequence of the Plan from PILs. In order to assist the Province in their consideration of this regulation change, including the scope of any such amendment, we have set out below a summary of: (i) the tax treatment of the income of the financing entity under the *Income Tax Act* (Canada) (the "ITA"), the *Taxation Act, 2007* (Ontario) (the "OTA"), and the OEA, (ii) certain matters relating to the computation of the financing entity's income for tax purposes, and (iii) our recommendations with respect to how the Province can ensure that PILs arising from the Plan are minimized.

It is also important to note that Ontario Power Generation Inc. will not bear any of the tax costs arising as a consequence of participating in the Plan. If there are any tax costs, they will be borne by ratepayers through the clean energy adjustment.

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[1] Bill 132, *An Act to enact the Ontario Fair Hydro Plan Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998*, 2nd Sess, 41st Leg, Ontario, 2017 (first reading May 11, 2017).

Tax Treatment of Income of Financing Entity

As noted above, there is flexibility in the draft legislation to implement the Plan relating to the form of a financing entity. What follows is a summary of the tax treatment of the income of the financing entity if it is a corporation, a trust or a limited partnership/partnership, as well as the tax treatment of amounts paid or allocated to OPG as a shareholder, beneficiary or a partner, respectively, of the financing entity:

Form of Financing Entity / OPG	Treatment of Income under ITA/OTA	Income Subject to PILs
Corporation	-Income of the corporation should be exempt from tax	Yes
OPG as shareholder of corporation[2]	-Dividends paid to OPG should be exempt from tax	Yes
Trust	-Income should be subject to tax, although the trust can reduce its income by the amount of its income which is paid or made payable to its beneficiaries	No
OPG as beneficiary of trust	-Trust income paid or made payable to OPG as a beneficiary should be exempt from tax	Yes
Limited Partnership/Partnership	-Limited Partnership/Partnership is not generally a "taxpayer" although income is computed at the partnership level and allocated to partners for tax purposes	No
OPG as partner of limited partnership/partnership	-Partnership income allocated to OPG as a partner should be exempt from tax	Yes

As summarized, if the financing entity is a corporation, the income of this corporation would be subject to PILs, and further, any amounts paid or allocated by the financing entity to OPG, as a shareholder, beneficiary or limited partner/partner of the financing entity, would similarly be subject to PILs. Consequently, any regulation change to exempt the income of the financing entity from PILs under the OEA should be broad enough to accommodate the three possible forms of financing entity and address PILs at both the financing entity level (in the case of a corporation) and the shareholder, beneficiary and limited partner/partner level.

[2] We note that corporations are generally entitled to claim a deduction under section 112 of the ITA (and any OTA equivalent) equal to the amount of taxable dividends received from another Canadian corporation, with the result that taxable dividends are generally not subject to tax under Part I of the ITA (and any OTA equivalent). To illustrate the scope of the PILs exemption under consideration by the Province, we have ignored this deduction in preparing this chart.

Income Computation Matters

As part of the Plan, it is expected that the financing entity will raise debt and acquire "investment assets" from the IESO. The investment assets do not appear to be debt instruments from a commercial perspective on the date they are acquired, but rather seem to be intangible assets. Given the unique nature of the investment assets, the tax analysis that is generally relied on by a financing entity in a typical securitization transaction (which involves interest-bearing debt obligations) is not applicable. There are no specific rules in the ITA or OTA which govern the manner which the investments assets should be treated for tax purposes, such that further analysis will need to be conducted in order to determine whether the investment assets are on income or capital account to the financing entity, and that the "cost" of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity.

In addition to the tax implications relating to the investments assets, the following additional matters, among others, are relevant in computing the income of the financing entity:

- In order to be deductible, an expense must satisfy the requisite income earning purpose test;

- Expenses which are owing to a non-arm's length person must be paid in a timely fashion so that the expense does not give rise to an income inclusion;

- Capital losses may generally only be offset against capital gains, such that consideration must be given to the character of the assets and liabilities of the financing entity to ensure there are no mismatches;

- If the financing entity incurs foreign-currency denominated debt, any related foreign currency hedging instrument will need to be sufficiently "linked" to the underlying debt to ensure capital treatment of the hedge; for example, if the period of the hedge does l not match the period of the related debt, the financing entity will realize gains or losses on the hedge that will not be offset with realized losses or gains on the debt; and

- If the financing entity is a trust, it will be necessary for interests in the trust to "vest indefeasibly" or be structured as units where at least 95% of the units, by fair market value, are redeemable on demand by the holder to ensure that the trust is not deemed to dispose of any capital property under the "21 year" rule.

Recommendations

In order to ensure that the taxes arising under the Plan are minimized so that the overall cost of the Plan (over its 30 or more years of existence) to ratepayers is minimized and to ensure that Ontario Power Generation Inc. is kept whole from tax costs arising as a consequence of participating in the Plan, the following exemptions from PILs are required:

1) If the financing entity is a trust: Any income paid or made payable to OPG by the trust should be exempt from PILs. If this PILs exemption is not promulgated, the income will

not be distributed out of the trust, tax will be payable by the trust on the income and the costs of that tax payable will be passed on to ratepayers through the clean energy adjustment. This will be a significant cost.

2) If the financing entity is a corporation: The corporate financing entity should be exempt from PILs and any dividends paid to OPG should be exempt from PILs. Again, if these PILs exemptions are not promulgated, no dividends will be paid to OPG and the costs of all PILs paid by the financing entity will be passed on to ratepayers through the clean energy adjustment. This will be a significant cost.

3) If the financing entity is a partnership or limited partnership, any income allocated to OPG should be exempt from PILs.

4) If the financing entity is any other form of special purpose vehicle, the income of such entity should be exempt from PILs and any income from such special purpose vehicle allocated, paid or taxable in the hands of OPG should be exempt from PILs.

From: John Kim
To: Gavin He
Cc: Bruno Amara
Subject: REG-11477_ID49242_LRC_CBN- DRAFT- OFHP regulations v5_CEFD_v1_Markup.docx
Date: Thursday, June 08, 2017 12:28:04 PM
Attachments: REG-11477_ID49242_LRC_CBN- DRAFT- OFHP regulations v5_CEFD_v1_Markup.docx

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If okay with this, pls. send.

Ontario

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy
Fair Hydro Plan Regulations

Cabinet (info) Feb 15, 2017	TB/MBC and Cabinet March 1, 2017	Announcement March 2, 2017	TB/MBC May 9, 2017	Cabinet May 10, 2017	Introduction May 11, 2017
Royal Assent June 1, 2017	TB/MBC June 13, 2017	Cabinet June 14, 2017	Program Effective Date July 1, 2017		

Summary of Proposal

The proposed regulations are consistent with Cabinet direction. [TBC]

Context for Decision:

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. OFHP includes some benefits for all consumer classes as well as targeted benefits to those identified as having the greatest need, and includes the following major components:

- Refinancing a portion of the Global Adjustment (GA);
- Helping vulnerable electricity consumers ("social programs");
- Expanding the Industrial Conservation Initiative (ICI);
- Improving sector efficiency; and
- Modernizing Ontario's electricity market.

The *Fair Hydro Act, 2017,* was introduced on May 11, 2017, passed on May 31, 2017 and received Royal Assent June 1, 2017.

Proposal

This proposal is the next step in the implementation of the OFHP and would establish most of the necessary regulations under the *Ontario Energy Board Act, 1998* (OEBA), *Ontario Rebate for Electricity Consumers Act, 2016,* (ORECA) and the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) related to:

1. Partial Refinancing of the Global Adjustment (GA):

The ministry is proposing a new regulation under Part II of the OFHPA that would support the required calculations related to the refinancing of GA. More specifically, the proposed regulation would implement the reduction in rates for the typical residential consumer effective July 1, 2017.

2. Social Programs and Bill Presentment:

The ministry is proposing three new regulations under the OFHPA and the OEBA and amendments to existing regulations under the OEBA and ORECA to support implementation and clarify program details of the social programs, as well as support transparency and communication of the changes made under the OFHP.

To fully implement the required regulations for the OFHP, the ministry will be seeking approvals of three additional regulations in late June 2017.

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. Since the OFHP was announced there has been increased media attention and public pressure for the government to take the necessary steps to enact the commitments made in the plan. The *Fair Hydro Act, 2017,* identifies a July 1 implementation date for the various price mitigation initiatives contained within. Pending approval of the regulations, the OEB will recalculate rates to be implemented for July 1, 2017.

~~In addition~~Effective May 1, 2017, the OEB ~~has announced that~~reduced electricity prices ~~dropping~~ for eligible households and small businesses ~~effective May 1, 2017~~. ~~Upon the approval of the OFHP~~At the time, the OEB also announced, upon passage of the Act, that it would further adjust Regulated Price Plan (RPP) prices as needed so that RPP customers receive the full rate relief as legislated.

What is the expected cost to government?

The estimate for the combined impact of the social programs in this proposal is expected to be $359M in 2017-18, growing in 2018-19 once annualized. The ministry will return to TB/MBC with updated out-year figures following program implementation. This investment has been factored into the fiscal plan in the 2017 Ontario Budget. These estimates are based on variable inputs such as program uptake, future energy consumption of various consumer groups and future distribution rates, and are therefore subject to change.

TABLE 1: Fiscal Impact ($M) of Social Programs	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344
On-Reserve First Nations Delivery Credit	15

Note: As approved in the TB/MBC submission of Mach 1, 2017, and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31, 2018.

What are the key steps to deliver this proposal?

- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of OFHP.
- July 1, 2017- the remaining reductions and initiatives associated with the OFHP would take effect. Programs that are not established on this day for technical implementation issues will allow benefits to be retroactively applied to customers once programs are reflected in bills by individual LDCs.

How will the changes be communicated?

The proposed changes will be communicated via a news release or backgrounder in late June.

Cabinet Office Analysis

The proposed new regulations under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and the regulatory amendments under the *Ontario Energy Board Act, 1998* (OEBA) allow for the implementation of the key elements of Ontario's Fair Hydro Plan (OFHP) announced on March 2, 2017 and are consistent with Cabinet direction [TBC].

1. Partial Refinancing of the Global Adjustment:

The ministry is proposing a new regulation under Part II of the OFHPA that would support the implementation of the refinancing of GA, including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board (OEB) to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the OFHPA. If approved, the OEB is targeting June 22 to announce changes to rates for the July 1 effective date.

Critics of the OFHP may see the implementation of this component of the plan as compromising the independence of the OEB. This is mitigated by the fact that the government has always, through legislation and regulation, established the parameters

within which the OEB operates, and has no control over the day to day operations of the Board.

2. Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

Rural or Remote Rate Protection (RRRP) helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The Fair Hydro Act, 2017 amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments to O. Reg. 442/01 moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, under O. Reg. 442/01, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, as provisions under the new section 79.3 under the OEBA provides benefits beyond RRRP, making the escalating factor unnecessary.

The ministry is proposing a new regulation under the OEBA to create a government funded distribution rate protection (DRP) program. The regulation establishes a mechanism for the OEB to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs, as authorized under the OEBA, and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up of provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same

reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances related to lands affected by energy infrastructure.

The OFHPA amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program. The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate. The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. There is a risk that some eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements. The following LDCs would be prescribed as responsible for delivering the program:

Commented [EK1]: Should the LDCs be listed after this?

The proposed regulation relies upon definitions of key terms such as “member of a band” and “reserve” from the *Indian Act* (Canada). This approach is defensible and relatively straightforward, but may be criticised as not taking into account lands that are considered as roughly analogous to reserve land, but that do not meet the strict

definitions of the *Indian Act.* For example, many communities have lands within the federal Additions to Reserve (ATR) process that would be excluded from this program until the lands are officially recognized as reserve. This risk is mitigated by the fact that many of these parcels of land will have few if any residences on them, so the impact is expected to be minor. The legislation provides sufficient flexibility to expand application to these kinds of lands if appropriate in the future.

The ministry is also proposing amendments to O. Reg. 363/16 under the ORECA to provide clarity that FNDC should be included in the base amount used to calculate the 8% rebate. This is consistent with how other support programs have been treated for the purposes of applying the 8% rebate to customer's bills.

3. Bill Presentment

The ministry is proposing to create new regulations under the OFHPA that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments to O. Reg. 275/04 that would remove invoicing requirements related to the Debt Retirement Charge (DRC) exemption message, per s. 8.2. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017.

In anticipation of these new OFHP invoicing requirements, the ministry has amended O. Reg. 364/16 (Minister's order) to revoke the "8% provincial rebate" messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an "8% Provincial Rebate" line item remains.

Risks

Fiscal

The social programs do not have a scheduled end date and represent an ongoing fiscal pressure, which will likely increase over time. These estimates are based on variable inputs such as program uptake, electricity market conditions, future energy consumption

of various consumer groups and future distribution rates, and are therefore subject to change.

Perception

It is expected that there will be some criticism of the OFHP messaging and bill presentment changes as being political in nature and not strictly necessary for transparency or program implementation.

Legal

In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets present only a low risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the asset, but rather is doing so in order to lower the price in the short term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period.

Under the FNDC program “non-status” Indigenous communities without reserves (e.g. certain members of the Algonquins of Ontario (AOO), Mocreebec etc.) and Métis will not be eligible as they do hold reserve lands. There is a risk that these communities could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter (equality rights). This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change. This risk is mitigated by phase in implementation provisions in the enabling legislation that allows for LDCs to provide retroactive payments to July 1, 2017 if they are, for technical reasons, unable to have the required program changes implemented by this date.

Linkages

Commented [EK2]: The Fair Hydro Plan also included changes to the Ontario Electricity Support Program (OESP). Should those changes be included in this note?

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer 2017. The LTEP identifies needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The *Ontario Rebate for Electricity for Electricity Consumers Act, 2016*, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) – Was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB program ended on December 31, 2015.

Debt Retirement Charge – On January 1, 2016, the government ended the electricity DRC on residential users earlier than planned. For all other consumers the DRC will be removed by April 2018.

Industrial Conservation Initiative (ICI) – Implemented in January 2011 to help large industrial consumers reduce electricity costs by reducing consumption in peak periods. As part of OFHP, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – Approved as part of OFHP, and under development, the Affordability Fund is intended to provide energy efficiency measures to Ontarians who are not eligible for low income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings. Funding electricity social programs through government funds rather than the rate base will also provide saving to all electricity consumers (i.e. Class A and B).

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON) - is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and,
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed that the government consult on and develop options to mitigate the impact of carbon pricing and resulting increased utility costs on residential tenants. The mitigation is proposed because tenants do not usually have the opportunity to make changes to their building envelope (e.g. windows, insulation) or major appliances that would allow them to address utility costs themselves. On April 24, 2017, the government introduced the *Rental Fairness Act, 2017* which, if passed, would remove above-guideline rent increases for utilities, to protect tenants from carbon costs and encourage landlords to make their buildings more energy efficient.

Delivery

The proposed regulations are required under the major components of the *Fair Hydro Act, 2017* in order to fully implement the initiative and clarify program details.

1. Partial Refinancing of the Global Adjustment:

The ratepayer benefit of the OFHP will be in place as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the June 1, 2017 Royal Assent of the *Fair Hydro Act, 2017*.

The act includes transition provisions in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Using the methodology outlined in the OFHPA and the Part II regulations, the OEB will calculate the electricity rates that consumers will pay as of July 1, 2017.

2. Social Programs:

<u>DRP and RRRP</u>

The programs will take advantage of existing LDC and IESO processes. The regulatory amendments also enable payment flows to prescribed LDC to allow recovery of RRRP and DRP payments made to customers.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the DRP in time for the prescribed effective date. In this case, the regulation dictates the eligibility of July 1st and gives until October 1, 2017 for LDCs to get their systems in place. The LDCs would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program.

<u>On-Reserve First Nations Delivery Credit (FNDC)</u>

The ministry is consulting with affected LDCs, the OEB, the IESO and Chiefs of Ontario (COO) on implementation. FNDC will take advantage of existing LDC, IESO, and community-LDC relationships to implement the program. The regulatory amendments also enable payment flows to prescribed LDCs to allow recovery of FNDC payments made to customers.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the prescribed July 1, 2017 effective date. OFHPA includes transitional provisions that would ensure customers remain eligible for the delivery credit from the prescribed date. Once available, the rebate would appear on the eligible customer's electricity bills as a credit for their delivery line. FNDC line item, demonstrating the savings by eliminating the delivery line costs on the bill.

STAKEHOLDER AND PARTNER CONSIDERATIONS

General Public (including residential and small businesses) – Likely support a proposal that is projected to provide 25% in average rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but there has been public discussion of the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications. There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral on the rest of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to cap and trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. Funding electricity support programs through government funding rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being ineligible for the delivery charge relief.

NGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generators as part of the clean energy costs.

Solar PV sector – May react negatively to price relief as it can be seen to undercut the economics of net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price in order to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.) LDCs recover their costs through distribution rates. LDCs are licensed to serve a specific geographic area by the Ontario Energy Board (OEB). An LDC must receive Ontario Energy Board approval to charge a distribution rate.
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:
  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable per unit charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates for residential customers are moving to a fully-fixed charge by 2019 for most LDCs. Some LDCs, such as Hydro One and Algoma Power are transitioning over a longer period.
  - Line Loss: The costs to recover electricity that is lost when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay

for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.

- **Customer classification for Hydro One –** Customer service classes are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. Lower customer density increases the cost to serve. Residential class R1 customers are considered 'medium density' customers and residential class R2 are considered 'low density customers.' Hydro One also served urban residential customers, considered "high density" through its UR class. Hydro One also has urban and non-urban general service classes.
- **Ontario Power Generation (OPG) –** A business corporation owned by the Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to participate in quasi-judicial proceedings and formal stakeholder consultations.
- **Independent Electricity System Operator (IESO) –** An independent corporation established under the *Electricity Act, 1998* that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Affordable Housing- *Residential Tenancies Act, 2006* amendments –** To mitigate the costs of carbon pricing on tenants, who are not able to control major building features that impact energy use (like insulation and windows) or major appliances, the government has amended regulations under the Residential Tenancies Act, 2006 to remove the ability for landlords to increase rents above the guideline based on extraordinary increases in utility costs.

From:	John Kim
To:	Ronald Kwan
Cc:	Deena Padamadan; Bruno Amara
Subject:	RE: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc
Date:	Wednesday, May 03, 2017 4:45:27 PM
Attachments:	5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup6.doc

Pls. see attached.

Let us know if it's okay to share with TBS.

Thanks,

John

From: Ronald Kwan
Sent: Wednesday, May 03, 2017 3:39 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc

Hi,

A few comments, aside from the numbers.

Ron

From: John Kim
Sent: May-03-17 13:59
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc

Hi Ron,

Pls. see attached. We're checking a couple of delta numbers still as we checked the numbers again.

Thanks,

John

TAB 3

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE: 2017-2019 Business Plan for Ontario Power Generation

~~Prepared based on draft submission~~

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I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence.

The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan ~~(Board-approved?)~~ to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would be financed by OPG raising a targeted up to 5% from capital markets, with the remaining~~include~~ 44-49% ~~debt or~~ equity injection [and/or debt financing] from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) ~~with OPG raising the remaining 5% from capital markets~~.
  - Provincial borrowing for an equity injection would be offset by an increase in an investment asset in OPG, so the Province's net debt position would remain unchanged.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income.
  - ~~In addition, the Province's net debt position should remain unchanged~~
  - ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)~~
  - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
  - ~~In addition, the Province's net debt position should remain unchanged (Check is OFA)~~

The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan.

Financial figures from the OPG Business Plan are included and supplemented with more recent forecast adjustments from the Ontario Financing Authority, MOF, for more recent OPG in-year forecast updates, and for estimated OFHP implications, as part of Province's finalized fiscal plan for the 2017 Budget. Also identified, ~~and for~~ are risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. ~~The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan. Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authriy, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the~~

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Commented [BA1]: Also added MoF changes for IFRS risk

~~fiscal, financial and operational strategies laid out in the business plan.~~

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a~~n~~ one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province ~~may~~ make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018~~7~~.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - 2017 Budget projections were based on t~~T~~he figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $291~~9~~4M in 2016-17 and $556M in 2017-18 compared to the 2016 Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of ~~Ontario n~~Nuclear ~~Funds Agreement~~asset retirement obligations-related IFRS risks, followed by an increase of $12~~1~~M in 2018-19 ~~and a decrease of $14M in 2019-20~~ versus ~~-~~the estimates in the 2016 Budget. ~~The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.~~

  - ~~The figures in the OPG Board approved 2017-2019 Business Plan, along with OFA forecast updates for OFHP (TBC), show a decrease in earnings before tax of $84M in 2017-18 and $89M in 2017-18, followed by increases of $59M in 2018-19 and $120M in 2019-20 over the estimates in the 2016 Budget..~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4633~~6~~M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA an~~m~~d MOF adjustments, is p~~rojected~~~~lanned~~ to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.

    Also, ~~I~~in early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    ~~These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.~~ The first table in Appendix ~~G~~E shows the OPG 2017-19 Business Plan fiscal impact changes to the Province's Budget

Commented [JK2]: Still being checked.

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2016 fiscal plan.

- Key Operational Metrics:
  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

    OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and, as approved by Cabinet, the execution of the Darlington refurbishment consistent with an approved budget of $12.8 billion (including assumed inflation escalation and interest), is now under way. First unit refurbishment, Unit 2, began in October 2016~~, Unit 2~~ and is assumed to be returned to service in February 2020, with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., ~~U~~upgrades at Sir Adam Beck and upgrades to DeCew II, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021, submitted in [month] 2016. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per

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year

- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing)~~,~~ and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Performance risks: ~~[…]~~OPG's financial performance could be subjected to nuclear reliability issues such as unplanned outages and financial market risk on the performance of the nuclear funds, for which the Province consolidates on a realized [gains or losses] basis.

Commented [RK4]: Could list nuclear performance, financial market risk on the performance of the nuclear funds.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~Regulatory risks: Potential disallowance of recovery of OPG's current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.~~

~~Accounting risks: Any change in the basis of accounting used for consolidation of OPG on the Province's financial statements could result in potentially significant fiscal impacts.~~

~~Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

Commented [RK5]: Could contemplate removing this requirement going forward, say replacing it with a direction for the Ministry to continue to consult with the MOF and OFA on OPG's draft and approved business plans and in-year financial updates.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

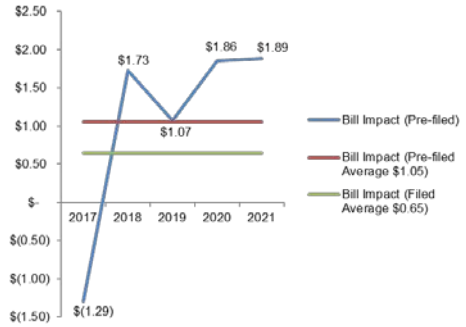
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

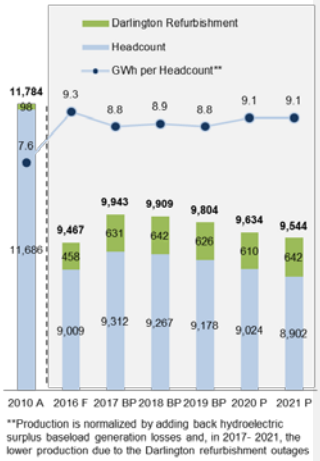
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



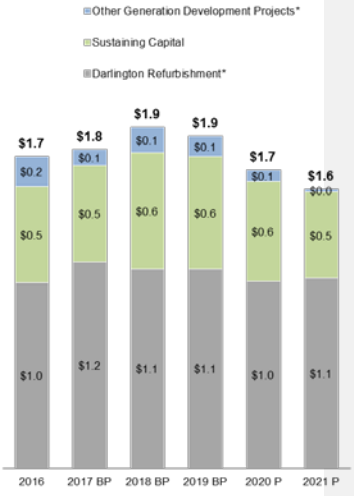
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

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	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Ontario Budget				
Ontario Power Generation				
Net Income	304	97	732	825
Income Tax	92	92	135	170
Adjustments to OPG BP Net Income				
OPG Head Office*		222		
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	1754	5499	99153
OPG Head Office*		222		
Income Tax				
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

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Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget[1]*				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income				
OPG 2017-19 Business Plan	349	702	678	726
Adjustments				
OPG Update[2]	30			
IFRS Risk adjustment[3]	-75	-400		-200
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		-222		
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)		17	54	99
Nuclear Funds fair value adjustment[5]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax				
OPG 2017-19 Business Plan	96	166	135	170
Adjustments				
OPG Update[2]	-4			
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		-74		
Income tax 2017 Budget	92	92	135	170
2017~~6~~ Budget vs. 2017~~6~~ Budget (including IFRS and sales &rental adjustments)				
Net Income	-~~379~~167	-~~494~~489	-~~53~~859	
Income taxes	-132-~~92~~	-67-~~92~~	-47	
2016 Budget vs. 2017 Budget (Before IFRS and sales &rental adjustments)				
Net Income	-84	133	59	200
Income taxes	-132	7	-47	0

1. 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 2016 multi-year business plan was approved and submitted following the timeframe for locking the numbers for the early 2016 Budget.
2. OPG February 2017 Monthly Update
3. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
4. For public Budget reporting, projected net impacts of Province asset optimization strategy including, OPG Head Office sale, are reported under Sales and Rentals for commercial confidentiality. OPG proceeds estimate updated per 2017 Budget.
5. Provincial consolidation adjustments for unrealized earnings on decommissioning and

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used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

* 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 206 multi-year business plan was approved and submitted following the timeframe for locking the numbers for the early 2016 Budget.

Monthly Updatepublic , for commercial confidentiality.

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Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	111	184	154	189
2017 Ontario Budget				
Ontario Power Generation				
Net Income	387	497	732	825
Income Tax	?	?	?	?
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(84)	(89)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?	?	?	?
TOTAL OF OPG CHANGES	?	?	?	?

OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update[, combined with a summary of net income and income tax PILs in the above table].

Commented [JK8]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

Table below to be updated – OFA

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2016-18 OPG Business Plan				
Combined Other PILs & Other GRC[2]	353	358	366	
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	215	220	220	
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	135	140	140	
OPG Monthly Update (August 2016)				
Net Income	361	-	-	
Income Tax PILs to OEFC	98	-	-	

1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.
2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.
3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241

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Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
~~Net Income (including OPG Head Office sale)~~	~~379~~	~~702~~	~~678~~	~~726~~
~~2017 Budget Adjustments~~				
~~ONFA adjustment~~	~~8~~			
~~OPG Trust Interest Revenue - TBC~~		~~17~~	~~54~~	~~99~~
~~OPG IFRS consolidation risk reflected in fiscal plan~~	~~(75)~~	~~(400)~~	~~-~~	~~(200)~~
~~Income Tax PILs to OEFC~~	~~92~~	~~166~~	~~135~~	~~170~~

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

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From:	Ronald Kwan
To:	John Kim
Cc:	Deena Padamadan; Bruno Amara
Subject:	RE: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc
Date:	Wednesday, May 03, 2017 3:39:13 PM
Attachments:	5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup4.doc

Hi,

A few comments, aside from the numbers.

Ron

From: John Kim
Sent: May-03-17 13:59
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc

Hi Ron,

Pls. see attached. We're checking a couple of delta numbers still as we checked the numbers again.

Thanks,

John

TAB 3

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

~~Prepared based on draft submission~~

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I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence.

The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan ~~(Board-approved?)~~ to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would be financed by OPG raising a targeted up to 5% from capital markets, with the remaining~~include~~ 44-49% ~~debt or~~ equity injection [and/or debt financing] from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) ~~with OPG raising the remaining 5% from capital markets~~.
    - Provincial borrowing for an equity injection would be offset by an increase in an investment asset in OPG, so the Province's net debt position would remain unchanged.
    - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income.
    - ~~In addition, the Province's net debt position should remain unchanged~~
        - ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)~~
    - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
    - ~~In addition, the Province's net debt position should remain unchanged (Check is OFA)~~

The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan.

Financial figures from the OPG Business Plan are included and supplemented with more recent forecast adjustments from the Ontario Financing Authority, MOF, for more recent OPG in-year forecast updates, and for estimated OFHP implications, as part of Province's finalized fiscal plan for the 2017 Budget. Also identified~~, and for~~ are risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. ~~The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan. Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authriy, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.~~

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Commented [BA1]: Also added MoF changes for IFRS risk

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a~~n~~ one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province ~~may~~ make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018~~7~~.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - 2017 Budget projections were based on t~~T~~he figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $29~~9~~4M in 2016-17 and $556M in 2017-18 compared to the 2016 Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of ~~Ontario n~~Nuclear ~~Funds Agreement~~asset retirement obligations-related IFRS risks, followed by an increase of $12~~1~~M in 2018-19 ~~and a decrease of $14M in 2019-20~~ versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

  - ~~The figures in the OPG Board approved 2017-2019 Business Plan, along with OFA forecast updates for OFHP (TBC) show a decrease in earnings before tax of $84M in 2017-18 and $89M in 2017-18, followed by increases of $59M in 2018-19 and $120M in 2019-20 over the estimates in the 2016 Budget..~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4633~~6~~M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA a~~n~~nd MOF adjustments, is p~~rojected~~lanned to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.

    Also, ~~I~~in early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    ~~These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.~~ The first table in Appendix ~~G~~E shows the OPG 2017-19 Business Plan fiscal impact changes to the Province's Budget 2016 fiscal plan.

Commented [JK2]: Still being checked.

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Commented [JK3]: There is a delta in the latest information used for the fiscal plan.

- Key Operational Metrics:

  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

    OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:

  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and, as approved by Cabinet, the execution of the Darlington refurbishment consistent with an approved budget of $12.8 billion (including assumed inflation escalation and interest), is now under way. First unit refurbishment, Unit 2, began in October 2016~~, Unit 2~~ and is assumed to be returned to service in February 2020, with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., ~~U~~upgrades at Sir Adam Beck and upgrades to DeCew II, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

- Rate Application to the OEB:

  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021, submitted in [month] 2016. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year

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- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing)~~,~~ and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Performance risks: […]

Commented [RK4]: Could list nuclear performance, financial market risk on the performance of the nuclear funds.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~Regulatory risks: Potential disallowance of recovery of OPG's current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.~~

~~Accounting risks: Any change in the basis of accounting used for consolidation of OPG on the Province's financial statements could result in potentially significant fiscal impacts.~~

~~Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

Commented [RK5]: Could contemplate removing this requirement going forward, say replacing it with a direction for the Ministry to continue to consult with the MOF and OFA on OPG's draft and approved business plans and in-year financial updates.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

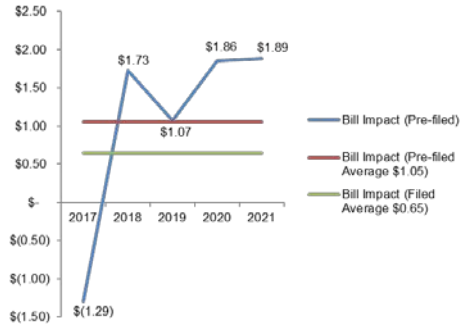
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

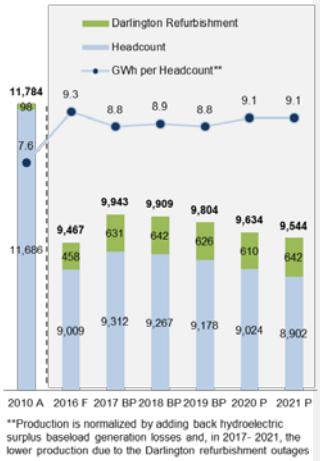
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



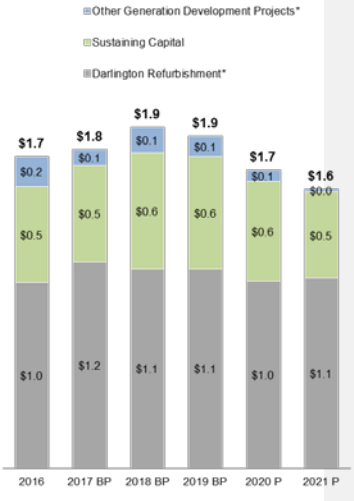
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

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	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Ontario Budget				
Ontario Power Generation				
Net Income	304	97	732	825
Income Tax	92	92	135	170
Adjustments to OPG BP Net Income				
OPG Head Office*		222		
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	1754	5499	99153
OPG Head Office*		222		
Income Tax				
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

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Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget*				
Net Income	471	586	673	-
Income Tax	224	159	182	-
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income	-	-	-	-
OPG 2017-19 Business Plan	349	702	678	726
Adjustments	-	-	-	-
OPG Update[1]	30	-	-	-
IFRS Risk adjustment[2]	-75	-400	-	-200
related OPG Head Office Sale[3] (reported under Sales & Rentals)	-	-222	-	-
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)	-	17	54	99
Nuclear Funds fair value adjustment[4]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax	-	-	-	-
OPG 2017-19 Business Plan	96	166	135	170
Adjustments	-	-	-	-
OPG Update[1]	-4	-	-	-
related OPG Head Office Sale[3] (reported under Sales & Rentals)	-	-74	-	-
Income tax 2017 Budget	92	92	135	170
2017~~6~~ Budget vs. 2017~~6~~ Budget (including IFRS and sales &rental adjustments)				
Net Income	-~~3~~79167	-~~4~~94489	-~~5~~3859	-
Income taxes	-132-~~92~~	-67-~~92~~	-47	-
2016 Budget vs. 2017 Budget (Before IFRS and sales &rental adjustments)				
Net Income				
Income taxes				

* 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 206 multi-year business plan was approved and submitted following the timeframe for locking the numbers for the early 2016 Budget.

1. OPG February 2017 ~~Financials~~Monthly Update
2. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
3. For public Budget reporting, projected net impacts of Province asset optimization strategy are reported under Sales and Rentals for commercial confidentiality.
4. Provincial consolidation adjustments for unrealized earnings on decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

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Commented [RK7]: Can we show it this way too?

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Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	111	184	154	189
2017 Ontario Budget				
Ontario Power Generation				
Net Income	387	497	732	825
Income Tax	?	?	?	?
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(84)	(89)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?	?	?	?
TOTAL OF OPG CHANGES	?	?	?	?

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update[, combined with a summary of net income and income tax PILs in the above table].

Commented [JK8]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

Table below to be updated – OFA

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2016-18 OPG Business Plan				
Combined Other PILs & Other GRC[2]	353	358	366	
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	215	220	220	
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	135	140	140	
OPG Monthly Update (August 2016)				
Net Income	361	-	-	
Income Tax PILs to OEFC	98	-	-	

1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.
2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.
3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241

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Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
~~Net Income (including OPG Head Office sale)~~	~~379~~	~~702~~	~~678~~	~~726~~
~~2017 Budget Adjustments~~				
~~ONFA adjustment~~	~~8~~			
~~OPG Trust Interest Revenue - TBC~~		~~17~~	~~54~~	~~99~~
~~OPG IFRS consolidation risk reflected in fiscal plan~~	~~(75)~~	~~(400)~~	~~-~~	~~(200)~~
~~Income Tax PILs to OEFC~~	~~92~~	~~166~~	~~135~~	~~170~~

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

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From:	John Kim
To:	Bruno Amara
Subject:	RE: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup.doc
Date:	Wednesday, May 03, 2017 11:40:33 AM
Attachments:	Book1.xlsx 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup2.doc

Looks great….changed the delta numbers at the bottom of that table.

What do you think?

From: Bruno Amara
Sent: Wednesday, May 03, 2017 11:32 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup.doc

Needs a couple of footnotes but see page 12. Is that clearer?

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**
2016 Ontario Budget			
Ontario Power Generation			
Net Income	471	586	673
Income Tax	224	159	182
2017-2019 OPG Business Plan			
Ontario Power Generation			
Net Income	349	702	67
Income Tax	96	166	13
2017 Ontario Budget			
Ontario Power Generation			
Net Income (before IFRS Risk)	379	480	67
ONFA-related IFRS Risk	-75	-400	
GA – OPG Trust Interest Revenue	17	54	9
Net Income	304	97	73
Income Tax	92	92	13
Change in GBE Net Income (Between Budgets)			
Ontario Power Generation	-167	-489	5
Change in GBE Income Tax PILs +/(-)			
Ontario Power Generation	-132	-67	-4
TOTAL OF OPG CHANGES	-299	-556	1

2019-20
705
108

78	726
35	170

78	726
	-200
9	153
32	825
35	170

9	120

47	62
2	182

OPG Net Income	
	2016-17
Net Income	471
Income Tax	224
	2017-201
Net Income	349
Income Tax	96
Net Income	
OPG 2017-19 Business Plan	349
Adjustments	
OPG Update	30
IFRS Risk adjustment	-75
related OPG Head Office Sale (reported under Sales & Rentals)	
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)	
Net Income 2017 Budget	304
Income Tax	
OPG 2017-19 Business Plan	96
Adjustments	
OPG Update	-4
related OPG Head Office Sale (reported under Sales & Rentals)	
Income tax 2017 Budget	92
	2017 Bu
Net Income	-379
Income taxes	132

-167

-92

and Income tax ($ Millions)		
2017-18	2018-19	2019-20
2016 Budget		
586	673	
159	182	
19 OPG Business Plan		
702	678	726
166	135	170
2017 Budget		
702	678	726
-400		-200
-222		
17	54	99
97	732	625
166	135	170
-74		
92	135	170
dget vs. 2016 Budget		
-494	-538	
67	47	

-489	59	625
-92	-135	-170

TAB 3

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

~~Prepared based on draft submission~~

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I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence.

The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan ~~(Board-approved?)~~ to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets.
  - Provincial borrowing would be offset by an increase in an investment asset in OPG.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged
    - ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)~~
  - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
  - ~~In addition, the Province's net debt position should remain unchanged (Check is OFA)~~

Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments from the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget, and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan. ~~Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authriy, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.~~

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have an one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province ~~may~~ make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018~~7~~.

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Commented [BA1]: Also added MoF changes for IFRS risk

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - The figures in the OPG Board approved 2017-2019 Business Plan show a decrease in earnings before tax of $294M in 2016-17 and $556M in 2017-18 [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by an increase of $11M in 2018-19 and a decrease of $14M in 2019-20 versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

  - ~~The figures in the OPG Board approved 2017-2019 Business Plan, along with OFA forecast updates for OFHP (TBC), show a decrease in earnings before tax of $84M in 2017-18 and $89M in 2017-18, followed by increases of $59M in 2018-19 and $120M in 2019-20 over the estimates in the 2016 Budget..~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4~~63~~6M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA a~~n~~nd MOF adjustments, is p~~l~~rojected~~anned~~ to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.

  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.

  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower

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Commented [JK2]: There is a delta in the latest information used for the fiscal plan.

than 2017 levels in 2021.

OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100

trips annually, while Darlington accounts for 45% and is expected see increases.

- OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing)~~,~~ and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~Regulatory risks: Potential disallowance of recovery of OPG's current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.~~

~~Accounting risks: Any change in the basis of accounting used for consolidation of OPG on the Province's financial statements could result in potentially significant fiscal impacts.~~

~~Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

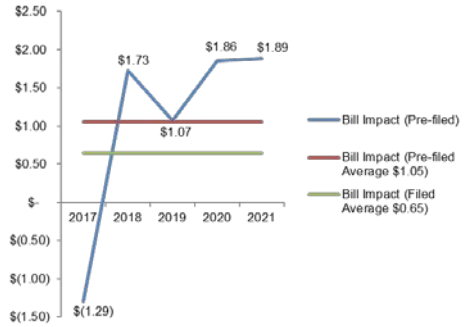
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

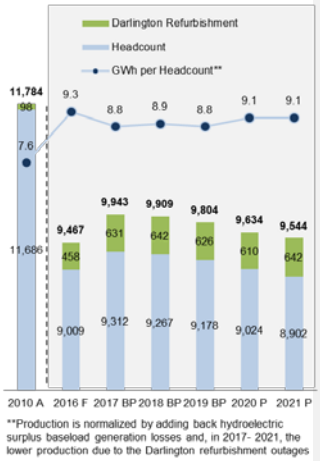
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



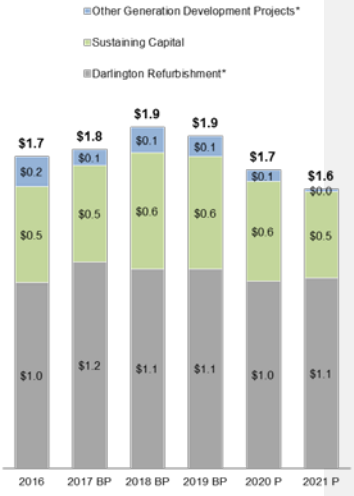
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

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	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Ontario Budget				
Ontario Power Generation				
Net Income	304	97	732	825
Income Tax	92	92	135	170
Adjustments to OPG BP				
Net Income				
OPG Head Office*		222		
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	1754	5499	99153
OPG Head Office*		222		
Income Tax				
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

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Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

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OPG Net Income and Income tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income				
OPG 2017-19 Business Plan	349	702	678	726
Adjustments				
OPG Update	30			
IFRS Risk adjustment	-75	-400		-200
related OPG Head Office Sale (reported under Sales & Rentals)		-222		
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)		17	54	99
Net Income 2017 Budget	304	97	732	625
Income Tax				
OPG 2017-19 Business Plan	96	166	135	170
Adjustments				
OPG Update	-4			
related OPG Head Office Sale (reported under Sales & Rentals)		-74		
Income tax 2017 Budget	92	92	135	170
2017 Budget vs. 2016 Budget				
Net Income	-379167	-494489	-53859	
Income taxes	132-92	67-92	47	

~~Revenue ($millions)~~	~~2016-17~~	~~2017-18~~	~~2018-19~~	~~2019-20~~
~~2016 Ontario Budget~~				
~~Ontario Power Generation~~				

Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	111	184	154	189
2017 Ontario Budget				
Ontario Power Generation				
Net Income	387	497	732	825
Income Tax	?	?	?	?
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(84)	(89)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?	?	?	?
TOTAL OF OPG CHANGES	?	?	?	?

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update[, combined with a summary of net income and income tax PILs in the above table].

Commented [JK4]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

~~Table below to be updated – OFA~~

~~Revenue ($millions)~~	~~2016-17~~	~~2017-18~~	~~2018-19~~	~~2019-20~~
~~2016 Ontario Budget~~				
~~Combined Other PILs & Other GRC~~	~~342~~	~~351~~	~~359~~	
~~Other PILs (GRC to OEFC, Proxy Property Tax)~~	~~213~~	~~223~~	~~232~~	
~~Other GRC (to MOF & Niagara Parks Commission)[1]~~	~~129~~	~~128~~	~~137~~	
~~2016-18 OPG Business Plan~~				
~~Combined Other PILs & Other GRC[2]~~	~~353~~	~~358~~	~~366~~	
~~Other PILs (GRC to OEFC, Proxy Property Tax)[2]~~	~~215~~	~~220~~	~~220~~	
~~Other PILs (GRC to MOF & Niagara Parks Commission)[2]~~	~~135~~	~~140~~	~~140~~	
~~OPG Monthly Update (August 2016)~~				
~~Net Income~~	~~361~~	~~-~~	~~-~~	
~~Income Tax PILs to OEFC~~	~~98~~	~~-~~	~~-~~	

~~1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.~~
~~2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.~~
~~3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)~~

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241

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Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
Net Income (including OPG Head Office sale)	379	702	678	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue - TBC		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	(75)	(400)	-	(200)
Income Tax PILs to OEFC	92	166	135	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

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From:	John Kim
To:	Ronald Kwan
Cc:	Deena Padamadan; Bruno Amara
Subject:	RE: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc
Date:	Wednesday, May 03, 2017 5:04:10 PM
Attachments:	5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup7.doc

Another version….revived the $200M sentence.

Thanks,

John

From: John Kim
Sent: Wednesday, May 03, 2017 4:45 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc

Pls. see attached.

Let us know if it's okay to share with TBS.

Thanks,

John

From: Ronald Kwan
Sent: Wednesday, May 03, 2017 3:39 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc

Hi,

A few comments, aside from the numbers.

Ron

From: John Kim
Sent: May-03-17 13:59
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>

Subject: 5 2017-05-09 RAN OPG Business Plan v2 Received May2_CEFDMarkup3.doc

Hi Ron,

Pls. see attached. We're checking a couple of delta numbers still as we checked the numbers again.

Thanks,

John

TAB 3

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE: 2017-2019 Business Plan for Ontario Power Generation

~~Prepared based on draft submission~~

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I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence.

The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan ~~(Board-approved?)~~ to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would be financed by OPG raising a targeted up to 5% from capital markets, with the remaining~~include~~ 44-49% ~~debt or~~ equity injection [and/or debt financing] from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) ~~with OPG raising the remaining 5% from capital markets~~.
  - Provincial borrowing for an equity injection would be offset by an increase in an investment asset in OPG, so the Province's net debt position would remain unchanged.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income.
  - ~~In addition, the Province's net debt position should remain unchanged~~
  - ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would purchase the right to future cash flows from IESO, financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)~~
  - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
  - ~~In addition, the Province's net debt position should remain unchanged (Check is OFA)~~

The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan.

Financial figures from the OPG Business Plan are included and supplemented with more recent forecast adjustments from the Ontario Financing Authority, MOF, for more recent OPG in-year forecast updates, and for estimated OFHP implications, as part of Province's finalized fiscal plan for the 2017 Budget. Also identified, ~~and for~~ are risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. ~~The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan. Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authriy, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the~~

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Commented [BA1]: Also added MoF changes for IFRS risk

~~fiscal, financial and operational strategies laid out in the business plan.~~

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a~~n~~ one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province ~~may~~ make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018~~7~~.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - 2017 Budget projections were based on t~~T~~he figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $291~~9~~4M in 2016-17 and $556M in 2017-18 compared to the 2016 Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of ~~Ontario n~~Nuclear ~~Funds Agreement~~asset retirement obligations-related IFRS risks, followed by an increase of $12~~1~~M in 2018-19 ~~and a decrease of $14M in 2019-20~~ versus ~~-~~the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

  - ~~The figures in the OPG Board approved 2017-2019 Business Plan, along with OFA forecast updates for OFHP (TBC), show a decrease in earnings before tax of $84M in 2017-18 and $89M in 2017-18, followed by increases of $59M in 2018-19 and $120M in 2019-20 over the estimates in the 2016 Budget..~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4633~~6~~M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA an~~n~~d MOF adjustments, is p~~rojected~~~~lanned~~ to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.

    Also, ~~I~~in early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    ~~These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.~~ The first table in Appendix ~~G~~E shows the OPG 2017-19 Business Plan fiscal impact changes to the Province's Budget

Commented [JK2]: Still being checked.

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2016 fiscal plan.

- Key Operational Metrics:
  - Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
  - The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
  - Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

    OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

    OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and, as approved by Cabinet, the execution of the Darlington refurbishment consistent with an approved budget of $12.8 billion (including assumed inflation escalation and interest), is now under way. First unit refurbishment, Unit 2, began in October 2016~~, Unit 2~~ and is assumed to be returned to service in February 2020, with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., ~~U~~upgrades at Sir Adam Beck and upgrades to DeCew II, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021, submitted in [month] 2016. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per

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year

- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing)~~,~~ and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Performance risks: ~~[…]~~OPG's financial performance could be subjected to nuclear reliability issues such as unplanned outages and financial market risk on the performance of the nuclear funds, for which the Province consolidates on a realized [gains or losses] basis.

Commented [RK4]: Could list nuclear performance, financial market risk on the performance of the nuclear funds.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~Regulatory risks: Potential disallowance of recovery of OPG's current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.~~

~~Accounting risks: Any change in the basis of accounting used for consolidation of OPG on the Province's financial statements could result in potentially significant fiscal impacts.~~

~~Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.~~

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

Commented [RK5]: Could contemplate removing this requirement going forward, say replacing it with a direction for the Ministry to continue to consult with the MOF and OFA on OPG's draft and approved business plans and in-year financial updates.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

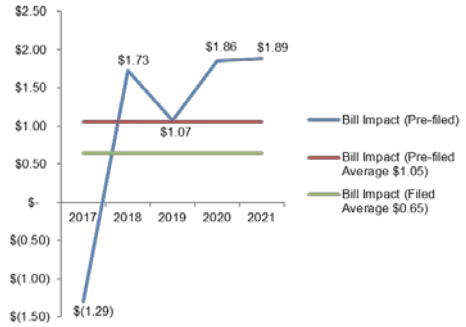
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

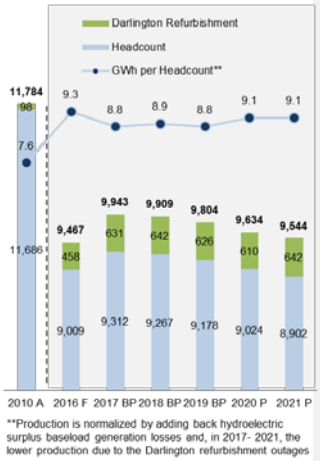
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



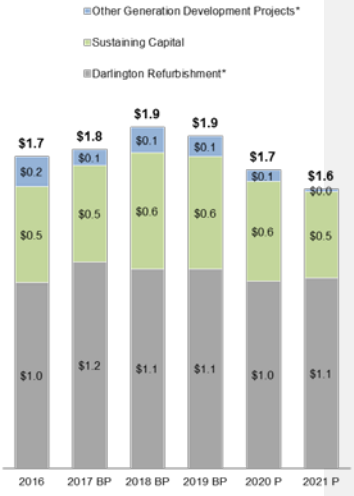
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

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	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Ontario Budget				
Ontario Power Generation				
Net Income	304	97	732	825
Income Tax	92	92	135	170
Adjustments to OPG BP Net Income				
OPG Head Office*		222		
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	1754	5499	99153
OPG Head Office*		222		
Income Tax				
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

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Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget[1]*				
Net Income	471	586	673	
Income Tax	224	159	182	
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income				
OPG 2017-19 Business Plan	349	702	678	726
Adjustments				
OPG Update[2]	30			
IFRS Risk adjustment[3]	-75	-400		-200
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		-222		
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)		17	54	99
Nuclear Funds fair value adjustment[5]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax				
OPG 2017-19 Business Plan	96	166	135	170
Adjustments				
OPG Update[2]	-4			
related to OPG Head Office Sale[4] (reported under Sales & Rentals)		-74		
Income tax 2017 Budget	92	92	135	170
2017~~6~~ Budget vs. 2017~~6~~ Budget (including IFRS and sales &rental adjustments)				
Net Income	-~~379~~167	-~~494~~489	-~~53~~859	
Income taxes	-132-~~92~~	-67-~~92~~	-47	
2016 Budget vs. 2017 Budget (Before IFRS and sales &rental adjustments)				
Net Income	-84	133	59	200
Income taxes	-132	7	-47	0

1. 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 2016 multi-year business plan was approved and submitted following the timeframe for locking the numbers for the early 2016 Budget.
2. OPG February 2017 Monthly Update
3. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
4. For public Budget reporting, projected net impacts of Province asset optimization strategy including, OPG Head Office sale, are reported under Sales and Rentals for commercial confidentiality. OPG proceeds estimate updated per 2017 Budget.
5. Provincial consolidation adjustments for unrealized earnings on decommissioning and

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used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

* 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 206 multi-year business plan was approved and submitted following the timeframe for locking the numbers for the early 2016 Budget.

Monthly Updatepublic , for commercial confidentiality.

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Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	111	184	154	189
2017 Ontario Budget				
Ontario Power Generation				
Net Income	387	497	732	825
Income Tax	?	?	?	?
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(84)	(89)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?	?	?	?
TOTAL OF OPG CHANGES	?	?	?	?

OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update[, combined with a summary of net income and income tax PILs in the above table].

Commented [JK8]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

Table below to be updated – OFA

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2016-18 OPG Business Plan				
Combined Other PILs & Other GRC[2]	353	358	366	
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	215	220	220	
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	135	140	140	
OPG Monthly Update (August 2016)				
Net Income	361	-	-	
Income Tax PILs to OEFC	98	-	-	

1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.
2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.
3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241

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Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
~~Net Income (including OPG Head Office sale)~~	~~379~~	~~702~~	~~678~~	~~726~~
~~2017 Budget Adjustments~~				
~~ONFA adjustment~~	~~8~~			
~~OPG Trust Interest Revenue - TBC~~		~~17~~	~~54~~	~~99~~
~~OPG IFRS consolidation risk reflected in fiscal plan~~	~~(75)~~	~~(400)~~	~~-~~	~~(200)~~
~~Income Tax PILs to OEFC~~	~~92~~	~~166~~	~~135~~	~~170~~

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

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From: John Kim
To: Ronald Kwan
Subject: RE: 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc
Date: Thursday, May 04, 2017 8:54:04 AM
Attachments: 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs_Markup.doc

---

Yes, I'm about to send back as attached.

John

From: Ronald Kwan
Sent: Thursday, May 04, 2017 8:52 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: Re: 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc

Hi John,

And did you fix the table in the appendix as per the slide?

Ron

On May 4, 2017, at 8:22 AM, John Kim <John.Kim@ofina.on.ca> wrote:

> Great, thanks. Bruno and I, along with another staff or two, will be there.
>
> ---
>
> **From:** Strang, James (TBS) [mailto:James.Strang@ontario.ca]
> **Sent:** Thursday, May 04, 2017 8:19 AM
> **To:** John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
> **Cc:** Felix Fung (MOF) <Felix.Fung@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> **Subject:** 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc
>
> Morning John, Bruno:
>
> Attached is the note for Chair's briefing usual place.
>
> Two Energy items, OFA should be in attendance (Items are at the front on the agenda, items 3 &4):
>
> - Ontario Fair Hydro Plan 1:20pm (Draft note pending)
> - Ontario Power Generation Business Plan 1:30pm (Note attached)
>
> James

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2017~~6~~-2019~~8~~ business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*Direct OPG review of delegated financial authority in consultation with TBS*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to

annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence. The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment refinancing, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would be financed by OPG raising a targeted up to 5% from capital markets, with the remaining 44-49% equity injection [and/or debt financing] from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection).
    - Provincial borrowing for an equity injection would be offset by an increase in an investment asset in OPG, so the Province's net debt position would remain unchanged.
    - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income.

The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan.

- ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets.~~
    - ~~Provincial borrowing would be offset by an increase in an investment asset in OPG.~~
    - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
    - ~~In addition, the Province's net debt position should remain unchanged~~

Financial figures from the OPG Business Plan are included and supplemented with more recent forecast adjustments from the Ontario Financing Authority, MOF, for more recent OPG in-year forecast updates, and for estimated OFHP implications, as part of Province's finalized fiscal plan for the 2017 Budget. Also identified are risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards.

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018.

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~~Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments from the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget, and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.~~

Commented [BA1]: Also added MoF changes for IFRS risk

~~The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have an one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province may make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018.~~

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - 2017 Budget projections were based on the figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $291M in 2016-17 and $556M in 2017-18 compared to the 2016 Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of nuclear asset retirement obligations-related IFRS risks, followed by an increase of $12M in 2018-19 versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

    Commented [JK2]: Still being checked.

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $463M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA and MOF adjustments, is projected to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.

    Also, in early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    The first table in Appendix E shows the OPG 2017-19 Business Plan fiscal impact changes to the Province's Budget 2016 fiscal plan.

- Key Operational Metrics:

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
- The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
- Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

  OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

  OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and, as approved by Cabinet, the execution of the Darlington refurbishment consistent with an approved budget of $12.8 billion (including assumed inflation escalation and interest), is now under way. First unit refurbishment, Unit 2, began in October 2016 and is assumed to be returned to service in February 2020, with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., upgrades at Sir Adam Beck and upgrades to DeCew II, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021, submitted in 2016. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides

more information):

- OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
  - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
  - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
  - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
  - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

TBS staff note that to obtain a special status, ministries are required to provide a comprehensive business case that would demonstrate how the special status would support the organization's business plan and mandate, and include details related to its annual forecast activity, internal audit controls, governance structure, and robust reporting processes that would be in place to support governance of the proposed delegated authority.

As the Ministry is interested in streamlining the approval process related to approvals for international travel, it is recommended that the Ministry explores its current delegated financial authority framework and consult with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing) and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Performance risks: OPG's financial performance could be subjected to nuclear reliability issues such as unplanned outages and financial market risk on the performance of the nuclear funds, for which the Province consolidates on a realized [gains or losses] basis.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

- Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact. ~~The figures in the OPG Board approved 2017-2019 Business Plan show a decrease in earnings before tax of $294M in 2016-17 and $556M in 2017-18 [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by an increase of $11M in 2018-19 and a decrease of $14M in 2019-20 versus the~~

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estimates in the 2016 Budget. The 2019-20 decrease largely reflects an IFRS-related consolidation risk of $200M) as described above.

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These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
- The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
- Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

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  OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures

unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

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    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

  TBS staff note that to obtain a special status, ministries are required to provide a comprehensive business case that would demonstrate how the special status would support the organization's business plan and mandate, and include details related to its annual forecast activity, internal audit controls, governance structure, and robust reporting processes that would be in place to support governance of the proposed delegated authority.

  As the Ministry is interested in streamlining the approval process related to approvals for international travel, it is recommended that the Ministry explores its current delegated financial authority framework and consult with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international

travel approvals for OPG.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 3, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) Direct OPG to review its current delegated financial authority framework in consultation with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

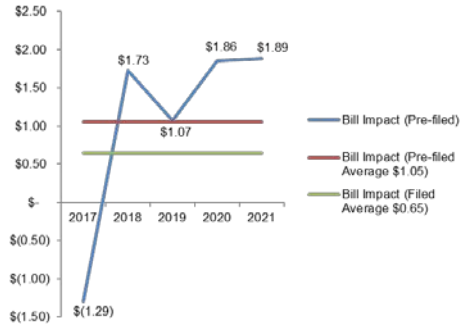
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

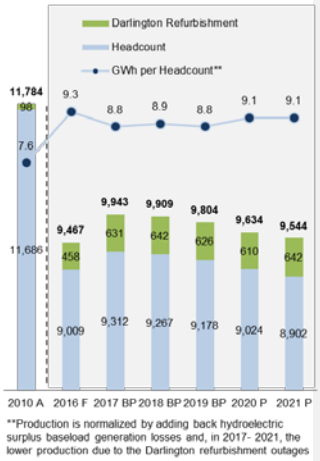
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



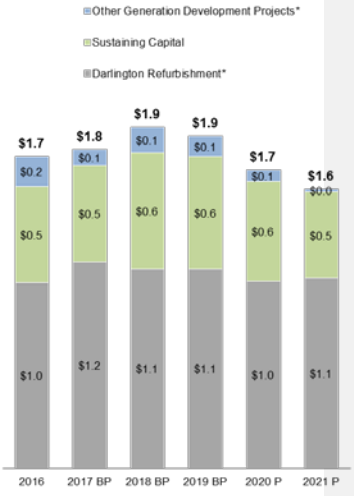
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

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APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF

OPG BUSINESS PLAN~~S~~ PROCEEDING ~~– (UNDER DEVELOPMENT)~~

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Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only). Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income Tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget[1]				
Net Income	471	586	673	-
Income Tax	224	159	182	-
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income	-	-	-	-
OPG 2017-19 Business Plan	349	702	678	726
Adjustments:	-	-	-	-
OPG Update[2]	30	-	-	-
IFRS Risk adjustment[3]	(75)	(400)	-	(200)
related to OPG Head Office Sale[4] (reported under Sales & Rentals)	-	(222)	-	-
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)	-	17	54	99
Nuclear Funds fair value adjustment[5]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax	-	-	-	-
OPG 2017-19 Business Plan	96	166	135	170
Adjustments	-	-	-	-
OPG Update[2]	(4)	-	-	-
related to OPG Head Office Sale[4] (reported under Sales & Rentals)	-	(74)	-	-
Income tax 2017 Budget	92	92	135	170
2016 Budget vs. 2017 Budget (including IFRS and sales &rental adjustments)				
Net Income	(~~167~~159)	(489)	59	-
Income taxes	(132)	(67)	(47)	-
2016 Budget vs. 2017 Budget (Before IFRS and sales &rental adjustments)				
Net Income	(84)	133	59	200
Income taxes	(132)	7	(47)	0

1. 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 2016 multi-year business plan was approved and submitted following the

Commented [RK3]: Can we show it this way too?

timeframe for locking the numbers for the early 2016 Budget.
2. OPG February 2017 Monthly Update
3. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
4. For public Budget reporting, projected net impacts of Province asset optimization strategy including, OPG Head Office sale, are reported under Sales and Rentals for commercial confidentiality. OPG proceeds estimate updated per 2017 Budget.
5. Provincial consolidation adjustments for unrealized earnings on decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Commented [JK4]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241
Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

~~Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).~~

~~Revenue ($millions)~~	~~2016-17~~	~~2017-18~~	~~2018-19~~	~~2019-20~~
~~2016 Ontario Budget~~				
~~Ontario Power Generation~~				
~~Net Income~~	~~471~~	~~586~~	~~673~~	
~~Income Tax~~	~~224~~	~~159~~	~~182~~	
~~2017-2019 OPG Business Plan~~				
~~Ontario Power Generation~~				
~~Net Income~~	~~349~~	~~702~~	~~678~~	~~726~~
~~Income Tax~~	~~96~~	~~166~~	~~135~~	~~170~~

2017 Ontario Budget				
Ontario Power Generation				
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	54	99	153
OPG Head Office*		222		
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

- Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

Commented [RK5]: I thought a small amount (100?) was ultimately included here too -- CHECK

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Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
Net Income (including OPG Head Office sale)	379	702	678	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue - TBC		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	(75)	(400)	-	(200)
Income Tax PILs to OEFC	92	166	135	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

From:	John Kim
To:	James Strang (MOF); Bruno Amara
Cc:	Felix Fung (MOF); Ronald Kwan
Subject:	RE: 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc
Date:	Thursday, May 04, 2017 8:22:35 AM

Great, thanks. Bruno and I, along with another staff or two, will be there.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Thursday, May 04, 2017 8:19 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Felix Fung (MOF) <Felix.Fung@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc

Morning John, Bruno:

Attached is the note for Chair's briefing usual place.

Two Energy items, OFA should be in attendance (Items are at the front on the agenda, items 3 &4):

- Ontario Fair Hydro Plan 1:20pm (Draft note pending)
- Ontario Power Generation Business Plan 1:30pm (Note attached)

James

From:	John Kim
To:	James Strang (MOF)
Cc:	Felix Fung (MOF); Ronald Kwan; Bruno Amara
Subject:	RE: 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc
Date:	Thursday, May 04, 2017 8:57:36 AM
Attachments:	5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs_Markup.doc

Hi James,

Apologies, a small change in a figure in Appendix E. (167) to (159) for the delta section (Budget over Budget) in 2016-17.

John

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Thursday, May 04, 2017 8:19 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Felix Fung (MOF) <Felix.Fung@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
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- Ontario Power Generation Business Plan 1:30pm (Note attached)

James

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2017~~6~~-2019~~8~~ business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*Direct OPG review of delegated financial authority in consultation with TBS*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to

annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence. The concurrence letter from the Minister to the company will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its Board approved 2017-2019 Business Plan to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment refinancing, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would be financed by OPG raising a targeted up to 5% from capital markets, with the remaining 44-49% equity injection [and/or debt financing] from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection).
    - Provincial borrowing for an equity injection would be offset by an increase in an investment asset in OPG, so the Province's net debt position would remain unchanged.
    - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income.

The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan while noting also that OFHP is not reflected in the current business plan.

- ~~As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO. It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets.~~
    - ~~Provincial borrowing would be offset by an increase in an investment asset in OPG.~~
    - ~~These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income~~
    - ~~In addition, the Province's net debt position should remain unchanged~~

Financial figures from the OPG Business Plan are included and supplemented with more recent forecast adjustments from the Ontario Financing Authority, MOF, for more recent OPG in-year forecast updates, and for estimated OFHP implications, as part of Province's finalized fiscal plan for the 2017 Budget. Also identified are risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards.

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018.

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~~Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments from the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget, and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the International Financial Reporting System (IFRS) reporting framework as required by PSAB standards. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.~~

Commented [BA1]: Also added MoF changes for IFRS risk

~~The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have an one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province may make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 2018.~~

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - 2017 Budget projections were based on the figures in the OPG Board approved 2017-2019 Business Plan, with adjustments made by OFA/MOF, and show a decrease in earnings before tax of $291M in 2016-17 and $556M in 2017-18 compared to the 2016 Budget projections [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of nuclear asset retirement obligations-related IFRS risks, followed by an increase of $12M in 2018-19 versus the estimates in the 2016 Budget. The 2019-20 decrease also largely reflects an IFRS-related consolidation risk of $200M) as described above.

    Commented [JK2]: Still being checked.

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $463M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

    Net income in 2018 and 2019, before OFA and MOF adjustments, is projected to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

    These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially.

    Also, in early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

    The first table in Appendix E shows the OPG 2017-19 Business Plan fiscal impact changes to the Province's Budget 2016 fiscal plan.

- Key Operational Metrics:

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
- The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
- Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

  OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

  OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and, as approved by Cabinet, the execution of the Darlington refurbishment consistent with an approved budget of $12.8 billion (including assumed inflation escalation and interest), is now under way. First unit refurbishment, Unit 2, began in October 2016 and is assumed to be returned to service in February 2020, with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., upgrades at Sir Adam Beck and upgrades to DeCew II, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021, submitted in 2016. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides

more information):

- OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
  - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
  - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
  - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
  - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

TBS staff note that to obtain a special status, ministries are required to provide a comprehensive business case that would demonstrate how the special status would support the organization's business plan and mandate, and include details related to its annual forecast activity, internal audit controls, governance structure, and robust reporting processes that would be in place to support governance of the proposed delegated authority.

As the Ministry is interested in streamlining the approval process related to approvals for international travel, it is recommended that the Ministry explores its current delegated financial authority framework and consult with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing) and unfavourable future treatment of pension costs would adversely affect OPG's results, resulting in negative fiscal impacts.

Performance risks: OPG's financial performance could be subjected to nuclear reliability issues such as unplanned outages and financial market risk on the performance of the nuclear funds, for which the Province consolidates on a realized [gains or losses] basis.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

- Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact. ~~The figures in the OPG Board approved 2017-2019 Business Plan show a decrease in earnings before tax of $294M in 2016-17 and $556M in 2017-18 [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by an increase of $11M in 2018-19 and a decrease of $14M in 2019-20 versus the~~

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estimates in the 2016 Budget. The 2019-20 decrease largely reflects an IFRS-related consolidation risk of $200M) as described above.

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These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
- The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
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  OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

  OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures

unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

  TBS staff note that to obtain a special status, ministries are required to provide a comprehensive business case that would demonstrate how the special status would support the organization's business plan and mandate, and include details related to its annual forecast activity, internal audit controls, governance structure, and robust reporting processes that would be in place to support governance of the proposed delegated authority.

  As the Ministry is interested in streamlining the approval process related to approvals for international travel, it is recommended that the Ministry explores its current delegated financial authority framework and consult with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international

travel approvals for OPG.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.

Accounting risks: A change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 3, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) Direct OPG to review its current delegated financial authority framework in consultation with TBS Corporate Policy Agency Governance and Open Government Division to explore potential strategies related to international travel approvals for OPG.

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					**TABLE B1**
		Fiscal Plan Basis			***Appropriations Basis***
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

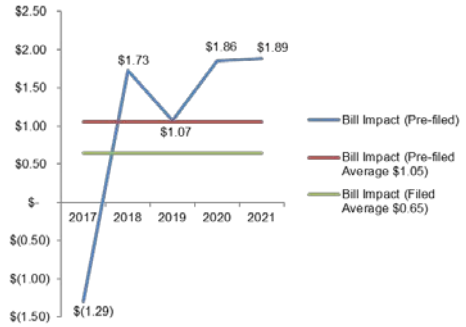
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

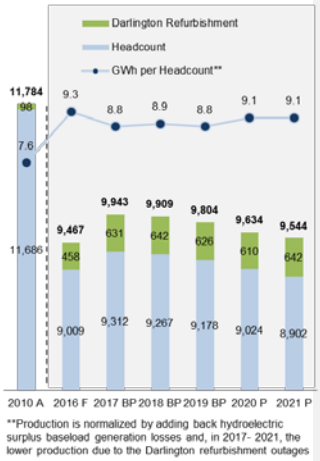
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



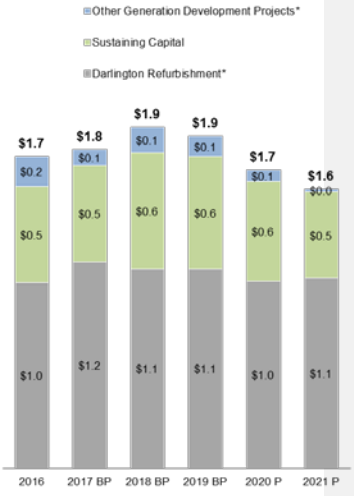
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

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APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF

OPG BUSINESS PLAN~~S~~ PROCEEDING ~~– (UNDER DEVELOPMENT)~~

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Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only). Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

OPG Net Income and Income Tax ($ Millions)				
	2016-17	2017-18	2018-19	2019-20
2016 Budget[1]				
Net Income	471	586	673	-
Income Tax	224	159	182	-
2017-2019 OPG Business Plan				
Net Income	349	702	678	726
Income Tax	96	166	135	170
2017 Budget				
Net Income	-	-	-	-
OPG 2017-19 Business Plan	349	702	678	726
Adjustments:	-	-	-	-
OPG Update[2]	30	-	-	-
IFRS Risk adjustment[3]	(75)	(400)	-	(200)
related to OPG Head Office Sale[4] (reported under Sales & Rentals)	-	(222)	-	-
GA – OPG Trust Net Inc. Impact (assumed to offset IOD)	-	17	54	99
Nuclear Funds fair value adjustment[5]	8			
Net Income 2017 Budget	312	97	732	625
Income Tax	-	-	-	-
OPG 2017-19 Business Plan	96	166	135	170
Adjustments	-	-	-	-
OPG Update[2]	(4)	-	-	-
related to OPG Head Office Sale[4] (reported under Sales & Rentals)	-	(74)	-	-
Income tax 2017 Budget	92	92	135	170
2016 Budget vs. 2017 Budget (including IFRS and sales &rental adjustments)				
Net Income	(~~167~~159)	(489)	59	-
Income taxes	(132)	(67)	(47)	-
2016 Budget vs. 2017 Budget (Before IFRS and sales &rental adjustments)				
Net Income	(84)	133	59	200
Income taxes	(132)	7	(47)	0

1. 2016 Budget fiscal plan was largely based on OPG's 2015 multi-year business plan, as the 2016 multi-year business plan was approved and submitted following the

Commented [RK3]: Can we show it this way too?

timeframe for locking the numbers for the early 2016 Budget.
2. OPG February 2017 Monthly Update
3. IFRS risk is related to Province's reporting of nuclear asset retirement obligations. The Ontario Auditor General recommended (2016 AG Report) that the Province include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards, versus the companies U.S. GAAP basis of reporting.
4. For public Budget reporting, projected net impacts of Province asset optimization strategy including, OPG Head Office sale, are reported under Sales and Rentals for commercial confidentiality. OPG proceeds estimate updated per 2017 Budget.
5. Provincial consolidation adjustments for unrealized earnings on decommissioning and used fuel segregated funds net of Bruce variance account and change in Due to the Province on the decommissioning and used fuel segregated funds.

OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Commented [JK4]: Consider deleting that section of the table. It was the format we followed last year but could be confusing people.

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)	129	128	137	
2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241
Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

~~Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).~~

~~Revenue ($millions)~~	~~2016-17~~	~~2017-18~~	~~2018-19~~	~~2019-20~~
~~2016 Ontario Budget~~				
~~Ontario Power Generation~~				
~~Net Income~~	~~471~~	~~586~~	~~673~~	
~~Income Tax~~	~~224~~	~~159~~	~~182~~	
~~2017-2019 OPG Business Plan~~				
~~Ontario Power Generation~~				
~~Net Income~~	~~349~~	~~702~~	~~678~~	~~726~~
~~Income Tax~~	~~96~~	~~166~~	~~135~~	~~170~~

2017 Ontario Budget				
Ontario Power Generation				
Net Income (before IFRS Risk)	379	480	678	726
IFRS Consolidation Adjustment	(75)	(400)		(200)
GA – OPG Trust Net Income Impact (assumed, to offset IOD)	17	54	99	153
OPG Head Office*		222		
Net Income	304	97	732	825
Income Tax	92	92	135	170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	(167)	(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	(132)	(67)	(47)	6
TOTAL OF OPG CHANGES	(299)	(556)	12	182

- Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

Commented [RK5]: I thought a small amount (100?) was ultimately included here too -- CHECK

OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Revenue ($millions)	2016-17	2017-18	2018-19	2019-20
2016 Ontario Budget				
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2017-19 OPG Business Plan				
Combined Other PILs & Other GRC	329	350	363	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218	232	243	241
Other PILs (GRC to MOF & Niagara Parks Commission)	110	118	120	121
Net Income (including OPG Head Office sale)	379	702	678	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue - TBC		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	(75)	(400)	-	(200)
Income Tax PILs to OEFC	92	166	135	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017

From:	John Kim
To:	Salman Qadir
Cc:	Bruno Amara
Subject:	RE: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017
Date:	Tuesday, May 02, 2017 7:25:18 PM

Thanks…..on the chart slide, is it necessary that it be limited to "springing" guarantee? Is credit guarantee be a part of that term?

From: Salman Qadir
Sent: May-02-17 4:19 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Adam Prokop <Adam.Prokop@ofina.on.ca>
Subject: RE: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

Hi Bruno/John,

Initial comments as attached.

Saved here:
Z:\Users\CEF\Hydro 2017\Electricity Prices\Mitigation Proposals\Debt Financing the GA\GA Structure\FPC Deck

Salman

From: John Kim
Sent: Tuesday, May 02, 2017 12:21 PM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

From: Ronald Kwan
Sent: Tuesday, May 02, 2017 10:19 AM
To: John Kim <John.Kim@ofina.on.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: Fwd: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

Hi,

Please review.

Comments?

Ron

Begin forwarded message:

From: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Date: May 2, 2017 at 10:10:24 AM EDT
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>, Mike Manning <Mike.Manning@ofina.on.ca>, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>, Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

Any thoughts?

From: Anna Strathy
Sent: Tuesday, May 02, 2017 9:16 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Hresa Gavaris <Hresa.Gavaris@ofina.on.ca>
Subject: FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

FYI, materials for FPC tomorrow attached.

From: Young, Gwendolynne (MOF) [mailto:Gwendolynne.Young@ontario.ca]
Sent: Tuesday, May 02, 2017 9:12 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Colleen Waddell (ENERGY) <Colleen.Waddell@ontario.ca>
Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
Subject: FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

Hi Anna and Colleen,

Tomorrow at Fiscal Prep (1015-1145), ENERGY is presenting on their submission for the Fair Hydro Plan Act. Attached is the agenda and deck.

Could you please line up Gadi and Scott to attend with the Deputy? Please let me know if there are any issues.

Thanks!
Gwen.

Gwen Young
p: 416.325.0741 | bb: 647.982.2419

From: McLean, David (MOF)
Sent: May 2, 2017 8:37 AM
To: Kim, Minzi (MOF); Clarke-Darshanand, Jamille (MOF); Young, Gwendolynne (MOF); Tekle, Jonathan (MOF)
Subject: FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

FYI

From: Bosco, Pina (CAB)
Sent: May 2, 2017 8:36 AM
To: Angus, Helen (TBS); Betzner, Lynn (CAB); Bevan, Andrew (OPO); Bossin, Bryan (OPO); Bromm, William (CAB); Davidson, Steven (CAB); Ghiassi, Ali (MOF); Greenberg, Martha (CAB); Hughes, Karen (TBS); Jackson, Kelly (MOF); Jancik, Mike (TBS); MacKenzie, Rebecca (OPO); Madhany, Shamira (CAB); McEachern, Gillian (OPO); McIntyre, Moira (OPO); Mendes, Elizabeth (MOF); Mksyartinian, Jacob (OPO); Orsini, Steve (CAB); Pichelli, Jason (TBS); Rowe, Mary (OPO); Schuurman, Tim (MOF); Thompson, Scott (MOF); Tomney, Genevieve (OPO); Zegarac, George (MOI)
Cc: An, Derrick (OPO); Baird, Natasha (MOF); Borges, Judy (OPO); Bosco, Pina (CAB); Corluka, Marijana (CAB); Farrow, Alicia (CAB); Foster, Robert (CAB); Hartog, Erika (TBS); Kwamena, Boafoa (CAB); Laughton, Patrick (TBS); MacIntyre, Kyle (TBS); Marangoni, Emily (OPO); Matela, Angelo (CAB); McLean, David (MOF); Noursi-Scott, Diana (OPO); Roach, Jackie (CAB); Tinkler, Tanya (CAB)
Subject: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

Good morning everyone,

Attached is the agenda and resending the material for tomorrow's Fiscal Prep Committee meeting.

Have a good day,

Pina

Pina Bosco
Executive Advisor (Acting)
Office of the Secretary of the Cabinet
416-325-7641

From: Bosco, Pina (CAB)
Sent: May-01-17 9:06 PM
To: Angus, Helen (TBS); Betzner, Lynn (CAB); Bevan, Andrew (OPO); Bossin, Bryan (OPO); Bromm, William (CAB); Davidson, Steven (CAB); Ghiassi, Ali (MOF); Greenberg, Martha (CAB); Hughes, Karen (TBS); Jackson, Kelly (MOF); Jancik, Mike (TBS); MacKenzie, Rebecca (OPO); Madhany, Shamira (CAB); McEachern, Gillian (OPO); McIntyre, Moira (OPO); Mendes, Elizabeth (MOF); Mksyartinian, Jacob (OPO); Orsini, Steve (CAB); Pichelli, Jason (TBS); Rowe, Mary (OPO); Schuurman, Tim (MOF); Thompson, Scott (MOF);

Tomney, Genevieve (OPO); Zegarac, George (MOI)
Cc: An, Derrick (OPO); Baird, Natasha (MOF); Borges, Judy (OPO); Bosco, Pina (CAB); Corluka, Marijana (CAB); Farrow, Alicia (CAB); Foster, Robert (CAB); Hartog, Erika (TBS); Kwamena, Boafoa (CAB); Laughton, Patrick (TBS); MacIntyre, Kyle (TBS); Marangoni, Emily (OPO); Matela, Angelo (CAB); McLean, David (MOF); Noursi-Scott, Diana (OPO); Roach, Jackie (CAB); Tinkler, Tanya (CAB)
Subject: MATERIAL: Fiscal Prep Committee, May 3, 2017

Hello everyone,

Attached is material for this week's Fiscal Prep Committee mtg which is scheduled to take place on Wednesday, May 3rd from 10:15 – 11:45 in Boardroom 6501.

Thank you,

Pina

Pina Bosco
Executive Advisor (Acting)
Office of the Secretary of the Cabinet
(416) 325-7641

From: John Kim
To: Gavin He
Subject: RE: Action item from the April ARMC / Board meetings
Date: Thursday, June 08, 2017 7:44:09 AM

Thanks Gavin…..also, any comments on the PILs piece on the OFHP?

From: Gavin He
Sent: Wednesday, June 07, 2017 5:04 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: Action item from the April ARMC / Board meetings

Hi John,

Just a reminder on the ARMC slides as this is approaching the deadline.

Regards,
Gavin He

From: Ronald Kwan
Sent: Tuesday, June 06, 2017 6:00 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>
Subject: Re: Action item from the April ARMC / Board meetings

Hi John,

Sure.

Thanks,
Ron

On Jun 6, 2017, at 5:58 PM, John Kim <John.Kim@ofina.on.ca> wrote:

> Hi Ron,
>
> We are aiming for a draft to you tomorrow. Hope that is okay with you.
>
> John
>
> ---
>
> **From:** Ronald Kwan
> **Sent:** Tuesday, June 06, 2017 5:58 PM
> **To:** John Kim <John.Kim@ofina.on.ca>
> **Cc:** Gavin He <Gavin.He@ofina.on.ca>

Subject: RE: Action item from the April ARMC / Board meetings

Hi,

What`s the status of this presentation?

Ron

From: Gavin He
Sent: May-17-17 18:43
To: Joan Dougherty <Joan.Dougherty@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Sarah Neville <Sarah.Neville@ofina.on.ca>
Subject: Re: Action item from the April ARMC / Board meetings

Hi Joan,

Thanks! Anna reached out to us yesterday too and CEFD is working on preparing the materials for the ARMC meeting in June.

Regards,
Gavin He

On May 17, 2017, at 6:17 PM, Joan Dougherty <Joan.Dougherty@ofina.on.ca> wrote:

> Hi Ron
>
> As a result of discussions at the April ARMC meeting, Bonnie Lysyk suggested that the Board consider obtaining a briefing on the Fair Hydro Plan. Angela Holtham, ARMC Chair, raised it at the April Board meeting and they agreed that they would benefit from a briefing, preferably, at the June 16th meeting. Please give us your feedback at your earliest convenience.
>
> Regards
>
> Joan Dougherty
> Ontario Financing Authority
> 1 Dundas Street West
> 12th Floor
> Toronto, Ontario, M7A 1Y7
> Tel: 416-325-8833
> Fax2mail: 416-204-6674
> Fax: 416-327-9302

From: Salman Qadir
To: John Kim; Shajee Kathirgamanathan; Bruno Amara
Subject: RE: Benchmarking and Performance for the Trust manager
Date: Thursday, May 11, 2017 4:55:06 PM
Attachments: 2017 05 09 GA Financing - Equity Injection Discussion v04_Markup2.docx

---

Hi John,

Saved markup2 based on discussion.

Salman

-----Original Message-----
From: John Kim
Sent: Thursday, May 11, 2017 4:39 PM
To: Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: Benchmarking and Performance for the Trust manager

I've made some edits to move away from the preferred type features per discussion with TD.

\\ofina.on.ca\ofadfs\Users\CEF\Hydro 2017\Electricity Prices\Mitigation Proposals\Debt Financing the GA

Wasn't sure where it was saved....put mine here.

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-----Original Message-----
From: Shajee Kathirgamanathan
Sent: Wednesday, May 10, 2017 10:01 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: Benchmarking and Performance for the Trust manager

Some edits. Mainly for clarity/grammar. Happy to have these edits rejected.

Shajee

Shajee Kathirgamanathan
Office: 416-325-1402 | Mobile: 647-294-3359 shajee.kathirgamanathan@ofina.on.ca

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Sent: Wednesday, May 10, 2017 7:59 AM
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Subject: FW: Benchmarking and Performance for the Trust manager

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Sent: Tuesday, May 09, 2017 6:10 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: Benchmarking and Performance for the Trust manager

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Separate but related note - I know Clara is anxious to get some details and figure out how this is going to work moving forward - I had this note from a while back so I have updated to reflect the approval ENE received. Do you think its worth updating this note to bring forward any decision points that we need direction on so that we can get something over to OPG?

Happy to chat
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416.326.6343

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To: Yep, Carlos (OFA); Montgomery, Kaitlin (MOF)
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I have attached some of my comments on your initial variable return benchmark note.
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GA Financing – Equity Injection

Briefing Note

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PURPOSE:

- Provide an overview on the timing / mechanics for equity injections by the Province to OPG to support GA financing

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- IESO will effectively sell the "right to collect" deferred future revenue from ratepayers (GA Asset) to the OPG Trust in return for cash proceeds
- In order for the OPG Trust to finance the GA asset on a long-term basis, the OPG Trust will obtain financing from two sources on an ongoing basis
    - 51% from capital markets
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        - **44% from equity injections from the Province**
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- OPG will require equity injections on an ongoing basis in order to keep maintain its capital structure ~~in line~~, and will require flexibility in order to issues shares as needed to the Province.

LONG TERM APPROVALS:

Equity Injection Plan

- OPG would include forecasts of its equity requirements in its business plan each year - ~~(~~typically provided to the province in the Fall~~),~~ - though this portion of the business plan would not be subject to concurrence by the shareholder
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  - The Province is now contemplating equity injection through the common equity structure, however through a new class of shares.

~~• Potential for ongoing valuation of shares either from financial statements or market-based valuation~~

  ~~o Book value basis could be viewed as a subsidy and [risk GBE status]~~

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To: Shajee Kathirgamanathan; Bruno Amara; Salman Qadir
Subject: RE: Benchmarking and Performance for the Trust manager
Date: Thursday, May 11, 2017 4:38:43 PM
Attachments: 2017 05 09 GA Financing - Equity Injection Discussion v04_Markup.docx

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From: John Kim
To: "Montgomery, Kaitlin (MOF)"
Cc: Bruno Amara
Subject: RE: Benchmarking and Performance for the Trust manager
Date: Wednesday, May 10, 2017 10:24:38 AM

Hi Kaitlin,

So to keep you in the loop, there have been some discussions about whether to put various features in the equity injection such as the redemption clause. But in the end, I believe it is to use the common equity injection (which I think means no redemption clauses, etc).

Let me get back to you on this with some comments.

John

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Attachments: 2017 05 09 GA Financing - Equity Injection Discussion v04.docx

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    - The Ministry of Energy has received an appropriation for up to $1.1B in equity injections for the fiscal year 2017/18.

SHORT TERM EQUITY INJECTION PROCESS:

- IESO settles contracts with and payments from LDCs / ratepayers
- IESO identifies shortfall and notifies OPG Trust and determines amount to purchase
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- XX business day window for final payment and settlement with IESO

- Equity injections by OFA to OPG expected to occur monthly; no Provincial involvement on approvals

OTHER CONSIDERATIONS:

- Share issuances currently ~~environed~~ envisioned to be redeemable by the Province. ~~and~~ OPG may also have rights to buy back the shares
  - This ~~W~~would provide the Province with a flexible mechanism to redeem its equity investment and for OPG to return to a more suitable capital structure as GA financing program progresses.
  - Shares may or may not be valued at par (i.e., $20 per share – as at December 31, 2016, OPG had 256,300,010 common shares outstanding at $5,126 million)
- Potential for ongoing valuation of shares either from financial statements or market-based valuation
  - Book value basis could be viewed as a subsidy and [risk GBE status]
  - Market valuation would account for premiums that are built over time
- May require a natural mechanism for OPG to return equity as borrowing ramps ~~up~~ down and principal is repaid
  - Consider potential for OPG to also pay interest/dividends on an regular (annual) basis
  - Regular interest/dividends ~~W~~would also ~~account~~ provide consideration for Province's costs ~~of~~ for funding OPG Trust
- Private financing by OPG Trust (51%) and OPG (5%) will initially be through short term debt (e.g., Canadian money-markets). ~~to~~ This will be subsequently rolled over to long-term debt as soon as possible.

From: Montgomery, Kaitlin (MOF)
To: John Kim
Subject: RE: Benchmarking and Performance for the Trust manager
Date: Tuesday, May 09, 2017 6:10:32 PM
Attachments: 2017 05 09 GA Financing - Equity Injection Discussion v04.docx

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Hey john - wanted to check in with you on this. Has there been any update since our call? I think carlos was going to try and figure out some additional details?

Separate but related note - I know Clara is anxious to get some details and figure out how this is going to work moving forward - I had this note from a while back so I have updated to reflect the approval ENE received. Do you think its worth updating this note to bring forward any decision points that we need direction on so that we can get something over to OPG?

Happy to chat
Kaitlin
416.326.6343

-----Original Message-----
From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: April 24, 2017 3:17 PM
To: Yep, Carlos (OFA); Montgomery, Kaitlin (MOF)
Cc: Manning, Mike (OFA); Kandeepan, Ken (OFA); John Psinas; Bruno Amara; Adam Prokop
Subject: RE: Benchmarking and Performance for the Trust manager

Hi Carlos,

I'm sure I'm not mis-representing Kaitlin's position if I say we would like you to walk me and Kaitlin through the proposals.

I have a reasonable sense of what they are brain-storming but need to understand some of the details better and at what level of OPG these proposals are coming from.

Thanks,

John

-----Original Message-----
From: Carlos Yep
Sent: Monday, April 24, 2017 2:02 PM
To: John Kim <John.Kim@ofina.on.ca>; 'Kaitlin.Montgomery@ontario.ca' <Kaitlin.Montgomery@ontario.ca>
Cc: Mike Manning <Mike.Manning@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Adam Prokop <Adam.Prokop@ofina.on.ca>
Subject: FW: Benchmarking and Performance for the Trust manager

Hi John and Kaitlin
I am just starting to work with Sheen at OPG on the benchmarking rate. Attached is OPG's initial proposal and my comments highlighted back to OPG.

OPG management is recommending the following:
1.Gain and loss are capped at +/-1.5% of notional amount of incremental sub-debt issuance for each year 2.If there is a gain, OPG shall realize 80% of it; if there is a loss, OPG shall realize 20% of it 3.Loss could be carried forward to offset future gain

Can you provide comments regarding the unequal sharing arrangement proposed by OPG And also about capping any gains and losses to +/- 1.50% in any one year

Thanks
Carlos

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From: Carlos Yep
Sent: Monday, April 24, 2017 1:49 PM
To: 'LIU Sheen -TREASURY' <sheen.liu@opg.com>
Subject: Benchmarking and Performance for the Trust manager

Sheen
I have attached some of my comments on your initial variable return benchmark note.
Regards
Carlos

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

GA Financing – Equity Injection

Briefing Note

PURPOSE:

- Provide an overview on the timing / mechanics for equity injections by the Province to OPG to support GA financing

CONTEXT:

- IESO will effectively sell the "right to collect" deferred future revenue from ratepayers (GA Asset) to the OPG Trust in return for cash proceeds
- In order for the OPG Trust to finance the GA asset on a long-term will obtain financing from two sources on an ongoing basis
    - 51% from capital markets
    - 49% as subordinated debt from OPG, which OPG will finance through:
        - **44% from equity injections from the Province**
        - 5% from capital markets
- OPG will require equity injections on an ongoing basis in order to keep its capital structure in line, and will require flexibility in order to issues shares as needed

LONG TERM APPROVALS:

Equity Injection Plan

- OPG would include forecasts of its equity requirements in its business plan each year (Fall), though this portion of the business plan would not be subject to concurrence by the shareholder
- The Ministry of Energy would seek appropriation on an annual basis through PRRT for the amounts requested by OPG
    - The Ministry of Energy has received appropriation for up to $1.1B in equity injections for the fiscal year 2017/18

SHORT TERM EQUITY INJECTION PROCESS:

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OTHER CONSIDERATIONS:

- Share issuances currently environed to be redeemable by the Province and OPG may also have rights to buy back the shares
    - Would provide the Province with a flexible mechanism to redeem its equity investment and for OPG to return to a more suitable capital structure as GA financing program progresses
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    - Book value basis could be viewed as a subsidy and [risk GBE status]
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- May require a natural mechanism for OPG to return equity as borrowing ramps up and principal is repaid
    - Consider potential for OPG to also pay interest/dividends
    - Would also account for Province's cost of funding
- Private financing by OPG Trust (51%) and OPG (5%) will initially be through short term debt (e.g., Canadian money-markets) to be subsequently rolled over to long-term debt as soon as possible

From: John Kim
To: "Montgomery, Kaitlin (MOF)"
Subject: RE: Benchmarking and Performance for the Trust manager
Date: Monday, May 15, 2017 10:42:56 AM
Attachments: 2017 05 09 GA Financing - Equity Injection Discussion v04_Markup3.docx

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Hi Kaitlin,

Some comments at EFB staff level....let me know if more is required.

Thanks,

John

-----Original Message-----
From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Tuesday, May 09, 2017 6:10 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: Benchmarking and Performance for the Trust manager

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GA Financing – Equity Injection

Briefing Note

Commented [SK81]: Some edits before mainly for clarity based on my understanding. Happy to have changes reverted back.

PURPOSE:

- Provide an overview on the timing / mechanics for equity injections by the Province to OPG to support GA financing

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- Equity injections by OFA to OPG expected to occur monthly; no Provincial involvement on approvals

OTHER CONSIDERATIONS:

- Considerations have been given to sShare issuances ~~currently environed~~ envisioned ~~to be~~ with ~~redeemable~~ options to redeem by the Province~~.~~ and ~~and~~ with OPG ~~may also~~ having~~e~~ rights to buy back the shares
  - This ~~W~~would have provided the Province with a flexible mechanism to redeem its equity investment and for OPG to return to a more suitable capital structure as GA financing program progresses.
  - The Province is now contemplating equity injection through the common equity structure, however through a new class of shares [TBC].
  - ~~o~~
  - Shares may or may not be valued at par (i.e., $20 per share – as at December 31, 2016, OPG had 256,300,010 common shares outstanding at $5,126 million)
  - ~~, however through a new class of shares~~
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From:	John Kim
To:	Gavin He; Bruno Amara
Subject:	RE: CBN Fact Check
Date:	Thursday, June 08, 2017 12:30:34 PM

Do you mind asking Anna if she has copies of the draft regulations mentioned in her comments?

From: Gavin He
Sent: Thursday, June 08, 2017 12:26 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: CBN Fact Check

Hi John/Bruno,

FYI – comments from OFA.

Regards,
Gavin He

From: Anna Strathy
Sent: Thursday, June 08, 2017 12:23 PM
To: David McLean (MOF) <David.McLean@ontario.ca>
Cc: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: CBN Fact Check

Hi David,

A few comments from us:

- Suggest a mention of accounting risks in the Fiscal subsection, particularly given the AG's stated position at Committee on this. May want to seek input from OPCD/TBS.
- Suggest including on page 6, as part of the objectives of the proposed regulations:
  - Details on how the interest on the Trust debt will be managed; and
  - The Clean Energy Adjustment as it relates to repayment from 2027 onwards.

Comments from CEFD will be relayed separately by Gavin.

Thanks, Anna

From: Ken Kandeepan
Sent: Thursday, June 08, 2017 11:34 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>

Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: RE: CBN Fact Check

Anna/Gadi

Agree with Gadi's point re accounting risks. No need for regulations for both the guarantee and the new credit facility to IESO(confirmed with Malle). I would also suggest that the objectives of the proposed regulations spelled out on page 6 include:

- Details on how the interest on the Trust debt will be managed and
- The Clean Energy Adjustment as it relates to repayment from 2027 onwards.

Thanks

Ken k

From: Gadi Mayman
Sent: Thursday, June 08, 2017 11:04 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Re: CBN Fact Check

I find it interesting that in the Risks section there is a lengthy description of the constitutional risk in the Legal subsection, but there is no mention of the accounting risks in the Fiscal subsection, in spite of the AG's stated position at Committee on this. I think that it's a gap that needs to be at least mentioned in the CBN, doesn't it?

I'm assuming, because it isn't mentioned anywhere in the CBN, that there are no regs required for the guarantees that Mike has been working on with Blakes and OPG? Also, our direction on the $2 billion line of credit for the IESO can be done independently of these regs?

Thanks,
Gadi

On Jun 8, 2017, at 10:46 AM, Anna Strathy <Anna.Strathy@ofina.on.ca> wrote:

> Latest CBN for review and fact check. Dave is looking for our comments by 1:30pm. Ron is also reviewing.
>
> ---
>
> **From:** McLean, David (MOF) [mailto:David.McLean@ontario.ca]
> **Sent:** Thursday, June 08, 2017 10:38 AM
> **To:** Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
> **Cc:** Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
> **Subject:** CBN Fact Check

Hi Anna and Gavin,

Attached is the latest CBN for Energy's OESP reg. It is tracking to June 27th as part of the first of two bundles of regulations required for the implementation of the Ontario Fair Hydro Plan.

CO has a hard deadline of 2:00 today, so I'm wondering if you guys can please have your teams review and provide comments (if any) to me by 1:30?

Thanks,
Dave

<REG-11477_ID49242_LRC_CBN- DRAFT- OFHP regulations v5.docx>

From:	Ronald Kwan
To:	John Kim
Cc:	Bruno Amara; Deena Padamadan
Subject:	RE: DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup.docx
Date:	Tuesday, May 02, 2017 7:00:04 AM
Attachments:	DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup2.docx

Hi John,

Some suggestions, as attached.

Ron

From: John Kim
Sent: May-01-17 7:26 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup.docx

Hi Ron,

Pls. see attached with some preliminary comments and small suggested edits.

John

Ontario

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy

DRAFT Financing Global Adjustment

Commented [HT1]: Name as in EVista- Will update as item is updated.

Cabinet (info)	TB/MBC	Cabinet	Announcement	TB/MBC	Cabinet	Introduction
Feb 15, 2017	March 1, 2017	March 1, 2017	March 2, 2017	May 9, 2017	May 10, 2017	May 11, 2017

Summary of Proposal

The proposed legislation contains a variance from Cabinet direction, which is detailed in the ministry's variance memo and within this note.

Context for Decision:

This proposal follows Cabinet direction to the Ministry of Energy to take the necessary steps to implement electricity price mitigation initiatives that would provide additional rate relief to Ontario electricity ratepayers.

The proposed legislation enables approaches to fairly allocate the costs of the Global Adjustment (GA) amongst current and future electricity rate payers, and help the most vulnerable Ontarians through enhancements to electricity support programs through ~~tax base~~government funding. To fully implement the initiative, the Ministry of Energy will be seeking future approvals for regulations identified in the proposed bill, while working to maintain existing public policy objectives such as~~:~~ maintaining a reliable electricity system, Ontario's commitment to reducing the impacts of climate change and commitment to achieve greenhouse gas (GHG) reduction targets.

The proposed legislation:

1. Establishes a framework to finance a portion of the GA costs in order to reduce costs for ratepayers in the near term and spread the costs of the GA more fairly across ratepayers between July 1, 2017 and April 30, 2047:
   - July 1, 2017 to April 20, 2018, reduces after-tax electricity costs for specified consumers by 25%.
   - May, 1 2018 to April 31, 2022, electricity rates will be set by Order in Council (OIC) with the intention to keep increases in line with the Consumer Price Index (CPI) (See page 17- Fiscal Pressure)
   - May 1, 2022 to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and

Commented [RK2]: 30?

administrative costs, around 10% of total electricity costs. (See page 14- Future Impacts to Electricity Rates)

Commented [HT3]: TBC by Energy

- Through the bill and subsequent amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998, e*xpanding the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO), to provide for appropriate oversight, putting in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the deferred GA costs. (See page 19- OPG Mechanism)

2. Expands electricity support programs for the most vulnerable consumers and moves program costs from the rate base to the tax base. The bill amends the *Ontario Energy Board Act, 1998* to:
   - ~~M~~move the recently expanded Ontario Electricity Support Program (OESP) to ~~the tax base~~be government funded, transition the program to be administered by the Crown, and to enable information exchange between the Ontario Disability Support Program to potentially allow for automatic enrolment procedures to be established;
   - ~~Amends the Ontario Energy Board Act, 1998 to e~~enable a broadening of the Rural or Remote Electricity Rate Protection (RRRP), including harmonizing distribution costs for customers with the highest distribution rates and moving the program to be government funded~~the tax base~~; and,
   - ~~Amends the *Ontario Energy Board Act, 1998* to~~ require the establishment of a government funded program to provide a delivery credit to prescribed on reserve customers.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price, helping to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, fixed generation costs, such as renewables, gas and nuclear contracts, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:

  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable, per unit charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable, per unit charge and a fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.
  - Line Loss: The costs to recover electricity that is lost as heat when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One –** Customer service types are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. The more customers there are in the area, the lower the cost to serve. R1 customers are considered 'medium density' customers and R2 are considered 'low density customers.'
- **Ontario Power Generation (OPG) –** A business corporation owned by the ~~p~~Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to comment on various items.
- **Independent Electricity System Operator (IESO) –** An independent corporation and agency of the Ministry of Energy that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Class A Consumer –** Large commercial and large industrial consumers with average peak load size above 3 MW, subject to eligibility. Class A consumers pay GA based on their electricity consumption during the five highest peak demand hours during the year. On January 1, 2017 the threshold for Class A eligibility was lowered to 1MW for all consumer types. In April 2017, the threshold for Class A eligibility for manufacturing and certain industries, including greenhouses, was lowered to 500 kilowatts.
- **Non-RPP Class B Consumer –** Commercial, institutional and small industrial consumers, typically with load size under 3 MW. Class B consumers pay GA as a

volumetric rate applied to all electricity consumption. Class B consumers include those Class A eligible that choose not to become Class A.

- **Special Purpose Vehicle (SPV) –**
- **Security Interest –**

Commented [HT4]: TBS: Do you have standard language that you would recommend using?

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. There has been increased media attention and public pressure for the government to provide ratepayer relief. On March 2, 2017, the Ontario government announced its electricity rate mitigation package, Ontario's Fair Hydro Plan, which included the initiatives contained in the proposed legislation. The government has committed to implement further rate relief measures by the summer 2017.

What is the expected cost to government?

The total cost of the proposal is $4.1B [TBC] in 2017/18, $1,599M funded through the fiscal plan and $2.5B to be funded through the electricity rate base.

Commented [HT5]: TBC as this includes the equity injection.

Commented [BA6]: Is it clear here what is mean by "cost"? Fiscal cost plus higher debt.

Commented [JK7]: TBS, pls. check this figure. I believe there is an updated figure ($1,438?).

TABLE 1: Cost Impact ($M)	2017-18	2018-19	2019-20	2020-21
Moving Social Programs to Government-Funded (details provided in the chart below)	499	753	829	892
GA Financing	2,534	2,668	2,942	3,420
OPG Loan / Province's Capital Injection to OPG Share Purchase (i.e. equity injection or debt)	1,100	?	?	?
Cumulative Total	4,133	3,421	3,771	4,312

Commented [BA8]: Maybe should avoid calling this a loan

Commented [RK9]: Should this be just assumed att 44% of the GA deferral amount?

Commented [BA10]: May be confusing to total these amounts. 1st row is a fiscal impact while equity injection represents increase in debt but no fiscal impact.

Commented [JK11]: Also, 2.5bn in 2017-18 includes the Province's capital injection

Commented [HT12]: TBC

The proposed bill identifies OPG as the Financial Services Manager and would therefore take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from the IESO through OPG Trust. ~~The~~ OPG would finance these purchases through a combination of an equity investment by the Province ($1.1 B in 2017-18; See Table 1) and external private sector financing. The structure ~~has been designed to~~would increase gross debt of the Province (to finance the equity injection in OPG), ~~increase interest on debt related to that external debt,~~ increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. ~~The equity investment has been structured so that the underlying regulatory asset will offset the additional debt to not impact the province's net debt.~~

Commented [BA13]: Do we need to distinguish between OPG as financial service manager and OPG Trust which would purchase regulatory assets?

The estimate for the combined impact of the non-Global Adjustment initiatives that would begin in 2017/18 is expected to be $499M in 2017/18, growing to $753M in 2018/19 and rising. This represent~~s~~ed an additional pressure ~~on~~ that has been incorporated into the 2017 Budget's fiscal~~the~~ plan. These estimates are based on variable inputs such as program uptake and future energy consumption of various consumer groups, and are therefore subject to change.

Commented [BA14]: Additional to? As proposed this is the only pressure on the fiscal plan. The GA financing as proposed has no impact on the fiscal plan but does impact debt.

TABLE 2: Fiscal Impact ($M)	17-18	18-19	19-20	20-21
RRRP Enhancements*	344	472	484	497
OESP Enhancements	140	261	325	375
First Nations On-Reserve Delivery Credit	15	20	20	20
Total	499**	753	829	892

***Note:** Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate base.
****Note**: Value adjusted from $665 million to reflect July 2017 implementation.

There is inherent risk in the financial estimates because the calculations are highly dependent on forecasts of the total consumption and bills of customers eligible for the RPP, the cost of borrowing, electricity demand and electricity market conditions and accounting assumptions. In addition, under the proposal, electricity prices would increase around 10% above forecast residential monthly bills from 2028 to 2047.The public may expect that the government is committed to reducing or holding constant the absolute cost of electricity for consumers in the longer term. Under the proposal, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future. (See page 17- Fiscal Pressure)

What are the key steps to deliver this proposal?

- May 11, 2017 - introduce legislation.
- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of the Fair Hydro Plan.
- Information postings of proposed regulations.
- June ?? 2017- Energy to bring regulations to TB/MBC.
- June ??, 2017- Energy to bring regulations to LRC/Cabinet.
- July 1st, 2017- the remaining Fair Hydro Plan reductions and programs would take effect. Programs that are not established on this day for technical implementation issues will have benefits that are retroactively applied to customers once program is operational in individual LDCs.

Commented [HT15]: Energy: Pelase refine

How will the changes be communicated?

Commented [HT16]: CO and Energy Comms to review.

On March 2, 2017, the Premier made a high profile announcement of additional relief to reduce electricity costs for Ontarians. Coinciding with this event, there was news releases with backgrounders, a technical briefing of the media, a public education campaign to raise awareness of the rebates and initiatives in place to reduce electricity bills, and an Ontario website that includes all the programs and initiatives that the government is undertaking to reduce electricity costs.

Building on the previous announcements, on May 11, 2017, the Premier is to make a high profile announcement of the plans to introduce the necessary legislation to implement Ontario's Fair Hydro Plan to provide additional relief to reduce electricity costs for Ontarians.

Given the risk identified that the GA financing may have a fiscal impact, communication will need to be clear that the proposed draft legislation meets the legal, accounting and financial requirements to not have a fiscal impact.

Notes and Recommendation from LRC

LRC item direct to Cabinet.

Cabinet Office Analysis

The proposed legislation allows for the implementation of the main elements of Ontario's Fair Hydro Plan (FHP) announced March 2 to provide further rate relief to Ontario electricity ratepayers. The FHP, including the Global Adjustment (GA) smoothing proposal, will provide residential consumers 25% in rate relief on their bills on average in aggregate (including the 8% announced in 2016) ~~for eligible consumers of the Regulated Price Plan (RPP)~~ between July 1, 2017 and April 31, 2018 ("The Fair Adjustment").~~-~~Other eligible farm and small business consumers under the Regulated Price Plan (RPP) would also receive a benefit. Electricity rates would then change by amounts prescribed in the regulations under the bill, with the intention to keep rate increases in line with Consumer Price Index (CPI) between May 1, 2018 and April 30, 2022.

Commented [AP17]: The 25% is an average or for every customer?

Commented [BA18]: Should sentence read "…25% in rate relief on average…"?

Commented [HT19]: Need to add estimate of benefits from the other programs, particularly RRRP as I think the impact, along with GA, is going to be closer to 40 or 50% for some customers

Ontario produces and publishes a Long-Term Energy Plan (LTEP) every three to four years, with the next LTEP scheduled for release in the summer of 2017. LTEP principles that will guide decision-making are affordability, reliability, clean energy, community and Indigenous engagement, and conservation. Through extensive consultation with the public, stakeholders and Indigenous partners through the fall of 2016, the Ministry has identified key priorities, and, Ontario's Fair Hydro Plan combined with new policy or program announcements in the LTEP, will provide the comprehensive future planning perspective for Ontario's energy sector.

Commented [HT20]: Confirm with PO and Energy

1. Refinancing the Global Adjustment

The proposed legislation establishes the framework to defer some of the current GA costs to future ratepayers by recognizing the longer term benefit of these assets to the electricity system ~~(similar to extending and re-financing a mortgage)~~. The methodology is based on the assumption that some generation assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts, and that future ratepayers are expected to continue to be able to utilize and benefit from these assets, and that they will also reduce the need to finance the development of new generation assets in the future.

Many of the contracted generation assets are expected to have useful lives that extend beyond the term of their current financial contracts (typically 20 years). Similarly, conservation costs are recovered through the GA on an annual basis while conservation initiatives can provide benefits to the electricity system over many years.

According to a legal opinion by former Supreme Court Justice Binnie, the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations leaves the process more susceptible to constitutional challenge and could jeopardize the nature of the clean energy adjustment being a regulatory charge, and risk it being deemed an unlawful tax. The bill has been drafted to mitigate this risk and clearly articulates the desire to fairly attribute intergenerational costs and benefits. In addition the bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. (See page 16- Legal Risk)

Key elements of this component of the bill include:

Fair Adjustment

- July 1, 2017- April 30, 2018- the bill outlines an immediate 25% reduction (on average) in rates for eligible residential consumers in recognition of the investment in clean energy initiatives since 2005. Other RPP eligible consumers would also receive a benefit.
- May 1, 2018- April 30, 2022- the bill allows for rates to be set by regulation, with the intention that rates will increase in line with CPI over this time, consistent with government commitments. (See page 17- Fiscal Pressure)
- Ontario Energy Board (OEB) would calculate appropriate adjustments for "specified consumers".

Clean Energy Adjustment

- Determined by Ontario Power Generation (OPG) as the Financial Services Manager, the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principlale, interest, transaction costs and administrative costs associated with the fair adjustment (regulatory/investment asset).
- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- May 1, 2022- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing Independent Electricity System Operator (IESO) and Local Distribution Companies (LDC) processes.
- In accordance with the regulations, the OEB to set the rate at which "specified consumers" are invoiced to recover the clean energy adjustment.

Fair Allocation Amount

Commented [AP21]: OPG intends to recover interest costs every year through the Trust in order to pay the interest payments from debt sourced from the capital markets. Thus, the clean energy adjustment charge would start in 2017, not 2022.

Commented [SQ222]: I had this comment initially too but the opposite side to this is that they will simply capitalize those costs and will result in increased financing requirements over the first 4 years.

- The fair allocation amount is calculated by the Financial Services Manager consistent with the principles of the bill.
- Established for the purposes of allocating the costs of the clean energy initiative to provide inter-generational fairness to rate payers; and aligning funding obligations that may be incurred during each reference period (typically every 6 months).
- Provided to the Minister of Energy who will ensure that the information is made public in an appropriate way.
- Principles established in the bill require proper match over time between the costs of providing facilities for clean electricity generation and conservation and the consumers who benefit from these investments in the system. (Page 16- Legal Risk; See page 17- Fiscal Pressure)

Financing Plan

- Prepared by the Financial Services Manager to determine if potential funding obligations should be incurred to acquire an investment interest in accordance with the bill.
- Provided to the Minister Energy who may remove the Financial Services Manager if the Financing Plan is not consistent with the principles of the bill and the Financial Services Manager has been given the opportunity to address the Minister's concerns.
- May be amended as determined by the Financial Services Manager.
- In practical terms, the Financing Plan is intended to show how debt (with varying degrees of incurrence dates, maturities, interest rates) will be used over time.
- The OEB would review the administrative costs of the Financial Services Manager.

Regulatory Asset and Investment Asset

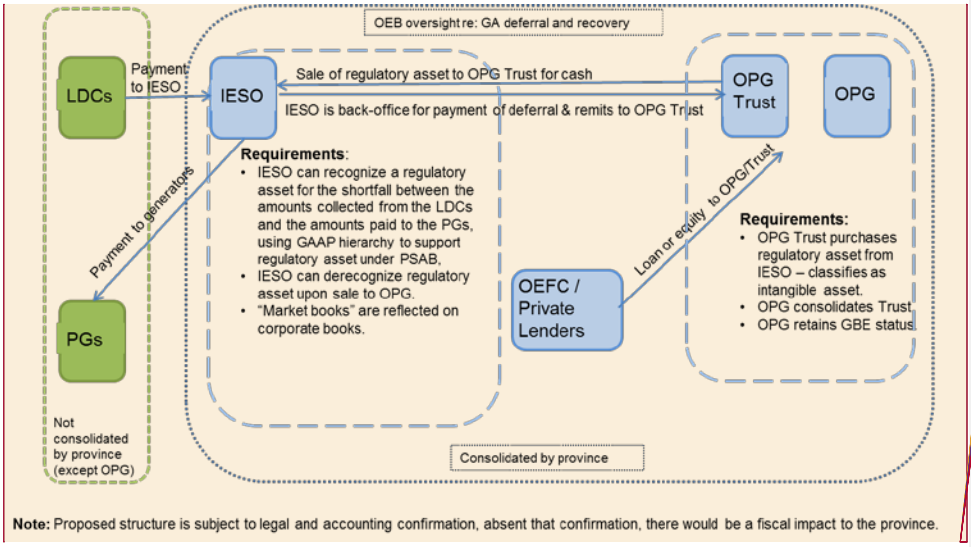
- Regulatory Asset created as IESO incurs a funding shortfall equal to the difference between the rates it receives after the implementation of the Fair Adjustment and the amounts owed under generation and conservation contracts (i.e. the comparison rate minus rates after fair adjustment).
- Subject to OEB approval, IESO would record the funding shortfall as a regulatory asset, as~~.~~ IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until May 1, 2022.
- The Financing Plan contemplates the Financial Services Manager establishing financing entities (OPG Trust/Special Purpose Vehicle (SPV)) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.

Commented [AP23]: Is this a different point from Ernst & Young advice OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the SPV.

- This purchase and sale turns the regulatory asset into an investment asset for the investment interest owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests including by dividend or undivided interest, consistent with the Financing Plan. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 5 years (May 1, 2022) the IESO has the rights to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority. (See page 17- Fiscal Pressure)
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Crown Undertaking (Guarantee or Backstop)

- The Crown would undertake not to do anything to adversely affect an investment asset or funding obligation, including hinder, impair, prejudice the charging, collection or remittance of the clean energy adjustment.
- The Minister of Energy, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill.
- The Minister of Finance, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.



The bill establishes a structure in which the IESO records the GA cost recovery deferral ~~is recorded~~ as a regulatory asset (regulated by the OEB), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time ("The Fair Adjustment"). Eligible residential consumers would receive an average 25% reduction in electricity rates from July 1, 2017 to April 30, 2018. Eligible farms and small businesses would also receive a benefit. The IESO may then sell the regulatory asset, at which time it becomes an investment asset. The investment asset owner (OPG Trust/SPV or trust "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

Under the proposed framework, OPG, acting in its role as the "Financial Services Manager", and following the principles in the bill, would regularly calculate the "Fair Allocation Amount" to ensure a proper match of the allocation of the intergenerational costs and benefits. To recoup the costs associated with the fair adjustment, consumers, starting in May 2022 would be invoiced the "Clean Energy Adjustment" on their electricity bills through existing IESO and LDC processes. The OEB would set the rates at which the clean energy adjustment could be collected.

OPG is planning to create a SPV or Trust to finance the GA. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. The variability will likely largely result from the financing of the SPV/Trust, and therefore OPG will have the ability to direct the financing of the Trust and both benefit from its financing strategy and be at risk as a result of it.

OPG Trust/SPV will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG's debt would be funded through a combination of an equity investment by the Province (See Table 1 on page 4)

Commented [HT24]: Energy: Please provide updated chart with terminology from the legislation embedded.

Commented [JK25]: CEFD/OFA will have an updated version for this provided to Energy.

Commented [RK26R25]: To show potential OFA financing to IESO.

Also, need to show Provincial equity into OPG (not from OEFC).

Commented [HT27]: Section to be compared against the legislation's compendium when available.

Commented [SQ228]: Has this been a plan to define? Annually? Semi-annually? Monthly?

Commented [SQ229]: This should be prefaced with the fact that this risk only arises after OPG would have decided to purchase the Regulatory Asset from IESO, which it is not obligated to do so.

Commented [JK30]: In the latest legislative drafting we have seen.

and external financing through a securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG (to offset the interest on debt). ~~The proposed structure is expected to result in: (1) increase in provincial gross debt offset by an equivalent in regulatory assets resulting in no change in net debt, and (2) an increase in interest on debt paid by the province offset by higher earnings from OPG resulting in no impact on annual deficit of the province.~~

The legislation commits the government to backstop the financing if the government were to ever hinder the collection of the clean energy adjustment including revoking or changing the legislation or regulations. In other words, the OPG and its debt holders would have their capital guaranteed and paid for directly by the Province if such a situation were to occur. The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time, but could be as high as $1-1.5B annually [TBC]. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future.

The proposed structure has been extensively reviewed by KPMG (Energy advisor and IESO auditor), and the firm has provided an accounting opinion confirming the validity of the structure under PSAB [TBC]. This opinion can be made public [TBC] to support the governments rational for the plan. In addition, MAG and Blakes are confident that the structure is constitutionally sound, but that this will depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism. Based on the current analysis there is a moderately high risk that the GA financing will have a fiscal impact on the Province before 2022.

For clarity: the following structural requirements have been met: [TBC]

- IESO requirements :
  - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB;
  - IESO can derecognize regulatory asset upon sale to OPG;
  - "Market books" are reflected on corporate books; and,
  - OEB to act as regulator.
- OPG requirements:
  - OPG Trust/SPV purchases regulatory asset from IESO – classifies as intangible asset;
  - OPG consolidates Trust/SPV; and
  - OPG retains GBE status.

Commented [SQ231]: This is focussed on accounting fiscal impact but cash flow impact is still present. Province would require cash to pay for IOD and unless those higher earnings (re: cash) is divdended back to Province to cover IOD payments, my guess would be that there is a fiscal impact in terms of IOD.

Commented [JK32]: Albeit relatively small compared to the deferred GA amounts.

Commented [HT33]: Based on commentary from implementation meetings. Don't believe this includes estimates of private lender borrowing costs. Please advise

Commented [SQ234]: Furthermore, this would likely be the "additional" impact. The Province's equity injection, which is currently offset by expected higher earnings, would cease to exists resulting in fiscal impact as well. Could result in $2-3B annually. Please confirm.

Commented [HT35]: Energy to confirm

Commented [HT36]: TBC based on receipt of professional opinions etc.

Commented [SQ237]: Currently, I don't believe this is the case for IESO. Will this be the case going forward?

However, despite the fact that the structure has satisfied the legal, fiscal, and accounting requirements outlined in the policy submission, there remain some fundamental risks that the province would need to accept:

- The structure is unique in Canada and possibly the world, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the Unites States, but officials are currently unaware of any example that would compare to the size, complexity, or fluidity of what is proposed;
- Complexity of the structure and length of deferral/recovery increases risk and decrease transparency;
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan;
- Government would not know the price of private borrowing that would be required for the OPG Trust to work and will have limited control over OPG's direct operations as the Financial Services Manager. While removal of the Financial Services Manager is provided for in the bill, in practice this may prove problematic once the system is operational; and
- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and therefore its saleability. Could decrease amount of rate reduction achievable under this mechanism.

2. Enhancing electricity supports for vulnerable Ontarians and shifting costs from rate payer funded to government funded:

Moving the Ontario Electricity Support Program (OESP) to the tax base:

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The program was launched in January 2016 and has had roughly 30% enrolment. Consistent with Cabinet direction, the program was recently expanded to increase the existing benefit scales by 50% and provide additional credits to more households.

Under the expanded program the basic OESP benefit scale increased from $30-$50 to $45-$75 a month and the enhanced OESP benefit scale would increase from $45-$75 to $68-$113 a month for eligible consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to allow for the program to transition from the rate base to the tax base, and become administered by a Ministry or other entity as may be prescribed. The cost to the fiscal plan would be $186M in 2017/18. The bill provides further amendments designed to allow information sharing between the Ontario Disability Support Program (ODSP) and the entity responsible for OESP. The intention is that this information sharing will allow for the automat enrolment of individuals that are already enrolled under the ODSP, but it is currently unknown to what extent this will significantly impact the enrolment under the program.

Commented [HT38]: ENERGY: do you have any numbers on this point? Were other programs considered other than ODSP? Can we put something in about continuing efforts to improve the enrolment?

RRRP Enhancement (Delivery Charge Relief):

Currently, RRRP is a $241.9M program paid for by the ratepayers. For an average residential customer, the cost of supporting RRRP is roughly $1.58 per month. For other customers, the cost to support the RRRP can range from $65 for a greenhouse to $8,000 for a medium industrial. RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province, including Hydro One R2 customers. The delivery charge includes a distribution cost, which can vary across LDCs, and distribution costs are highest for Hydro One R2 and R1 (medium density) customers.

There are also some LDCs with relatively high distribution costs that, when coupled with high consumption patterns, can result in very high bills for consumers (Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma).

In 2016 the OEB made a ruling that all LDCs need to move to fixed distribution charges. The OEB found that fixed distribution charges would establish a fairer way to recover the costs of providing distribution service, and provides greater revenue stability for distributors, which will position them for technological change in the sector, remove any disincentive to promote conservation, and help with their investment planning.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a distribution rate protection program and the ability to cap the distribution charges of prescribed distributors. The amendments also establish that this program will be funded by the tax base.

The intention is to draft regulations permitted under this section of the bill to Harmonize the fixed distribution rates to the lowest distribution cost of the LDCs mentioned above at $38/month (which is the forecast rate for Northern Ontario Wires). If the costs of another LDC moved above these in the future, a regulation change would be required to for that LDC to receive RRRP. These enhancements are expected to benefit approximately 800,000 customers in Ontario.

Targeted RRRP consumers would see additional savings on their monthly bill that would vary based on their consumption level and cost to fiscal plan would be $344M in 2017/18, $243M of which is a transfer of existing programs to the tax base. If the legislation and required regulations are passed, the program would become active as of July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Commented [HT39]: Need new estimate of transferred program cost starting from July 1.

On-reserve First Nations Delivery Credit

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges

associated with transmission and distribution within the context of historical grievances. In this instance, historic grievances relate to lands affected by energy developments.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a tax base funded delivery credit program for on-reserve customers with the details as prescribed in the regulations. The intention is to enact regulations that would eliminate the delivery charge for all on-reserve First Nation household customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate.

Eligible recipients would be automatically enrolled in the program (~21,500 customers) and receive an average monthly benefit of $85. The program will cost approximately $20M annually and, provided the legislation and regulations are passed, would become effective July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Expected Impacts of the Proposal on Electricity bills:

The impact of proposed legislation to an eligible customer's bill in July 2017 is an average 25% decrease (combined with the equivalent amount to the 8% provincial portion of the HST from ORECA effective Jan. 1, 2017) for residential consumers, followed by an increase in price over time. This includes the ~~8%~~ rebate for an equivalent amount to the 8% provincial portion of the HST that came into effect on January 1, 2017. Between May 2018 and April 2022 electricity rates will be set by regulation with the intention that rate increases would be kept in line with CPI. Customers that are eligible for the RRRP enhancements and the OESP will see further reductions in their electricity rates beyond the 25%

Commented [HT40]: ENERGY: Can you provide analysis on the impact for customers that will receive the RRRP etc?

Residential (750 kWh/month)	Actual 2016	2017	2018	2019	2020	2021
Total Bill (includes HST)	**158**	**164**	**167**	**170**	**181**	**178**
Total Bill (excludes HST)	140	145	148	150	160	158
Impact of GA Financing		-26	-26	-26	-32	-28
Impact of Tax-Basing Social Programs		-2	-2	-2	-3	-3
Subtotal		117	120	122	125	127
8% rebate		-9	-10	-10	-10	-10
HST		15	16	16	16	17
Revised Bill (includes HST)	**158**	**123**	**126**	**128**	**131**	**133**
Year-over-Year Change		-22%	2%	2%	2%	2%
Change from Forecast		**-25%**	**-25%**	**-25%**	**-28%**	**-25%**

Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	**160**	**165**	**160**	**162**	**173**	**169**
Class B Revised Total (excludes HST)	**160**	**162**	**157**	**159**	**170**	**166**
Year-over-Year Change		1%	-3%	1%	7%	-2%
Change from Forecast		-2%	-2%	-2%	-2%	-2%

Large Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class A Total (excludes HST)	**90**	**91**	**93**	**88**	**95**	**96**
Class A Revised Total (excludes HST)	**90**	**88**	**90**	**84**	**92**	**93**
Year-over-Year Change		-2%	2%	-6%	9%	1%
Change from Forecast		-4%	-4%	-4%	-4%	-4%

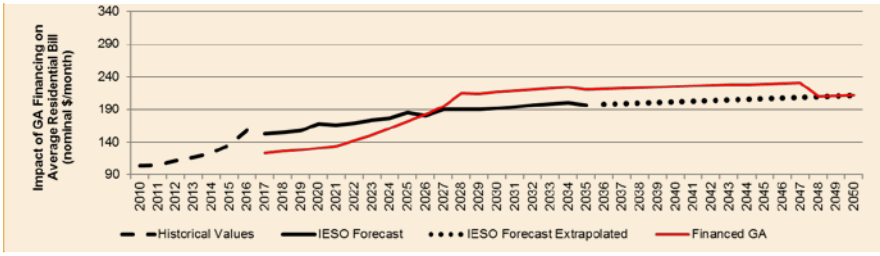
Commented [HT41]: Energy to provide updated chart

Notes: *Based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing.*

Risks and Considerations:

Future Impacts to Electricity Rates

Borrowing money to defer GA costs for ratepayers would lower costs in the short term but result in substantial debt and higher electricity prices in the future. Based on the GA deferral portion of the plan, electricity prices would increase to about 10% above the actual cost of electricity over the recovery period (peaking at 13%). The proposal may create the expectation that the government is committed to reducing or holding constant the absolute cost of electricity for consumers. Under the proposal, the government would not have the ability to control this portion of electricity rates in the future outside of recourse to the fiscal plan.



Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at a maximum of 13% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Commented [HT42]: ENERGY to confirm if this needs to be updated.

The government may be criticized for creating a new debt structure which could be compared to the previous debt retirement charge (DRC). The previous debt retirement charge was removed from residential bills in January 2016 and is scheduled to be removed for remaining customers in April 2018.

Future repayment cost estimates are based on a static assumed interest rate of 5% (actual interest rate may differ), and forecast electricity market conditions and demand levels. Declining demand levels due to conservation, technology adoption, and self-generation would increase the costs borne by remaining customers to decease the debt associated with GA financing. This would increase the risk that the province would have to absorb some of the debt in the future. To mitigate against the risk that increased self-generation poses, the bill provides that the Clean Energy Adjustment may not be "set-off". In other words, it would exist as a separate and distinct component of the bill that could not be reduced by methods such as net-metering.

Not all generating assets will continue operations at the end of their contract. If the Fair Allocation Amount is not properly designed, future rate payers will be paying the cost for assets that are no longer in use, which would be unconstitutional-, unless legislatively authorised as a tax (See page 1~~6~~7- Legal Risk). High capital costs, equipment obsolescence or surplus capacity / low demand conditions mean that some generators will shut down at the end of their contract. Future ratepayers would be paying for these assets that no longer produce power in paying down the deferred GA and accumulated interest costs.

Accounting and Provincial Credit Rating and Borrowing

The significant amount of additional provincial borrowing needed to refinance the GA and associated risks and fiscal costs (interest rates, repayment timelines) could put pressure on the Province's credit rating and overall borrowing capacity.

The complexity of the structure and length of deferral (i.e., recovery of debt) increase the overall risk of the proposal and decrease transparency to the public. The structure of the GA deferral was designed to result in an (1) increase in provincial borrowing (2) no

increase in net debt, and (3) no impact on annual surplus/deficit. However, depending on funding to OPG/ OPG Trust from the Province, an increase in interest on debt and an increase on income from OPG will result. The structure is also contingent on the size of the GA deferral that is seen as possible, which, as previously mentioned, increases the likelihood of pressures on the fiscal plan in the near future. (See page 17- Fiscal Pressure)

Rating agencies and investors in the Province's debt may view all of the borrowing (whether by the Province directly or the OPG Trust) as an obligation of the Province. Depending on the magnitude of the debt incurred, the Province's borrowing cost may be impacted.

The Ontario Auditor General (OAG) has been briefed on the proposal and has had access to the March 1, 2017 policy submission for the Fair Hydro Plan. While the auditors of OPG and IESO have provided their assessments and the Office of the Provincial Controller Division (OPCD) has been engaged, the OAG has historically raised concern with "rate regulated accounting" and may take this into account when the provincial books are audited (i.e., it may impact whether the OAG qualifies the provincial books).

Based on early assessments, only a maximum of 18% rate relief [TBC] can be justified by amortizing contracts over the useful life of the underlying assets. Reducing electricity rates up to or beyond this amount is dependent on increased borrowing. All of the deferral is dependent on increased borrowing. The 18% referenced here is the limit based on review of the contracts and a Eurig assessment and also includes the rebate for an amount equivalent to the 8% provincial portion of the HST~~reduction~~ that was already provided.

Commented [HT43]: To be updated when Navigant prelim report and OPG analysis complete

Legal Risk – constitutionality of financing the GA

The current GA amount paid by consumers is a regulatory charge. One of the requirements of a valid regulatory charge (as opposed to a tax) is that the person paying the charge either benefits from the regulatory scheme or causes the need for regulation. In principle, refinancing a portion of the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Former Supreme Court Justice Binnie has provided legal analysis of this proposal, stating that the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations could jeopardize the nature of this being a regulatory charge.

A proposal for refinancing the GA that appears to cross-subsidize near-term consumers at the expense of long-term consumers by back-loading costs more than if costs were spread equally over the estimated lifespan of generation and conservation assets presents a moderately high risk (more likely than not) of constituting a tax. If the government fails to establish that the relevant electricity generating assets will continue to

perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).Were the charge characterized as a tax, in the event of a challenge, it would be struck down by a court as unconstitutional and consumers would be entitled to recover their payments. This risk could be eliminated, either up front or retroactively, by the imposition of a valid tax.

The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

The bill has been drafted to mitigate the constitutional risk of the proposal and clearly articulates the desire to balance the costs and benefits of assets across generations. The bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. In addition, external consultant Navigant has provided an interim report on the costs and benefits of the long lived assets which supports the previous conclusions regarding the size of the GA deferral that would be supportable. This is further supported by the conclusions of OPG's independent analysis of the question.

Commented [HT44]: TBC

Commented [HT45]: ENERGY please confirm. Need to clearly articulate any differences that may exist between these analyses

MAG and Blakes are confident that the structure is constitutionally sound, but, as identified above, that this will highly depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism.

In addition, the structure of the GA refinancing means that the infrastructure included as part of the clean energy adjustment (i.e. amortized over 30 instead of 20 years) will need to be in service over the entire 30 year amortization period or provide benefits to the system in some way over the whole period. In practice this may mean that the government will have limited ability to alter the generation mixture included under the clean energy adjustment, including natural gas generation facilities, which may at some point be seen as inconsistent with the province's commitments to reduce greenhouse gasses. This risk has been mitigated in the bill, by allowing for prescribed natural gas generation contracts to be excluded from the clean energy benefit calculation.

Commented [HT46]: Needs ground truthing

Fiscal Pressure

Commented [HT47]: TBS please review closely

This proposal aligns with the 2017 Budget fiscal plan, but involves significant ongoing risks. The proposal does not include a scheduled review period or an end date, resulting in an ongoing fiscal pressure, which may increase in the out years, and could only be removed by a legislative amendment.

The cost projections in this proposal are highly sensitive to interest rates and other assumptions:

- The proposal assumes GA refinancing does not have a fiscal impact because the associated legal authority and accounting treatment requirements are met. If the costs of GA refinancing were accounted for as an expense to the fiscal plan, the fiscal impact would be significant.
- The term and timing of the GA refinancing are highly dependent on the IESO's forecast of GA costs and actual interest rates.

The extent of fiscal pressures is also dependent on other factors (i.e., OAG could qualify Ontario's books or issue an adverse opinion). Due to the complexity and size of the proposal, the government has commissioned external opinions on the legal, fiscal, and accounting requirements. Energy's advisor and IESO auditor, KPMG, has provided an accounting opinion that the principles of the structure are sound, and this opinion can be released publicly when desired. This opinion may not change the likelihood of a contrary opinion by the OAG, but does provide a tool for government to point to in justifying its decisions.

Commented [HT48]: TBC

There is also a risk that credit rating agencies and the market may take an alternate view as to the size of the GA deferral that is possible before becoming unconstitutional. If the Fair Adjustment exceeds this analysis, it may increase the perceived risk of the investment asset and therefore its financeability / saleability, which would result in reduced market uptake and reduce the amount of near term rate reduction that would be achievable under the plan. This is why the increases in electricity rates between May 2018 and April 2022 are to be set by regulation as opposed to legislating that they increase by CPI. It may not be possible to legally hold the rate reductions to increase by CPI, and if the government wanted to hold to this commitment, the difference would need to come out of the fiscal plan, which has not been forecasted. Each percentage point of reduction that the structure cannot provide would result in an approximate $150M [TBC] cost to the tax base. This has not been provided for in the bill, but it is likely that the government will receive questioning along these lines and why the previously committed CPI increases are not explicitly stated in the bill.

Commented [HT49]: Needs ground truthing

Note that if the IESO is not able to sell the regulatory asset (i.e., the OPG SPV is unable to get financing to purchase it), then the IESO would require financing from an alternative source. The IESO has requested a backstop credit facility from the Ontario Financing Authority. This would be associated with a fiscal impact risk.

There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Legislative Officers

The Ontario Auditor General (OAG) has expressed views on rate regulated accounting, which will likely be raised again upon the announcement of this suite of initiatives. The

Commented [HT50]: Energy to update.

OAG was provided copies of the Cabinet Submission seeking policy approval for Ontario's Fair Hydro Plan and has been briefed by officials from the Ministry of Energy. The OAG will have opportunities to publicly state her views through the Public Accounts committee in the summer of 2018 and in her pre-election report.

The Financial Accountability Officer (FAO) has not been consulted on this proposal and is expected to have an opinion on how this proposal may impact the state of the province's finances.

Commented [HT51]: Energy to update from discussion with FAO

OPG Mechanism

- Accountability
  - Bill attempts to balance the independence of the OPG trust with regulatory oversight and the market's need for certainty in recovering the GA financing that it provides.
  - Accountability to the government or the public, amount of government control of the entity, including future rate increases.

Commented [HT52]: Needs to be recast given limitation on control after initiated

- New structure
  - Structure is complex, involving:
    - IESO as originator of the regulated asset and responsible for flow of funds;
    - OEB as regulator of the new mechanism;
    - OPG responsible for financing and managing the mechanism; and
    - The Province providing ongoing equity capital infusions to OPG and backstop.
  - Addition of financial agency to current operational obligations of OPG – not the current expertise of OPG. However, OPG has experience managing large financial assets and liabilities through the jointly managed Ontario Nuclear Funds as well as its own pension fund. In addition, could possibly dilute OPG's focus on current high priority responsibilities (i.e., electricity generation and nuclear refurbishment).
  - This financing structure would be unique to Canada – uniqueness reduces likelihood of all risks being known/mitigated. Highly specialized expertise would be required.
  - Connection to BPS compensation framework/lack of national comparator.
  - Unknown transaction, admin, consultant costs. OEB would review OPG's cost as the Financial Services Manager
- Debt
  - Opportunity for significant shifting of the Ontario's electricity sector over the lifespan of the repayment (30 years). Through sector/policy/government position shifting, possibility of new entity/structure abandoning debt and Ontario having to take a write down.

  - Risk transfer / portion of debt that Ontario would be responsible for would be the higher risk portion.
  - Repayment plan and impact on rate payers highly dependent on interest rates

- Public perception/reaction (could be seen as similar to the process preparing Hydro One for IPO).

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change.

- Program design will require an evaluation of whether the existing programs are effective and achieving their outcomes (e.g. the OESP has a current uptake of 30% and program changes are proposed in advance of an increased effort to reach 100% uptake)
- The OESP matrix no longer follows the Low Income Measure (LIM) which creates inconsistencies between how programs are applied and may put pressure other provincial programs to increase funding amounts.

Benefits for all Consumer Classes

The Fair Hydro Plan includes some benefits for all consumer classes as well as targeted benefits to those with the greatest need. It is likely that the government will be criticized for providing benefits to those who may not be in need (e.g., wealthy cottage communities, etc.).

Stakeholder Considerations:

General public (including residential and small businesses) – Likely support a proposal that is projected to provide up to 25% in rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but likely to question the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications.

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral the remainder of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an

expectation government is going to take specific action to mitigate their increases due to Cap & Trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Commented [HT53]: Confirm work still ongoing on this piece

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generation as part of the "Clean Energy Adjustment."

Solar PV sector – May react negatively to price relief as it can be seen to undercut the affordability of distributed renewable generation assets such as solar PV, and undermines the economic arguments behind net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

Delivery:

If passed, the legislation will enable the price mitigation measures to begin to take effect on July 1, 2017. The 2017 LTEP will be released to the public in the summer2017 and would reinforce/integrate with Ontario's Fair Hydro Plan. Regulations are required under the major components of the legislation in order to fully implement the initiative and clarify program details.

Commented [HT54]: TBC

1. Refinancing Global Adjustment assets in order to defer ratepayer costs / Mechanism to defer GA costs

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

Commented [HT55]: This needs more elaboration and confirmation. Last discussion I was part of on this point hadn't landed exactly how long it is expected that the IESO retains the Reg Asset for before sale to OPG.

2. Enhancing Social and Conservation Programs

OESP Enhancements

New OESP program details would require TB/MBC approval.

Changes to regulation will be required to establish and define the parameters for the proposed changes. The financial flow-through mechanism would likely be modelled after processes used for the OREC (8% rebate). The amendments made in this bill allow for a transition period where the program continues to draw on the existing IESO variance account until the account can no longer maintain the program. IESO is required to notify the Ministry of Energy when it expects the variance account to be depleted (likely sometime in the fall). At this time

The proposed changes will take time to implement as they would require changes to the central system and the LDCs' billing systems. The OEB and their central service provider will need to work with LDCs, MOF, and the CRA on the changes to this program (delivery mechanism, funding source, application system, eligibility).

Commented [HT56]: Requires update

RRRP Enhancement

Regulations would be required to establish the details of the program. OEB estimates that the implementation would take at least six months after finalizing regulations. For this reason it is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st which will put an immediate pressure on the OEB and LDCs as implementation is required no later than October 1, 2017. A mechanism will need to be created to ensure that all parties are aligned in the yearly forecasting and costing of the program.

On-Reserve First Nations Delivery Credit

The OEB would need to work with the LDCs to identify the eligible on-reserve consumers. A communications plan could include public release of the OEB report and a commitment to working with the LDCs on implementation details.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Once available, the rebate would appear on customer's electricity bills as a reduction in, or credit for, their delivery line.

There is a risk that either non-status Indigenous communities without reserves or Metis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Linkages:

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer-fall 2017. These plans identify needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The Ontario Rebate for Electricity for Electricity Consumers Act, 2016, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) was a five-year legislated program put in place as a broad-based (RPP-eligible), transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB expired on December 31, 2015.

Commented [RK57]: TBC

Debt Retirement Charge – On January 1, 2016 the government ended the electricity Debt Retirement Charge (DRC) on residential users, earlier than planned, and put in place the low-income targeted OESP, effective 2016. For all other consumers, the Electricity Act was amended so that the DRC is ~~schedul~~legislated to be removed ~~by~~ April 1, 2018.

Industrial Conservation Initiative – Ministry of Energy program implemented in January 2011 to help large industrial consumers reduce their electricity costs by ~~shirfitn~~reducing electricity consumption ~~away from~~ in peak periods. As part of the Fair Hydro Plan, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all electricity consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – approved as part of Ontario's Fair Hydro Plan, and under development, the Affordability Fund is intended to expand access to conservation funding to targeted consumers that do not currently qualify as low-income for the purposes of the Home Assistance Program (HAP).

Commented [HT58]: insert

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded~~met~~ by the January 2017 ~~8%~~ rebate amount equal to the 8% provincial portion of the HST.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings. **Note:** Funding electricity support programs through the tax-base rather than the rate base will also provide saving to Class A and B consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON)- is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed to "consider options for legislation/regulation change that lessen the impact on residential tenants of increased energy costs from cap and trade". As part of the review of the Residential Tenancies Act, the Ministry of Housing is working on a proposal that will address that commitment. The proposal is expected to come to Cabinet in spring 2017.

Commented [HT59]: To get updated language on the RTA amendments

Proposed Cabinet Minute

Approval of draft bill for introduction

Cabinet approved version XX-XX of this draft legislation for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.

From:	John Kim
To:	Bruno Amara
Subject:	RE: DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup.docx
Date:	Tuesday, May 02, 2017 8:26:37 AM
Attachments:	DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup3.docx

I inserted the diagram….pls take a look.

From: John Kim
Sent: Tuesday, May 02, 2017 7:45 AM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup.docx

This one too pls.

John

From: Ronald Kwan
Sent: Tuesday, May 02, 2017 4:18 AM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup.docx

Hi John,

Some suggestions, as attached.

Ron

From: John Kim
Sent: May-01-17 7:26 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup.docx

Hi Ron,

Pls. see attached with some preliminary comments and small suggested edits.

John

Ontario

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy

DRAFT Financing Global Adjustment

Commented [HT1]: Name as in EVista- Will update as item is updated.

Cabinet (info)	TB/MBC	Cabinet	Announcement	TB/MBC	Cabinet	Introduction
Feb 15, 2017	March 1, 2017	March 1, 2017	March 2, 2017	May 9, 2017	May 10, 2017	May 11, 2017

Summary of Proposal

The proposed legislation contains a variance from Cabinet direction, which is detailed in the ministry's variance memo and within this note.

Context for Decision:

This proposal follows Cabinet direction to the Ministry of Energy to take the necessary steps to implement electricity price mitigation initiatives that would provide additional rate relief to Ontario electricity ratepayers.

The proposed legislation enables approaches to fairly allocate the costs of the Global Adjustment (GA) amongst current and future electricity rate payers, and help the most vulnerable Ontarians through enhancements to electricity support programs through ~~tax base~~government funding. To fully implement the initiative, the Ministry of Energy will be seeking future approvals for regulations identified in the proposed bill, while working to maintain existing public policy objectives such as~~:~~ maintaining a reliable electricity system, Ontario's commitment to reducing the impacts of climate change and commitment to achieve greenhouse gas (GHG) reduction targets.

The proposed legislation:

1. Establishes a framework to finance a portion of the GA costs in order to reduce costs for ratepayers in the near term and spread the costs of the GA more fairly across ratepayers between July 1, 2017 and April 30, 2047:
   - July 1, 2017 to April 20, 2018, reduces after-tax electricity costs for specified consumers by 25%.
   - May, 1 2018 to April 31, 2022, electricity rates will be set by Order in Council (OIC) with the intention to keep increases in line with the Consumer Price Index (CPI) (See page 17- Fiscal Pressure)
   - May 1, 2022 to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and

Commented [RK2]: 30?

administrative costs, around 10% of total electricity costs. (See page 14- Future Impacts to Electricity Rates)

Commented [HT3]: TBC by Energy

- Through the bill and subsequent amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998, e*xpanding the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO), to provide for appropriate oversight, putting in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the deferred GA costs. (See page 19- OPG Mechanism)

2. Expands electricity support programs for the most vulnerable consumers and moves program costs from the rate base to the tax base. The bill amends the *Ontario Energy Board Act, 1998* to:
   - ~~M~~move the recently expanded Ontario Electricity Support Program (OESP) to ~~the tax base~~be government funded, transition the program to be administered by the Crown, and to enable information exchange between the Ontario Disability Support Program to potentially allow for automatic enrolment procedures to be established;
   - ~~Amends the Ontario Energy Board Act, 1998 to e~~enable a broadening of the Rural or Remote Electricity Rate Protection (RRRP), including harmonizing distribution costs for customers with the highest distribution rates and moving the program to be government funded~~the tax base~~; and,
   - ~~Amends the *Ontario Energy Board Act, 1998* to~~ require the establishment of a government funded program to provide a delivery credit to prescribed on reserve customers.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price, helping to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, fixed generation costs, such as renewables, gas and nuclear contracts, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:

  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable, per unit charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable, per unit charge and a fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.
  - Line Loss: The costs to recover electricity that is lost as heat when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One –** Customer service types are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. The more customers there are in the area, the lower the cost to serve. R1 customers are considered 'medium density' customers and R2 are considered 'low density customers.'
- **Ontario Power Generation (OPG) –** A business corporation owned by the ~~p~~Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to comment on various items.
- **Independent Electricity System Operator (IESO) –** An independent corporation and agency of the Ministry of Energy that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Class A Consumer –** Large commercial and large industrial consumers with average peak load size above 3 MW, subject to eligibility. Class A consumers pay GA based on their electricity consumption during the five highest peak demand hours during the year. On January 1, 2017 the threshold for Class A eligibility was lowered to 1MW for all consumer types. In April 2017, the threshold for Class A eligibility for manufacturing and certain industries, including greenhouses, was lowered to 500 kilowatts.
- **Non-RPP Class B Consumer –** Commercial, institutional and small industrial consumers, typically with load size under 3 MW. Class B consumers pay GA as a

volumetric rate applied to all electricity consumption. Class B consumers include those Class A eligible that choose not to become Class A.

- **Special Purpose Vehicle (SPV) –**
- **Security Interest –**

Commented [HT4]: TBS: Do you have standard language that you would recommend using?

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. There has been increased media attention and public pressure for the government to provide ratepayer relief. On March 2, 2017, the Ontario government announced its electricity rate mitigation package, Ontario's Fair Hydro Plan, which included the initiatives contained in the proposed legislation. The government has committed to implement further rate relief measures by the summer 2017.

What is the expected cost to government?

The total cost of the proposal is $4.1B [TBC] in 2017/18, $1,599M funded through the fiscal plan and $2.5B to be funded through the electricity rate base.

Commented [HT5]: TBC as this includes the equity injection.

Commented [BA6]: Is it clear here what is mean by "cost"? Fiscal cost plus higher debt.

Commented [JK7]: TBS, pls. check this figure. I believe there is an updated figure ($1,438?).

TABLE 1: Cost Impact ($M)	2017-18	2018-19	2019-20	2020-21
Moving Social Programs to Government-Funded (details provided in the chart below)	499	753	829	892
GA Financing	2,534	2,668	2,942	3,420
OPG Loan / Province's Capital Injection to OPG Share Purchase (i.e. equity injection or debt)	1,100	?	?	?
Cumulative Total	4,133	3,421	3,771	4,312

Commented [BA8]: Maybe should avoid calling this a loan

Commented [RK9]: Should this be just assumed att 44% of the GA deferral amount?

Commented [BA10]: May be confusing to total these amounts. 1st row is a fiscal impact while equity injection represents increase in debt but no fiscal impact.

Commented [JK11]: Also, 2.5bn in 2017-18 includes the Province's capital injection

Commented [HT12]: TBC

The proposed bill identifies OPG as the Financial Services Manager and would therefore take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from the IESO through OPG Trust. ~~The~~ OPG would finance these purchases through a combination of an equity investment by the Province ($1.1 B in 2017-18; See Table 1) and external private sector financing. The structure ~~has been designed to~~would increase gross debt of the Province (to finance the equity injection in OPG), ~~increase interest on debt related to that external debt,~~ increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. ~~The equity investment has been structured so that the underlying regulatory asset will offset the additional debt to not impact the province's net debt.~~

Commented [BA13]: Do we need to distinguish between OPG as financial service manager and OPG Trust which would purchase regulatory assets?

The estimate for the combined impact of the non-Global Adjustment initiatives that would begin in 2017/18 is expected to be $499M in 2017/18, growing to $753M in 2018/19 and rising. This represent~~s~~ed an additional pressure ~~on~~ that has been incorporated into the 2017 Budget's fiscal~~the~~ plan. These estimates are based on variable inputs such as program uptake and future energy consumption of various consumer groups, and are therefore subject to change.

Commented [BA14]: Additional to? As proposed this is the only pressure on the fiscal plan. The GA financing as proposed has no impact on the fiscal plan but does impact debt.

TABLE 2: Fiscal Impact ($M)	17-18	18-19	19-20	20-21
RRRP Enhancements*	344	472	484	497
OESP Enhancements	140	261	325	375
First Nations On-Reserve Delivery Credit	15	20	20	20
Total	499**	753	829	892

***Note:** Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate base.
****Note**: Value adjusted from $665 million to reflect July 2017 implementation.

There is inherent risk in the financial estimates because the calculations are highly dependent on forecasts of the total consumption and bills of customers eligible for the RPP, the cost of borrowing, electricity demand and electricity market conditions and accounting assumptions. In addition, under the proposal, electricity prices would increase around 10% above forecast residential monthly bills from 2028 to 2047.The public may expect that the government is committed to reducing or holding constant the absolute cost of electricity for consumers in the longer term. Under the proposal, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future. (See page 17- Fiscal Pressure)

What are the key steps to deliver this proposal?

- May 11, 2017 - introduce legislation.
- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of the Fair Hydro Plan.
- Information postings of proposed regulations.
- June ?? 2017- Energy to bring regulations to TB/MBC.
- June ??, 2017- Energy to bring regulations to LRC/Cabinet.
- July 1st, 2017- the remaining Fair Hydro Plan reductions and programs would take effect. Programs that are not established on this day for technical implementation issues will have benefits that are retroactively applied to customers once program is operational in individual LDCs.

Commented [HT15]: Energy: Pelase refine

How will the changes be communicated?

Commented [HT16]: CO and Energy Comms to review.

On March 2, 2017, the Premier made a high profile announcement of additional relief to reduce electricity costs for Ontarians. Coinciding with this event, there was news releases with backgrounders, a technical briefing of the media, a public education campaign to raise awareness of the rebates and initiatives in place to reduce electricity bills, and an Ontario website that includes all the programs and initiatives that the government is undertaking to reduce electricity costs.

Building on the previous announcements, on May 11, 2017, the Premier is to make a high profile announcement of the plans to introduce the necessary legislation to implement Ontario's Fair Hydro Plan to provide additional relief to reduce electricity costs for Ontarians.

Given the risk identified that the GA financing may have a fiscal impact, communication will need to be clear that the proposed draft legislation meets the legal, accounting and financial requirements to not have a fiscal impact.

Notes and Recommendation from LRC

LRC item direct to Cabinet.

Cabinet Office Analysis

The proposed legislation allows for the implementation of the main elements of Ontario's Fair Hydro Plan (FHP) announced March 2 to provide further rate relief to Ontario electricity ratepayers. The FHP, including the Global Adjustment (GA) smoothing proposal, will provide residential consumers 25% in rate relief on their bills on average in aggregate (including the 8% announced in 2016) ~~for eligible consumers of the Regulated Price Plan (RPP)~~ between July 1, 2017 and April 31, 2018 ("The Fair Adjustment"). Other eligible farm and small business consumers under the Regulated Price Plan (RPP) would also receive a benefit. Electricity rates would then change by amounts prescribed in the regulations under the bill, with the intention to keep rate increases in line with Consumer Price Index (CPI) between May 1, 2018 and April 30, 2022.

Commented [AP17]: The 25% is an average or for every customer?

Commented [BA18]: Should sentence read "…25% in rate relief on average…"?

Commented [HT19]: Need to add estimate of benefits from the other programs, particularly RRRP as I think the impact, along with GA, is going to be closer to 40 or 50% for some customers

Ontario produces and publishes a Long-Term Energy Plan (LTEP) every three to four years, with the next LTEP scheduled for release in the summer of 2017. LTEP principles that will guide decision-making are affordability, reliability, clean energy, community and Indigenous engagement, and conservation. Through extensive consultation with the public, stakeholders and Indigenous partners through the fall of 2016, the Ministry has identified key priorities, and, Ontario's Fair Hydro Plan combined with new policy or program announcements in the LTEP, will provide the comprehensive future planning perspective for Ontario's energy sector.

Commented [HT20]: Confirm with PO and Energy

1. Refinancing the Global Adjustment

The proposed legislation establishes the framework to defer some of the current GA costs to future ratepayers by recognizing the longer term benefit of these assets to the electricity system ~~(similar to extending and re-financing a mortgage)~~. The methodology is based on the assumption that some generation assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts, and that future ratepayers are expected to continue to be able to utilize and benefit from these assets, and that they will also reduce the need to finance the development of new generation assets in the future.

Many of the contracted generation assets are expected to have useful lives that extend beyond the term of their current financial contracts (typically 20 years). Similarly, conservation costs are recovered through the GA on an annual basis while conservation initiatives can provide benefits to the electricity system over many years.

According to a legal opinion by former Supreme Court Justice Binnie, the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations leaves the process more susceptible to constitutional challenge and could jeopardize the nature of the clean energy adjustment being a regulatory charge, and risk it being deemed an unlawful tax. The bill has been drafted to mitigate this risk and clearly articulates the desire to fairly attribute intergenerational costs and benefits. In addition the bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. (See page 16- Legal Risk)

Key elements of this component of the bill include:

Fair Adjustment

- July 1, 2017- April 30, 2018- the bill outlines an immediate 25% reduction (on average) in rates for eligible residential consumers in recognition of the investment in clean energy initiatives since 2005. Other RPP eligible consumers would also receive a benefit.
- May 1, 2018- April 30, 2022- the bill allows for rates to be set by regulation, with the intention that rates will increase in line with CPI over this time, consistent with government commitments. (See page 17- Fiscal Pressure)
- Ontario Energy Board (OEB) would calculate appropriate adjustments for "specified consumers".

Clean Energy Adjustment

- Determined by Ontario Power Generation (OPG) as the Financial Services Manager, the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principlale, interest, transaction costs and administrative costs associated with the fair adjustment (regulatory/investment asset).
- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- May 1, 2022- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing Independent Electricity System Operator (IESO) and Local Distribution Companies (LDC) processes.
- In accordance with the regulations, the OEB to set the rate at which "specified consumers" are invoiced to recover the clean energy adjustment.

Fair Allocation Amount

Commented [AP21]: OPG intends to recover interest costs every year through the Trust in order to pay the interest payments from debt sourced from the capital markets. Thus, the clean energy adjustment charge would start in 2017, not 2022.

Commented [SQ222]: I had this comment initially too but the opposite side to this is that they will simply capitalize those costs and will result in increased financing requirements over the first 4 years.

- The fair allocation amount is calculated by the Financial Services Manager consistent with the principles of the bill.
- Established for the purposes of allocating the costs of the clean energy initiative to provide inter-generational fairness to rate payers; and aligning funding obligations that may be incurred during each reference period (typically every 6 months).
- Provided to the Minister of Energy who will ensure that the information is made public in an appropriate way.
- Principles established in the bill require proper match over time between the costs of providing facilities for clean electricity generation and conservation and the consumers who benefit from these investments in the system. (Page 16- Legal Risk; See page 17- Fiscal Pressure)

Financing Plan

- Prepared by the Financial Services Manager to determine if potential funding obligations should be incurred to acquire an investment interest in accordance with the bill.
- Provided to the Minister Energy who may remove the Financial Services Manager if the Financing Plan is not consistent with the principles of the bill and the Financial Services Manager has been given the opportunity to address the Minister's concerns.
- May be amended as determined by the Financial Services Manager.
- In practical terms, the Financing Plan is intended to show how debt (with varying degrees of incurrence dates, maturities, interest rates) will be used over time.
- The OEB would review the administrative costs of the Financial Services Manager.

Regulatory Asset and Investment Asset

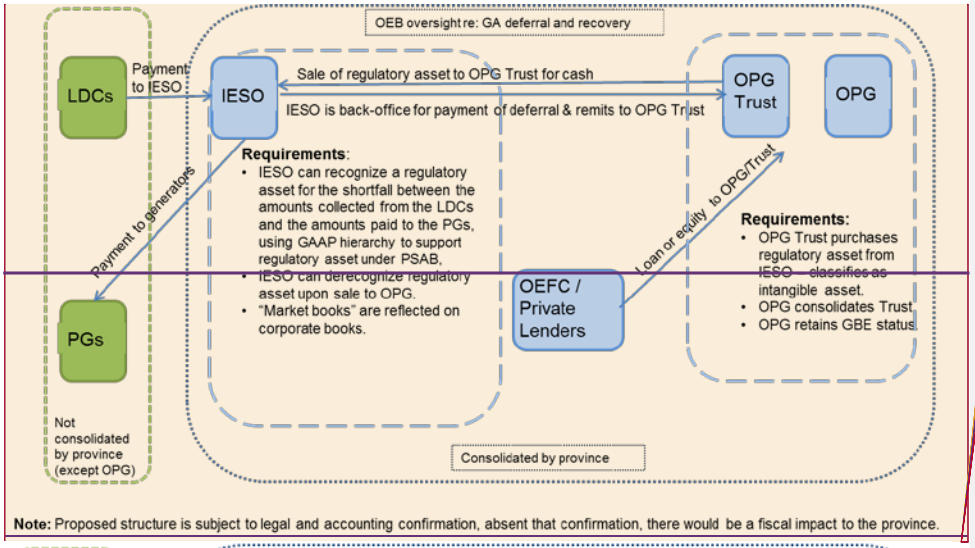
- Regulatory Asset created as IESO incurs a funding shortfall equal to the difference between the rates it receives after the implementation of the Fair Adjustment and the amounts owed under generation and conservation contracts (i.e. the comparison rate minus rates after fair adjustment).
- Subject to OEB approval, IESO would record the funding shortfall as a regulatory asset, as~~.~~ IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until May 1, 2022.
- The Financing Plan contemplates the Financial Services Manager establishing financing entities (OPG Trust/Special Purpose Vehicle (SPV)) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.

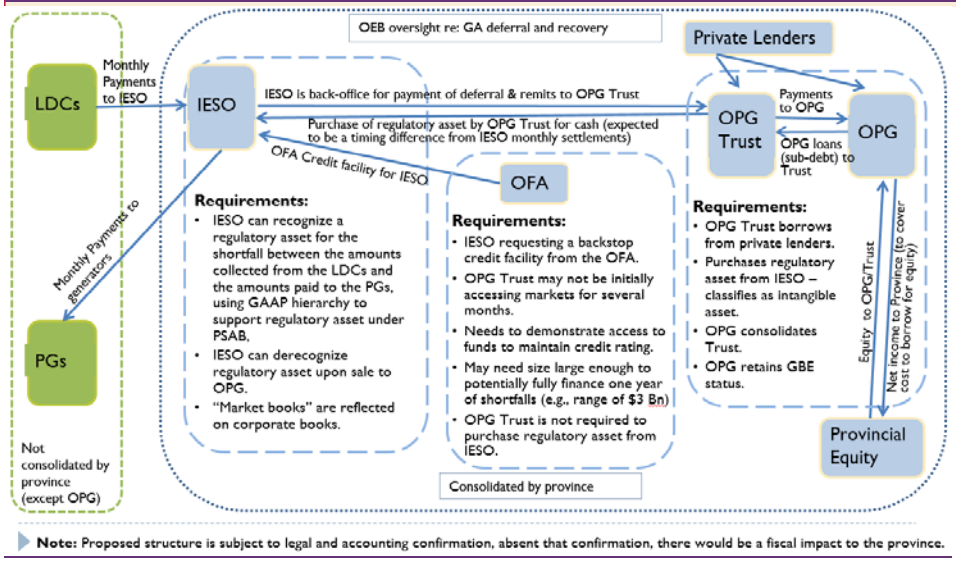
Commented [AP23]: Is this a different point from Ernst & Young advice OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the SPV.

- This purchase and sale turns the regulatory asset into an investment asset for the investment interest owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests including by dividend or undivided interest, consistent with the Financing Plan. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 5 years (May 1, 2022) the IESO has the rights to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority. (See page 17- Fiscal Pressure)
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Crown Undertaking (Guarantee or Backstop)

- The Crown would undertake not to do anything to adversely affect an investment asset or funding obligation, including hinder, impair, prejudice the charging, collection or remittance of the clean energy adjustment.
- The Minister of Energy, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill.
- The Minister of Finance, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.





Commented [HT24]: Energy: Please provide updated chart with terminology from the legislation embedded.

Commented [JK25]: CEFD/OFA will have an updated version for this provided to Energy.

Commented [RK26R25]: To show potential OFA financing to IESO.

Also, need to show Provincial equity into OPG (not from OEFC).

The bill establishes a structure in which the IESO records the GA cost recovery deferral ~~is recorded~~ as a regulatory asset (regulated by the OEB), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time ("The Fair Adjustment"). Eligible residential consumers would receive an average 25% reduction in electricity rates from July 1, 2017 to April 30, 2018. Eligible farms and small businesses would also receive a benefit. The IESO may then

Commented [HT27]: Section to be compared against the legislation's compendium when available.

sell the regulatory asset, at which time it becomes an investment asset. The investment asset owner (OPG Trust/SPV or trust "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

Under the proposed framework, OPG, acting in its role as the "Financial Services Manager", and following the principles in the bill, would regularly calculate the "Fair Allocation Amount" to ensure a proper match of the allocation of the intergenerational costs and benefits. To recoup the costs associated with the fair adjustment, consumers, starting in May 2022 would be invoiced the "Clean Energy Adjustment" on their electricity bills through existing IESO and LDC processes. The OEB would set the rates at which the clean energy adjustment could be collected.

OPG is planning to create a SPV or Trust to finance the GA. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. The variability will likely largely result from the financing of the SPV/Trust, and therefore OPG will have the ability to direct the financing of the Trust and both benefit from its financing strategy and be at risk as a result of it.

OPG Trust/SPV will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG's debt would be funded through a combination of an equity investment by the Province (See Table 1 on page 4) and external financing through a securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG (to offset the interest on debt). ~~The proposed structure is expected to result in: (1) increase in provincial gross debt offset by an equivalent in regulatory assets resulting in no change in net debt, and (2) an increase in interest on debt paid by the province offset by higher earnings from OPG resulting in no impact on annual deficit of the province.~~

The legislation commits the government to backstop the financing if the government were to ever hinder the collection of the clean energy adjustment including revoking or changing the legislation or regulations. In other words, the OPG and its debt holders would have their capital guaranteed and paid for directly by the Province if such a situation were to occur. The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time, but could be as high as $1-1.5B annually [TBC]. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future.

The proposed structure has been extensively reviewed by KPMG (Energy advisor and IESO auditor), and the firm has provided an accounting opinion confirming the validity of the structure under PSAB [TBC]. This opinion can be made public [TBC] to support the governments rational for the plan. In addition, MAG and Blakes are confident that the structure is constitutionally sound, but that this will depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism. Based on the

Commented [SQ228]: Has this been a plan to define? Annually? Semi-annually? Monthly?

Commented [SQ229]: This should be prefaced with the fact that this risk only arises after OPG would have decided to purchase the Regulatory Asset from IESO, which it is not obligated to do so.

Commented [JK30]: In the latest legislative drafting we have seen.

Commented [SQ231]: This is focussed on accounting fiscal impact but cash flow impact is still present. Province would require cash to pay for IOD and unless those higher earnings (re: cash) is divdended back to Province to cover IOD payments, my guess would be that there is a fiscal impact in terms of IOD.

Commented [JK32]: Albeit relatively small compared to the deferred GA amounts.

Commented [HT33]: Based on commentary from implementation meetings. Don't believe this includes estimates of private lender borrowing costs. Please advise

Commented [SQ234]: Furthermore, this would likely be the "additional" impact. The Province's equity injection, which is currently offset by expected higher earnings, would cease to exists resulting in fiscal impact as well. Could result in $2-3B annually. Please confirm.

Commented [HT35]: Energy to confirm

current analysis there is a moderately high risk that the GA financing will have a fiscal impact on the Province before 2022.

For clarity: the following structural requirements have been met: [TBC]

Commented [HT36]: TBC based on receipt of professional opinions etc.

- IESO requirements :
  - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB;
  - IESO can derecognize regulatory asset upon sale to OPG;
  - "Market books" are reflected on corporate books; and,
  - OEB to act as regulator.

Commented [SQ237]: Currently, I don't believe this is the case for IESO. Will this be the case going forward?

- OPG requirements:
  - OPG Trust/SPV purchases regulatory asset from IESO – classifies as intangible asset;
  - OPG consolidates Trust/SPV; and
  - OPG retains GBE status.

However, despite the fact that the structure has satisfied the legal, fiscal, and accounting requirements outlined in the policy submission, there remain some fundamental risks that the province would need to accept:

- The structure is unique in Canada and possibly the world, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the Unites States, but officials are currently unaware of any example that would compare to the size, complexity, or fluidity of what is proposed;
- Complexity of the structure and length of deferral/recovery increases risk and decrease transparency;
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan;
- Government would not know the price of private borrowing that would be required for the OPG Trust to work and will have limited control over OPG's direct operations as the Financial Services Manager. While removal of the Financial Services Manager is provided for in the bill, in practice this may prove problematic once the system is operational; and
- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and therefore its saleability. Could decrease amount of rate reduction achievable under this mechanism.

2. Enhancing electricity supports for vulnerable Ontarians and shifting costs from rate payer funded to government funded:

<u>Moving the Ontario Electricity Support Program (OESP) to the tax base:</u>

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The program was launched in January 2016 and has had roughly 30% enrolment. Consistent with Cabinet direction, the program was recently expanded to increase the existing benefit scales by 50% and provide additional credits to more households.

Under the expanded program the basic OESP benefit scale increased from $30-$50 to $45-$75 a month and the enhanced OESP benefit scale would increase from $45-$75 to $68-$113 a month for eligible consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to allow for the program to transition from the rate base to the tax base, and become administered by a Ministry or other entity as may be prescribed. The cost to the fiscal plan would be $186M in 2017/18. The bill provides further amendments designed to allow information sharing between the Ontario Disability Support Program (ODSP) and the entity responsible for OESP. The intention is that this information sharing will allow for the automat enrolment of individuals that are already enrolled under the ODSP, but it is currently unknown to what extent this will significantly impact the enrolment under the program.

Commented [HT38]: ENERGY: do you have any numbers on this point? Were other programs considered other than ODSP? Can we put something in about continuing efforts to improve the enrolment?

RRRP Enhancement (Delivery Charge Relief):

Currently, RRRP is a $241.9M program paid for by the ratepayers. For an average residential customer, the cost of supporting RRRP is roughly $1.58 per month. For other customers, the cost to support the RRRP can range from $65 for a greenhouse to $8,000 for a medium industrial. RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province, including Hydro One R2 customers. The delivery charge includes a distribution cost, which can vary across LDCs, and distribution costs are highest for Hydro One R2 and R1 (medium density) customers.

There are also some LDCs with relatively high distribution costs that, when coupled with high consumption patterns, can result in very high bills for consumers (Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma).

In 2016 the OEB made a ruling that all LDCs need to move to fixed distribution charges. The OEB found that fixed distribution charges would establish a fairer way to recover the costs of providing distribution service, and provides greater revenue stability for distributors, which will position them for technological change in the sector, remove any disincentive to promote conservation, and help with their investment planning.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a distribution rate protection program and the ability to cap the distribution charges of prescribed distributors. The amendments also establish that this program will be funded by the tax base.

The intention is to draft regulations permitted under this section of the bill to Harmonize the fixed distribution rates to the lowest distribution cost of the LDCs mentioned above

at $38/month (which is the forecast rate for Northern Ontario Wires). If the costs of another LDC moved above these in the future, a regulation change would be required to for that LDC to receive RRRP. These enhancements are expected to benefit approximately 800,000 customers in Ontario.

Targeted RRRP consumers would see additional savings on their monthly bill that would vary based on their consumption level and cost to fiscal plan would be $344M in 2017/18, $243M of which is a transfer of existing programs to the tax base. If the legislation and required regulations are passed, the program would become active as of July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Commented [HT39]: Need new estimate of transferred program cost starting from July 1.

On-reserve First Nations Delivery Credit

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances. In this instance, historic grievances relate to lands affected by energy developments.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a tax base funded delivery credit program for on-reserve customers with the details as prescribed in the regulations. The intention is to enact regulations that would eliminate the delivery charge for all on-reserve First Nation household customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate.

Eligible recipients would be automatically enrolled in the program (~21,500 customers) and receive an average monthly benefit of $85. The program will cost approximately $20M annually and, provided the legislation and regulations are passed, would become effective July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Expected Impacts of the Proposal on Electricity bills:

The impact of proposed legislation to an eligible customer's bill in July 2017 is an average 25% decrease (combined with the equivalent amount to the 8% provincial portion of the HST from ORECA effective Jan. 1, 2017) for residential consumers, followed by an increase in price over time. This includes the ~~8%~~ rebate for an equivalent amount to the 8% provincial portion of the HST that came into effect on January 1, 2017. Between May 2018 and April 2022 electricity rates will be set by regulation with the intention that rate increases would be kept in line with CPI.

Commented [HT40]: ENERGY: Can you provide analysis on the impact for customers that will receive the RRRP etc?

Customers that are eligible for the RRRP enhancements and the OESP will see further reductions in their electricity rates beyond the 25%

Residential (750 kWh/month)	Actual 2016	2017	2018	2019	2020	2021
Total Bill (includes HST)	**158**	**164**	**167**	**170**	**181**	**178**
Total Bill (excludes HST)	140	145	148	150	160	158
Impact of GA Financing		-26	-26	-26	-32	-28
Impact of Tax-Basing Social Programs		-2	-2	-2	-3	-3
Subtotal		117	120	122	125	127
8% rebate		-9	-10	-10	-10	-10
HST		15	16	16	16	17
Revised Bill (includes HST)	**158**	**123**	**126**	**128**	**131**	**133**
Year-over-Year Change		-22%	2%	2%	2%	2%
Change from Forecast		**-25%**	**-25%**	**-25%**	**-28%**	**-25%**

Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	**160**	**165**	**160**	**162**	**173**	**169**
Class B Revised Total (excludes HST)	**160**	**162**	**157**	**159**	**170**	**166**
Year-over-Year Change		1%	-3%	1%	7%	-2%
Change from Forecast		-2%	-2%	-2%	-2%	-2%

Large Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class A Total (excludes HST)	**90**	**91**	**93**	**88**	**95**	**96**
Class A Revised Total (excludes HST)	**90**	**88**	**90**	**84**	**92**	**93**
Year-over-Year Change		-2%	2%	-6%	9%	1%
Change from Forecast		-4%	-4%	-4%	-4%	-4%

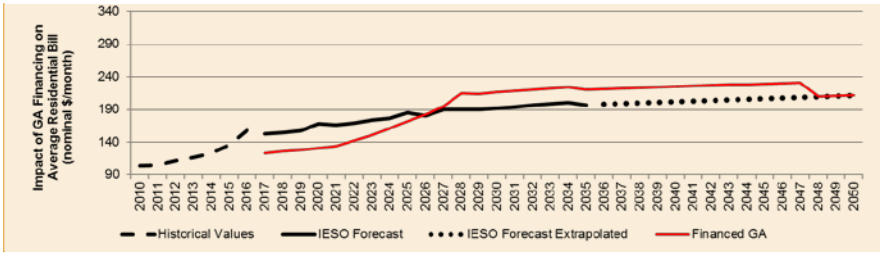
Notes: *Based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing.*

Commented [HT41]: Energy to provide updated chart

Risks and Considerations:

Future Impacts to Electricity Rates

Borrowing money to defer GA costs for ratepayers would lower costs in the short term but result in substantial debt and higher electricity prices in the future. Based on the GA deferral portion of the plan, electricity prices would increase to about 10% above the actual cost of electricity over the recovery period (peaking at 13%). The proposal may create the expectation that the government is committed to reducing or holding constant the absolute cost of electricity for consumers. Under the proposal, the government would not have the ability to control this portion of electricity rates in the future outside of recourse to the fiscal plan.



Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at a maximum of 13% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Commented [HT42]: ENERGY to confirm if this needs to be updated.

The government may be criticized for creating a new debt structure which could be compared to the previous debt retirement charge (DRC). The previous debt retirement charge was removed from residential bills in January 2016 and is scheduled to be removed for remaining customers in April 2018.

Future repayment cost estimates are based on a static assumed interest rate of 5% (actual interest rate may differ), and forecast electricity market conditions and demand levels. Declining demand levels due to conservation, technology adoption, and self-generation would increase the costs borne by remaining customers to decease the debt associated with GA financing. This would increase the risk that the province would have to absorb some of the debt in the future. To mitigate against the risk that increased self-generation poses, the bill provides that the Clean Energy Adjustment may not be "set-off". In other words, it would exist as a separate and distinct component of the bill that could not be reduced by methods such as net-metering.

Not all generating assets will continue operations at the end of their contract. If the Fair Allocation Amount is not properly designed, future rate payers will be paying the cost for assets that are no longer in use, which would be unconstitutional-, unless legislatively authorised as a tax (See page 1~~6~~7- Legal Risk). High capital costs, equipment obsolescence or surplus capacity / low demand conditions mean that some generators will shut down at the end of their contract. Future ratepayers would be paying for these assets that no longer produce power in paying down the deferred GA and accumulated interest costs.

Accounting and Provincial Credit Rating and Borrowing

The significant amount of additional provincial borrowing needed to refinance the GA and associated risks and fiscal costs (interest rates, repayment timelines) could put pressure on the Province's credit rating and overall borrowing capacity.

The complexity of the structure and length of deferral (i.e., recovery of debt) increase the overall risk of the proposal and decrease transparency to the public. The structure of the GA deferral was designed to result in an (1) increase in provincial borrowing (2) no

increase in net debt, and (3) no impact on annual surplus/deficit. However, depending on funding to OPG/ OPG Trust from the Province, an increase in interest on debt and an increase on income from OPG will result. The structure is also contingent on the size of the GA deferral that is seen as possible, which, as previously mentioned, increases the likelihood of pressures on the fiscal plan in the near future. (See page 17- Fiscal Pressure)

Rating agencies and investors in the Province's debt may view all of the borrowing (whether by the Province directly or the OPG Trust) as an obligation of the Province. Depending on the magnitude of the debt incurred, the Province's borrowing cost may be impacted.

The Ontario Auditor General (OAG) has been briefed on the proposal and has had access to the March 1, 2017 policy submission for the Fair Hydro Plan. While the auditors of OPG and IESO have provided their assessments and the Office of the Provincial Controller Division (OPCD) has been engaged, the OAG has historically raised concern with "rate regulated accounting" and may take this into account when the provincial books are audited (i.e., it may impact whether the OAG qualifies the provincial books).

Based on early assessments, only a maximum of 18% rate relief [TBC] can be justified by amortizing contracts over the useful life of the underlying assets. Reducing electricity rates up to or beyond this amount is dependent on increased borrowing. All of the deferral is dependent on increased borrowing. The 18% referenced here is the limit based on review of the contracts and a Eurig assessment and also includes the rebate for an amount equivalent to the 8% provincial portion of the HST~~reduction~~ that was already provided.

Commented [HT43]: To be updated when Navigant prelim report and OPG analysis complete

Legal Risk – constitutionality of financing the GA

The current GA amount paid by consumers is a regulatory charge. One of the requirements of a valid regulatory charge (as opposed to a tax) is that the person paying the charge either benefits from the regulatory scheme or causes the need for regulation. In principle, refinancing a portion of the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Former Supreme Court Justice Binnie has provided legal analysis of this proposal, stating that the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations could jeopardize the nature of this being a regulatory charge.

A proposal for refinancing the GA that appears to cross-subsidize near-term consumers at the expense of long-term consumers by back-loading costs more than if costs were spread equally over the estimated lifespan of generation and conservation assets presents a moderately high risk (more likely than not) of constituting a tax. If the government fails to establish that the relevant electricity generating assets will continue to

perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).Were the charge characterized as a tax, in the event of a challenge, it would be struck down by a court as unconstitutional and consumers would be entitled to recover their payments. This risk could be eliminated, either up front or retroactively, by the imposition of a valid tax.

The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

The bill has been drafted to mitigate the constitutional risk of the proposal and clearly articulates the desire to balance the costs and benefits of assets across generations. The bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. In addition, external consultant Navigant has provided an interim report on the costs and benefits of the long lived assets which supports the previous conclusions regarding the size of the GA deferral that would be supportable. This is further supported by the conclusions of OPG's independent analysis of the question.

Commented [HT44]: TBC

Commented [HT45]: ENERGY please confirm. Need to clearly articulate any differences that may exist between these analyses

MAG and Blakes are confident that the structure is constitutionally sound, but, as identified above, that this will highly depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism.

In addition, the structure of the GA refinancing means that the infrastructure included as part of the clean energy adjustment (i.e. amortized over 30 instead of 20 years) will need to be in service over the entire 30 year amortization period or provide benefits to the system in some way over the whole period. In practice this may mean that the government will have limited ability to alter the generation mixture included under the clean energy adjustment, including natural gas generation facilities, which may at some point be seen as inconsistent with the province's commitments to reduce greenhouse gasses. This risk has been mitigated in the bill, by allowing for prescribed natural gas generation contracts to be excluded from the clean energy benefit calculation.

Commented [HT46]: Needs ground truthing

Fiscal Pressure

Commented [HT47]: TBS please review closely

This proposal aligns with the 2017 Budget fiscal plan, but involves significant ongoing risks. The proposal does not include a scheduled review period or an end date, resulting in an ongoing fiscal pressure, which may increase in the out years, and could only be removed by a legislative amendment.

The cost projections in this proposal are highly sensitive to interest rates and other assumptions:

- The proposal assumes GA refinancing does not have a fiscal impact because the associated legal authority and accounting treatment requirements are met. If the costs of GA refinancing were accounted for as an expense to the fiscal plan, the fiscal impact would be significant.
- The term and timing of the GA refinancing are highly dependent on the IESO's forecast of GA costs and actual interest rates.

The extent of fiscal pressures is also dependent on other factors (i.e., OAG could qualify Ontario's books or issue an adverse opinion). Due to the complexity and size of the proposal, the government has commissioned external opinions on the legal, fiscal, and accounting requirements. Energy's advisor and IESO auditor, KPMG, has provided an accounting opinion that the principles of the structure are sound, and this opinion can be released publicly when desired. This opinion may not change the likelihood of a contrary opinion by the OAG, but does provide a tool for government to point to in justifying its decisions.

Commented [HT48]: TBC

There is also a risk that credit rating agencies and the market may take an alternate view as to the size of the GA deferral that is possible before becoming unconstitutional. If the Fair Adjustment exceeds this analysis, it may increase the perceived risk of the investment asset and therefore its financeability / saleability, which would result in reduced market uptake and reduce the amount of near term rate reduction that would be achievable under the plan. This is why the increases in electricity rates between May 2018 and April 2022 are to be set by regulation as opposed to legislating that they increase by CPI. It may not be possible to legally hold the rate reductions to increase by CPI, and if the government wanted to hold to this commitment, the difference would need to come out of the fiscal plan, which has not been forecasted. Each percentage point of reduction that the structure cannot provide would result in an approximate $150M [TBC] cost to the tax base. This has not been provided for in the bill, but it is likely that the government will receive questioning along these lines and why the previously committed CPI increases are not explicitly stated in the bill.

Commented [HT49]: Needs ground truthing

Note that if the IESO is not able to sell the regulatory asset (i.e., the OPG SPV is unable to get financing to purchase it), then the IESO would require financing from an alternative source. The IESO has requested a backstop credit facility from the Ontario Financing Authority. This would be associated with a fiscal impact risk.

There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Legislative Officers

The Ontario Auditor General (OAG) has expressed views on rate regulated accounting, which will likely be raised again upon the announcement of this suite of initiatives. The

Commented [HT50]: Energy to update.

OAG was provided copies of the Cabinet Submission seeking policy approval for Ontario's Fair Hydro Plan and has been briefed by officials from the Ministry of Energy. The OAG will have opportunities to publicly state her views through the Public Accounts committee in the summer of 2018 and in her pre-election report.

The Financial Accountability Officer (FAO) has not been consulted on this proposal and is expected to have an opinion on how this proposal may impact the state of the province's finances.

Commented [HT51]: Energy to update from discussion with FAO

OPG Mechanism

- Accountability
  - Bill attempts to balance the independence of the OPG trust with regulatory oversight and the market's need for certainty in recovering the GA financing that it provides.
  - Accountability to the government or the public, amount of government control of the entity, including future rate increases.

Commented [HT52]: Needs to be recast given limitation on control after initiated

- New structure
  - Structure is complex, involving:
    - IESO as originator of the regulated asset and responsible for flow of funds;
    - OEB as regulator of the new mechanism;
    - OPG responsible for financing and managing the mechanism; and
    - The Province providing ongoing equity capital infusions to OPG and backstop.
  - Addition of financial agency to current operational obligations of OPG – not the current expertise of OPG. However, OPG has experience managing large financial assets and liabilities through the jointly managed Ontario Nuclear Funds as well as its own pension fund. In addition, could possibly dilute OPG's focus on current high priority responsibilities (i.e., electricity generation and nuclear refurbishment).
  - This financing structure would be unique to Canada – uniqueness reduces likelihood of all risks being known/mitigated. Highly specialized expertise would be required.
  - Connection to BPS compensation framework/lack of national comparator.
  - Unknown transaction, admin, consultant costs. OEB would review OPG's cost as the Financial Services Manager
- Debt
  - Opportunity for significant shifting of the Ontario's electricity sector over the lifespan of the repayment (30 years). Through sector/policy/government position shifting, possibility of new entity/structure abandoning debt and Ontario having to take a write down.

  - Risk transfer / portion of debt that Ontario would be responsible for would be the higher risk portion.
  - Repayment plan and impact on rate payers highly dependent on interest rates

- Public perception/reaction (could be seen as similar to the process preparing Hydro One for IPO).

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change.

- Program design will require an evaluation of whether the existing programs are effective and achieving their outcomes (e.g. the OESP has a current uptake of 30% and program changes are proposed in advance of an increased effort to reach 100% uptake)
- The OESP matrix no longer follows the Low Income Measure (LIM) which creates inconsistencies between how programs are applied and may put pressure other provincial programs to increase funding amounts.

Benefits for all Consumer Classes

The Fair Hydro Plan includes some benefits for all consumer classes as well as targeted benefits to those with the greatest need. It is likely that the government will be criticized for providing benefits to those who may not be in need (e.g., wealthy cottage communities, etc.).

Stakeholder Considerations:

General public (including residential and small businesses) – Likely support a proposal that is projected to provide up to 25% in rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but likely to question the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications.

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral the remainder of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an

expectation government is going to take specific action to mitigate their increases due to Cap & Trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Commented [HT53]: Confirm work still ongoing on this piece

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generation as part of the "Clean Energy Adjustment."

Solar PV sector – May react negatively to price relief as it can be seen to undercut the affordability of distributed renewable generation assets such as solar PV, and undermines the economic arguments behind net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

Delivery:

If passed, the legislation will enable the price mitigation measures to begin to take effect on July 1, 2017. The 2017 LTEP will be released to the public in the summer2017 and would reinforce/integrate with Ontario's Fair Hydro Plan. Regulations are required under the major components of the legislation in order to fully implement the initiative and clarify program details.

Commented [HT54]: TBC

1. Refinancing Global Adjustment assets in order to defer ratepayer costs / Mechanism to defer GA costs

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

Commented [HT55]: This needs more elaboration and confirmation. Last discussion I was part of on this point hadn't landed exactly how long it is expected that the IESO retains the Reg Asset for before sale to OPG.

2. Enhancing Social and Conservation Programs

OESP Enhancements

New OESP program details would require TB/MBC approval.

Changes to regulation will be required to establish and define the parameters for the proposed changes. The financial flow-through mechanism would likely be modelled after processes used for the OREC (8% rebate). The amendments made in this bill allow for a transition period where the program continues to draw on the existing IESO variance account until the account can no longer maintain the program. IESO is required to notify the Ministry of Energy when it expects the variance account to be depleted (likely sometime in the fall). At this time

The proposed changes will take time to implement as they would require changes to the central system and the LDCs' billing systems. The OEB and their central service provider will need to work with LDCs, MOF, and the CRA on the changes to this program (delivery mechanism, funding source, application system, eligibility).

Commented [HT56]: Requires update

RRRP Enhancement

Regulations would be required to establish the details of the program. OEB estimates that the implementation would take at least six months after finalizing regulations. For this reason it is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st which will put an immediate pressure on the OEB and LDCs as implementation is required no later than October 1, 2017. A mechanism will need to be created to ensure that all parties are aligned in the yearly forecasting and costing of the program.

On-Reserve First Nations Delivery Credit

The OEB would need to work with the LDCs to identify the eligible on-reserve consumers. A communications plan could include public release of the OEB report and a commitment to working with the LDCs on implementation details.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Once available, the rebate would appear on customer's electricity bills as a reduction in, or credit for, their delivery line.

There is a risk that either non-status Indigenous communities without reserves or Metis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Linkages:

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer-fall 2017. These plans identify needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The Ontario Rebate for Electricity for Electricity Consumers Act, 2016, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) was a five-year legislated program put in place as a broad-based (RPP-eligible), transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB expired on December 31, 2015.

Commented [RK57]: TBC

Debt Retirement Charge – On January 1, 2016 the government ended the electricity Debt Retirement Charge (DRC) on residential users, earlier than planned, and put in place the low-income targeted OESP, effective 2016. For all other consumers, the Electricity Act was amended so that the DRC is ~~schedul~~legislated to be removed ~~by~~ April 1, 2018.

Industrial Conservation Initiative – Ministry of Energy program implemented in January 2011 to help large industrial consumers reduce their electricity costs by ~~shirftin~~reducing electricity consumption ~~away from~~ in peak periods. As part of the Fair Hydro Plan, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all electricity consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – approved as part of Ontario's Fair Hydro Plan, and under development, the Affordability Fund is intended to expand access to conservation funding to targeted consumers that do not currently qualify as low-income for the purposes of the Home Assistance Program (HAP).

Commented [HT58]: insert

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded~~met~~ by the January 2017 ~~8%~~ rebate amount equal to the 8% provincial portion of the HST.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings. **Note:** Funding electricity support programs through the tax-base rather than the rate base will also provide saving to Class A and B consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON)- is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed to "consider options for legislation/regulation change that lessen the impact on residential tenants of increased energy costs from cap and trade". As part of the review of the Residential Tenancies Act, the Ministry of Housing is working on a proposal that will address that commitment. The proposal is expected to come to Cabinet in spring 2017.

Commented [HT59]: To get updated language on the RTA amendments

Proposed Cabinet Minute

Approval of draft bill for introduction

Cabinet approved version XX-XX of this draft legislation for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.

From:	Strang, James (TBS)
To:	John Kim
Cc:	Bruno Amara; Felix Fung (MOF)
Subject:	RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date:	Wednesday, May 03, 2017 11:50:04 AM

This should be included in Energy's TB/MBC submission with a requested minute. The submission should speak to size of the credit facility and fiscal plan implications.

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 2, 2017 2:38 PM
To: Strang, James (TBS)
Cc: Bruno Amara
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

While I don't see why we wouldn't facilitate the request, we would require Minister's authorization of some sort and staff level, we view that TB/MBC should be made aware of the request/requirement.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Tuesday, May 02, 2017 2:34 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

CO has a question below. Is this an OFA decision, or is a TB/MBC decision needed?

From: Hindmarch-Watson, Tim (CAB)
Sent: May 2, 2017 1:58 PM
To: Strang, James (TBS)
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Thanks James.

At a few points in the OFA comments they say "The IESO has requested a backstop credit facility from the OFA." Do you know if the plan is to grant this request?

Thanks!

Tim Hindmarch-Watson
416-325-4618

From: Strang, James (TBS)
Sent: May-02-17 12:43 PM
To: Hindmarch-Watson, Tim (CAB)
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Tim, just got some feedback from Ontario Financing Authority.

James

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 2, 2017 12:39 PM
To: Strang, James (TBS)
Cc: Bruno Amara
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Hi James,

I sense we missed the boat and there's new information but see attached comments/edits.

John

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Monday, May 01, 2017 8:51 AM
To: Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Cc: Felix Fung (MOF) <Felix.Fung@ontario.ca>; Chris Skubel (MGS) <Chris.Skubel@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sandy Luk (MOHLTC) <Sandy.Luk@ontario.ca>
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

Draft note from Cabinet Office. They're looking for feedback by EOD today (May 1).

I'm happy to coordinate any responses.

James

From: Hindmarch-Watson, Tim (CAB)
Sent: April 28, 2017 3:46 PM
To: Fung, Felix (TBS); Skubel, Chris (TBS)
Cc: Strang, James (TBS); Moore, Karen (CAB)
Subject: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

Hi Felix and Chris:

As mentioned earlier in the week, please find attached the draft CBN re the rate mitigation legislation for the TBS' review (password same as previous materials). This has been prepared with no materials and should be reviewed closely. I have left comments in the margin where I am looking for specific review or confirmation of particular details. I am interested in ensuring alignment in how we are characterizing the proposal and its risks.

The note is a bit on the longer side at the moment, so suggestions to economize without losing key pieces would also be helpful.

The note is undergoing concurrent review with Energy and my management now. My ADM will likely pass this along to Cindy and Karen for concurrent review given the time crunch, but please feel to pass along

as well.

Please try to have any comments to me by EOD on Monday so I can get it to my DM and the Secretary on Tuesday.

Have a great weekend,

Tim Hindmarch-Watson
Policy Advisor
Justice, Resource and Environmental Policy
Policy and Delivery Division
Cabinet Office
416-325-4618

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From: John Kim
To: James Strang (MOF)
Cc: Bruno Amara
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date: Tuesday, May 02, 2017 3:11:06 PM

One more point James along this line. It's fairly important in my view….

In the Minute, could we have something like:

"Note that the IESO has requested a credit facility from the OFA to manage liquidity issues between the time IESO requires financing for monthly settlements to meet the requirements of the FHP, and the time when OPG's SPV purchases the IESO regulatory asset, or as a backstop in the case of the regulatory asset not being purchased for a period of time. Note that the Minister of Finance will provide a directive to the OFA to provide a new or expanded credit facility for this purpose."

We are open to better wording from the experts on the Minute item and also as tied to the legislation terminology.

John

From: John Kim
Sent: Tuesday, May 02, 2017 2:38 PM
To: James Strang (MOF) <James.Strang@ontario.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
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Sent: Monday, May 01, 2017 8:51 AM
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Cc: Felix Fung (MOF) <Felix.Fung@ontario.ca>; Chris Skubel (MGS) <Chris.Skubel@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sandy Luk (MOHLTC) <Sandy.Luk@ontario.ca>
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

Draft note from Cabinet Office. They're looking for feedback by EOD today (May 1).

I'm happy to coordinate any responses.

James

From: Hindmarch-Watson, Tim (CAB)
Sent: April 28, 2017 3:46 PM
To: Fung, Felix (TBS); Skubel, Chris (TBS)
Cc: Strang, James (TBS); Moore, Karen (CAB)

Subject: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

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Have a great weekend,

Tim Hindmarch-Watson
Policy Advisor
Justice, Resource and Environmental Policy
Policy and Delivery Division
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416-325-4618

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From: John Kim
To: Ronald Kwan
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date: Tuesday, May 02, 2017 3:09:05 PM

Great idea Ron….will pass that on.

From: Ronald Kwan
Sent: Tuesday, May 02, 2017 3:08 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: Re: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Hi John,

I think it might be nice to have in the Minute something like "Note that the IESO has requested a credit facility from the OFA to manage liquidity issues between the time IESO requires financing for monthly settlements to meet the requirements of the FHP, and the time when OPG's SPV purchases the IESO regulatory asset, or as a backstop in the case of the regulatory asset not being purchased for a period of time. Note that the Minister of Finance will provide a directive to the OFA to provide a new or expanded credit facility for this purpose."

Very open to better wording, or jargon tied to the draft legislation terminology.

Ron

From: John Kim
Sent: May 2, 2017 2:46:54 PM
To: Ronald Kwan
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Yes, we did.

We don't have a revised version yet but James shared the same FPC deck we have checking in.

Pls. see attached.

John

From: Ronald Kwan
Sent: Tuesday, May 02, 2017 2:43 PM
To: John Kim <John.Kim@ofina.on.ca>
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Also, did we get it through TBS?

I'd like to keep the DMO in the loop on this.

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Fyi, pls. note the CO inquiry.

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To: James Strang (MOF) <James.Strang@ontario.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

While I don't see why we wouldn't facilitate the request, we would require Minister's authorization of some sort and staff level, we view that TB/MBC should be made aware of the request/requirement.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
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416-325-4618

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Sent: May-02-17 12:43 PM
To: Hindmarch-Watson, Tim (CAB)
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Tim, just got some feedback from Ontario Financing Authority.

James

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 2, 2017 12:39 PM
To: Strang, James (TBS)
Cc: Bruno Amara
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Date: Tuesday, May 02, 2017 2:46:55 PM
Attachments: DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup3.docx
5 2017-05-09 RAN OPG Business Plan v2_Markup3.doc

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Ontario

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy

DRAFT Financing Global Adjustment

Commented [HT1]: Name as in EVista- Will update as item is updated.

Cabinet (info)	TB/MBC	Cabinet	Announcement	TB/MBC	Cabinet	Introduction
Feb 15, 2017	March 1, 2017	March 1, 2017	March 2, 2017	May 9, 2017	May 10, 2017	May 11, 2017

Summary of Proposal

The proposed legislation contains a variance from Cabinet direction, which is detailed in the ministry's variance memo and within this note.

Context for Decision:

This proposal follows Cabinet direction to the Ministry of Energy to take the necessary steps to implement electricity price mitigation initiatives that would provide additional rate relief to Ontario electricity ratepayers.

The proposed legislation enables approaches to fairly allocate the costs of the Global Adjustment (GA) amongst current and future electricity rate payers, and help the most vulnerable Ontarians through enhancements to electricity support programs through ~~tax base~~government funding. To fully implement the initiative, the Ministry of Energy will be seeking future approvals for regulations identified in the proposed bill, while working to maintain existing public policy objectives such as~~:~~ maintaining a reliable electricity system, Ontario's commitment to reducing the impacts of climate change and commitment to achieve greenhouse gas (GHG) reduction targets.

The proposed legislation:

1. Establishes a framework to finance a portion of the GA costs in order to reduce costs for ratepayers in the near term and spread the costs of the GA more fairly across ratepayers between July 1, 2017 and April 30, 2047:
   - July 1, 2017 to April 20, 2018, reduces after-tax electricity costs for specified consumers by 25%.
   - May, 1 2018 to April 31, 2022, electricity rates will be set by Order in Council (OIC) with the intention to keep increases in line with the Consumer Price Index (CPI) (See page 17- Fiscal Pressure)
   - May 1, 2022 to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and

Commented [RK2]: 30?

administrative costs, around 10% of total electricity costs. (See page 14- Future Impacts to Electricity Rates)

Commented [HT3]: TBC by Energy

- Through the bill and subsequent amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998, e*xpanding the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO), to provide for appropriate oversight, putting in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the deferred GA costs. (See page 19- OPG Mechanism)

2. Expands electricity support programs for the most vulnerable consumers and moves program costs from the rate base to the tax base. The bill amends the *Ontario Energy Board Act, 1998* to:
   - ~~M~~move the recently expanded Ontario Electricity Support Program (OESP) to ~~the tax base~~be government funded, transition the program to be administered by the Crown, and to enable information exchange between the Ontario Disability Support Program to potentially allow for automatic enrolment procedures to be established;
   - ~~Amends the Ontario Energy Board Act, 1998 to e~~enable a broadening of the Rural or Remote Electricity Rate Protection (RRRP), including harmonizing distribution costs for customers with the highest distribution rates and moving the program to be government funded~~the tax base~~; and,
   - ~~Amends the *Ontario Energy Board Act, 1998* to~~ require the establishment of a government funded program to provide a delivery credit to prescribed on reserve customers.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price, helping to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, fixed generation costs, such as renewables, gas and nuclear contracts, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:

  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable, per unit charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable, per unit charge and a fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.
  - Line Loss: The costs to recover electricity that is lost as heat when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One –** Customer service types are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. The more customers there are in the area, the lower the cost to serve. R1 customers are considered 'medium density' customers and R2 are considered 'low density customers.'
- **Ontario Power Generation (OPG) –** A business corporation owned by the ~~p~~Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to comment on various items.
- **Independent Electricity System Operator (IESO) –** An independent corporation and agency of the Ministry of Energy that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Class A Consumer –** Large commercial and large industrial consumers with average peak load size above 3 MW, subject to eligibility. Class A consumers pay GA based on their electricity consumption during the five highest peak demand hours during the year. On January 1, 2017 the threshold for Class A eligibility was lowered to 1MW for all consumer types. In April 2017, the threshold for Class A eligibility for manufacturing and certain industries, including greenhouses, was lowered to 500 kilowatts.
- **Non-RPP Class B Consumer –** Commercial, institutional and small industrial consumers, typically with load size under 3 MW. Class B consumers pay GA as a

volumetric rate applied to all electricity consumption. Class B consumers include those Class A eligible that choose not to become Class A.

- **Special Purpose Vehicle (SPV) –**
- **Security Interest –**

Commented [HT4]: TBS: Do you have standard language that you would recommend using?

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. There has been increased media attention and public pressure for the government to provide ratepayer relief. On March 2, 2017, the Ontario government announced its electricity rate mitigation package, Ontario's Fair Hydro Plan, which included the initiatives contained in the proposed legislation. The government has committed to implement further rate relief measures by the summer 2017.

What is the expected cost to government?

The total cost of the proposal is $4.1B [TBC] in 2017/18, $1,599M funded through the fiscal plan and $2.5B to be funded through the electricity rate base.

Commented [HT5]: TBC as this includes the equity injection.

Commented [BA6]: Is it clear here what is mean by "cost"? Fiscal cost plus higher debt.

Commented [JK7]: TBS, pls. check this figure. I believe there is an updated figure ($1,438?).

TABLE 1: Cost Impact ($M)	2017-18	2018-19	2019-20	2020-21
Moving Social Programs to Government-Funded (details provided in the chart below)	499	753	829	892
GA Financing	2,534	2,668	2,942	3,420
OPG Loan / Province's Capital Injection to OPG Share Purchase (i.e. equity injection or debt)	1,100	?	?	?
Cumulative Total	4,133	3,421	3,771	4,312

Commented [BA8]: Maybe should avoid calling this a loan

Commented [RK9]: Should this be just assumed att 44% of the GA deferral amount?

Commented [BA10]: May be confusing to total these amounts. 1st row is a fiscal impact while equity injection represents increase in debt but no fiscal impact.

Commented [JK11]: Also, 2.5bn in 2017-18 includes the Province's capital injection

Commented [HT12]: TBC

The proposed bill identifies OPG as the Financial Services Manager and would therefore take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from the IESO through OPG Trust. ~~The~~ OPG would finance these purchases through a combination of an equity investment by the Province ($1.1 B in 2017-18; See Table 1) and external private sector financing. The structure ~~has been designed to~~would increase gross debt of the Province (to finance the equity injection in OPG), ~~increase interest on debt related to that external debt,~~ increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. ~~The equity investment has been structured so that the underlying regulatory asset will offset the additional debt to not impact the province's net debt.~~

Commented [BA13]: Do we need to distinguish between OPG as financial service manager and OPG Trust which would purchase regulatory assets?

The estimate for the combined impact of the non-Global Adjustment initiatives that would begin in 2017/18 is expected to be $499M in 2017/18, growing to $753M in 2018/19 and rising. This represent~~s~~ed an additional pressure ~~on~~ that has been incorporated into the 2017 Budget's fiscal~~the~~ plan. These estimates are based on variable inputs such as program uptake and future energy consumption of various consumer groups, and are therefore subject to change.

Commented [BA14]: Additional to? As proposed this is the only pressure on the fiscal plan. The GA financing as proposed has no impact on the fiscal plan but does impact debt.

TABLE 2: Fiscal Impact ($M)	17-18	18-19	19-20	20-21
RRRP Enhancements*	344	472	484	497
OESP Enhancements	140	261	325	375
First Nations On-Reserve Delivery Credit	15	20	20	20
Total	499**	753	829	892

***Note:** Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate base.
****Note**: Value adjusted from $665 million to reflect July 2017 implementation.

There is inherent risk in the financial estimates because the calculations are highly dependent on forecasts of the total consumption and bills of customers eligible for the RPP, the cost of borrowing, electricity demand and electricity market conditions and accounting assumptions. In addition, under the proposal, electricity prices would increase around 10% above forecast residential monthly bills from 2028 to 2047.The public may expect that the government is committed to reducing or holding constant the absolute cost of electricity for consumers in the longer term. Under the proposal, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future. (See page 17- Fiscal Pressure)

What are the key steps to deliver this proposal?

- May 11, 2017 - introduce legislation.
- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of the Fair Hydro Plan.
- Information postings of proposed regulations.
- June ?? 2017- Energy to bring regulations to TB/MBC.
- June ??, 2017- Energy to bring regulations to LRC/Cabinet.
- July 1st, 2017- the remaining Fair Hydro Plan reductions and programs would take effect. Programs that are not established on this day for technical implementation issues will have benefits that are retroactively applied to customers once program is operational in individual LDCs.

Commented [HT15]: Energy: Pelase refine

How will the changes be communicated?

Commented [HT16]: CO and Energy Comms to review.

On March 2, 2017, the Premier made a high profile announcement of additional relief to reduce electricity costs for Ontarians. Coinciding with this event, there was news releases with backgrounders, a technical briefing of the media, a public education campaign to raise awareness of the rebates and initiatives in place to reduce electricity bills, and an Ontario website that includes all the programs and initiatives that the government is undertaking to reduce electricity costs.

Building on the previous announcements, on May 11, 2017, the Premier is to make a high profile announcement of the plans to introduce the necessary legislation to implement Ontario's Fair Hydro Plan to provide additional relief to reduce electricity costs for Ontarians.

Given the risk identified that the GA financing may have a fiscal impact, communication will need to be clear that the proposed draft legislation meets the legal, accounting and financial requirements to not have a fiscal impact.

Notes and Recommendation from LRC

LRC item direct to Cabinet.

Cabinet Office Analysis

The proposed legislation allows for the implementation of the main elements of Ontario's Fair Hydro Plan (FHP) announced March 2 to provide further rate relief to Ontario electricity ratepayers. The FHP, including the Global Adjustment (GA) smoothing proposal, will provide residential consumers 25% in rate relief on their bills on average in aggregate (including the 8% announced in 2016) ~~for eligible consumers of the Regulated Price Plan (RPP)~~ between July 1, 2017 and April 31, 2018 ("The Fair Adjustment"). Other eligible farm and small business consumers under the Regulated Price Plan (RPP) would also receive a benefit. Electricity rates would then change by amounts prescribed in the regulations under the bill, with the intention to keep rate increases in line with Consumer Price Index (CPI) between May 1, 2018 and April 30, 2022.

Commented [AP17]: The 25% is an average or for every customer?

Commented [BA18]: Should sentence read "…25% in rate relief on average…"?

Commented [HT19]: Need to add estimate of benefits from the other programs, particularly RRRP as I think the impact, along with GA, is going to be closer to 40 or 50% for some customers

Ontario produces and publishes a Long-Term Energy Plan (LTEP) every three to four years, with the next LTEP scheduled for release in the summer of 2017. LTEP principles that will guide decision-making are affordability, reliability, clean energy, community and Indigenous engagement, and conservation. Through extensive consultation with the public, stakeholders and Indigenous partners through the fall of 2016, the Ministry has identified key priorities, and, Ontario's Fair Hydro Plan combined with new policy or program announcements in the LTEP, will provide the comprehensive future planning perspective for Ontario's energy sector.

Commented [HT20]: Confirm with PO and Energy

1. Refinancing the Global Adjustment

The proposed legislation establishes the framework to defer some of the current GA costs to future ratepayers by recognizing the longer term benefit of these assets to the electricity system ~~(similar to extending and re-financing a mortgage)~~. The methodology is based on the assumption that some generation assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts, and that future ratepayers are expected to continue to be able to utilize and benefit from these assets, and that they will also reduce the need to finance the development of new generation assets in the future.

Many of the contracted generation assets are expected to have useful lives that extend beyond the term of their current financial contracts (typically 20 years). Similarly, conservation costs are recovered through the GA on an annual basis while conservation initiatives can provide benefits to the electricity system over many years.

According to a legal opinion by former Supreme Court Justice Binnie, the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations leaves the process more susceptible to constitutional challenge and could jeopardize the nature of the clean energy adjustment being a regulatory charge, and risk it being deemed an unlawful tax. The bill has been drafted to mitigate this risk and clearly articulates the desire to fairly attribute intergenerational costs and benefits. In addition the bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. (See page 16- Legal Risk)

Key elements of this component of the bill include:

Fair Adjustment

- July 1, 2017- April 30, 2018- the bill outlines an immediate 25% reduction (on average) in rates for eligible residential consumers in recognition of the investment in clean energy initiatives since 2005. Other RPP eligible consumers would also receive a benefit.
- May 1, 2018- April 30, 2022- the bill allows for rates to be set by regulation, with the intention that rates will increase in line with CPI over this time, consistent with government commitments. (See page 17- Fiscal Pressure)
- Ontario Energy Board (OEB) would calculate appropriate adjustments for "specified consumers".

Clean Energy Adjustment

- Determined by Ontario Power Generation (OPG) as the Financial Services Manager, the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principlale, interest, transaction costs and administrative costs associated with the fair adjustment (regulatory/investment asset).
- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- May 1, 2022- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing Independent Electricity System Operator (IESO) and Local Distribution Companies (LDC) processes.
- In accordance with the regulations, the OEB to set the rate at which "specified consumers" are invoiced to recover the clean energy adjustment.

Fair Allocation Amount

Commented [AP21]: OPG intends to recover interest costs every year through the Trust in order to pay the interest payments from debt sourced from the capital markets. Thus, the clean energy adjustment charge would start in 2017, not 2022.

Commented [SQ222]: I had this comment initially too but the opposite side to this is that they will simply capitalize those costs and will result in increased financing requirements over the first 4 years.

- The fair allocation amount is calculated by the Financial Services Manager consistent with the principles of the bill.
- Established for the purposes of allocating the costs of the clean energy initiative to provide inter-generational fairness to rate payers; and aligning funding obligations that may be incurred during each reference period (typically every 6 months).
- Provided to the Minister of Energy who will ensure that the information is made public in an appropriate way.
- Principles established in the bill require proper match over time between the costs of providing facilities for clean electricity generation and conservation and the consumers who benefit from these investments in the system. (Page 16- Legal Risk; See page 17- Fiscal Pressure)

Financing Plan

- Prepared by the Financial Services Manager to determine if potential funding obligations should be incurred to acquire an investment interest in accordance with the bill.
- Provided to the Minister Energy who may remove the Financial Services Manager if the Financing Plan is not consistent with the principles of the bill and the Financial Services Manager has been given the opportunity to address the Minister's concerns.
- May be amended as determined by the Financial Services Manager.
- In practical terms, the Financing Plan is intended to show how debt (with varying degrees of incurrence dates, maturities, interest rates) will be used over time.
- The OEB would review the administrative costs of the Financial Services Manager.

Regulatory Asset and Investment Asset

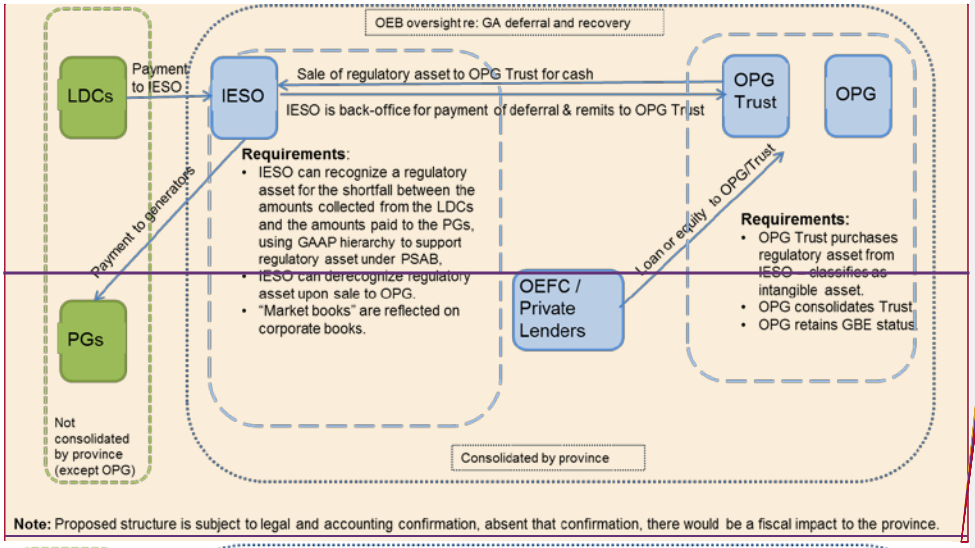
- Regulatory Asset created as IESO incurs a funding shortfall equal to the difference between the rates it receives after the implementation of the Fair Adjustment and the amounts owed under generation and conservation contracts (i.e. the comparison rate minus rates after fair adjustment).
- Subject to OEB approval, IESO would record the funding shortfall as a regulatory asset, as~~.~~ IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until May 1, 2022.
- The Financing Plan contemplates the Financial Services Manager establishing financing entities (OPG Trust/Special Purpose Vehicle (SPV)) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.

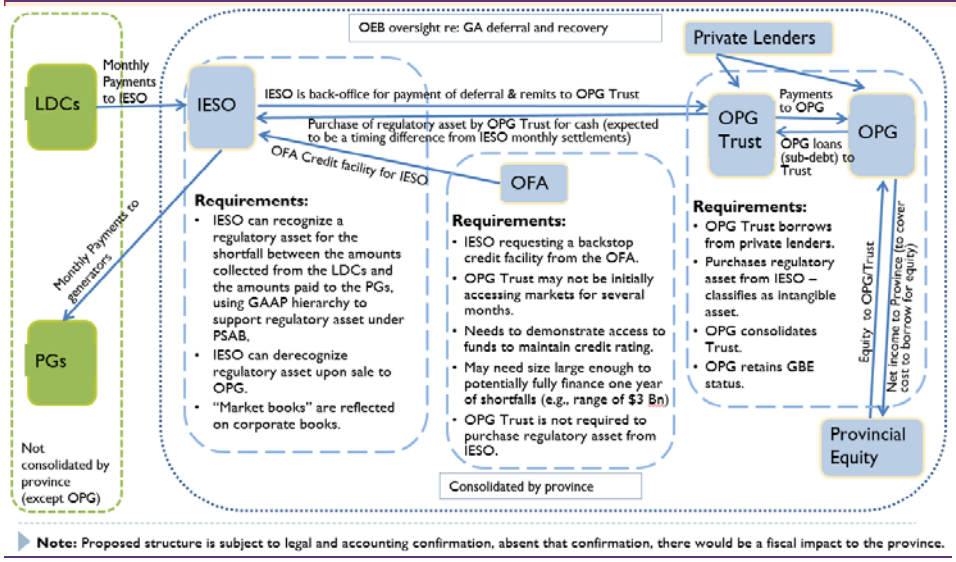
Commented [AP23]: Is this a different point from Ernst & Young advice OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the SPV.

- This purchase and sale turns the regulatory asset into an investment asset for the investment interest owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests including by dividend or undivided interest, consistent with the Financing Plan. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 5 years (May 1, 2022) the IESO has the rights to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority. (See page 17- Fiscal Pressure)
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Crown Undertaking (Guarantee or Backstop)

- The Crown would undertake not to do anything to adversely affect an investment asset or funding obligation, including hinder, impair, prejudice the charging, collection or remittance of the clean energy adjustment.
- The Minister of Energy, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill.
- The Minister of Finance, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.





Commented [HT24]: Energy: Please provide updated chart with terminology from the legislation embedded.

Commented [JK25]: CEFD/OFA will have an updated version for this provided to Energy.

Commented [RK26R25]: To show potential OFA financing to IESO.

Also, need to show Provincial equity into OPG (not from OEFC).

The bill establishes a structure in which the IESO records the GA cost recovery deferral ~~is recorded~~ as a regulatory asset (regulated by the OEB), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time ("The Fair Adjustment"). Eligible residential consumers would receive an average 25% reduction in electricity rates from July 1, 2017 to April 30, 2018. Eligible farms and small businesses would also receive a benefit. The IESO may then

Commented [HT27]: Section to be compared against the legislation's compendium when available.

sell the regulatory asset, at which time it becomes an investment asset. The investment asset owner (OPG Trust/SPV or trust "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

Under the proposed framework, OPG, acting in its role as the "Financial Services Manager", and following the principles in the bill, would regularly calculate the "Fair Allocation Amount" to ensure a proper match of the allocation of the intergenerational costs and benefits. To recoup the costs associated with the fair adjustment, consumers, starting in May 2022 would be invoiced the "Clean Energy Adjustment" on their electricity bills through existing IESO and LDC processes. The OEB would set the rates at which the clean energy adjustment could be collected.

OPG is planning to create a SPV or Trust to finance the GA. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. The variability will likely largely result from the financing of the SPV/Trust, and therefore OPG will have the ability to direct the financing of the Trust and both benefit from its financing strategy and be at risk as a result of it.

OPG Trust/SPV will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG's debt would be funded through a combination of an equity investment by the Province (See Table 1 on page 4) and external financing through a securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG (to offset the interest on debt). ~~The proposed structure is expected to result in: (1) increase in provincial gross debt offset by an equivalent in regulatory assets resulting in no change in net debt, and (2) an increase in interest on debt paid by the province offset by higher earnings from OPG resulting in no impact on annual deficit of the province.~~

The legislation commits the government to backstop the financing if the government were to ever hinder the collection of the clean energy adjustment including revoking or changing the legislation or regulations. In other words, the OPG and its debt holders would have their capital guaranteed and paid for directly by the Province if such a situation were to occur. The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time, but could be as high as $1-1.5B annually [TBC]. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future.

The proposed structure has been extensively reviewed by KPMG (Energy advisor and IESO auditor), and the firm has provided an accounting opinion confirming the validity of the structure under PSAB [TBC]. This opinion can be made public [TBC] to support the governments rational for the plan. In addition, MAG and Blakes are confident that the structure is constitutionally sound, but that this will depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism. Based on the

Commented [SQ228]: Has this been a plan to define? Annually? Semi-annually? Monthly?

Commented [SQ229]: This should be prefaced with the fact that this risk only arises after OPG would have decided to purchase the Regulatory Asset from IESO, which it is not obligated to do so.

Commented [JK30]: In the latest legislative drafting we have seen.

Commented [SQ231]: This is focussed on accounting fiscal impact but cash flow impact is still present. Province would require cash to pay for IOD and unless those higher earnings (re: cash) is divdended back to Province to cover IOD payments, my guess would be that there is a fiscal impact in terms of IOD.

Commented [JK32]: Albeit relatively small compared to the deferred GA amounts.

Commented [HT33]: Based on commentary from implementation meetings. Don't believe this includes estimates of private lender borrowing costs. Please advise

Commented [SQ234]: Furthermore, this would likely be the "additional" impact. The Province's equity injection, which is currently offset by expected higher earnings, would cease to exists resulting in fiscal impact as well. Could result in $2-3B annually. Please confirm.

Commented [HT35]: Energy to confirm

current analysis there is a moderately high risk that the GA financing will have a fiscal impact on the Province before 2022.

For clarity: the following structural requirements have been met: [TBC]

Commented [HT36]: TBC based on receipt of professional opinions etc.

- IESO requirements :
  - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB;
  - IESO can derecognize regulatory asset upon sale to OPG;
  - "Market books" are reflected on corporate books; and,
  - OEB to act as regulator.

Commented [SQ237]: Currently, I don't believe this is the case for IESO. Will this be the case going forward?

- OPG requirements:
  - OPG Trust/SPV purchases regulatory asset from IESO – classifies as intangible asset;
  - OPG consolidates Trust/SPV; and
  - OPG retains GBE status.

However, despite the fact that the structure has satisfied the legal, fiscal, and accounting requirements outlined in the policy submission, there remain some fundamental risks that the province would need to accept:

- The structure is unique in Canada and possibly the world, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the Unites States, but officials are currently unaware of any example that would compare to the size, complexity, or fluidity of what is proposed;
- Complexity of the structure and length of deferral/recovery increases risk and decrease transparency;
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan;
- Government would not know the price of private borrowing that would be required for the OPG Trust to work and will have limited control over OPG's direct operations as the Financial Services Manager. While removal of the Financial Services Manager is provided for in the bill, in practice this may prove problematic once the system is operational; and
- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and therefore its saleability. Could decrease amount of rate reduction achievable under this mechanism.

2. Enhancing electricity supports for vulnerable Ontarians and shifting costs from rate payer funded to government funded:

<u>Moving the Ontario Electricity Support Program (OESP) to the tax base:</u>

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The program was launched in January 2016 and has had roughly 30% enrolment. Consistent with Cabinet direction, the program was recently expanded to increase the existing benefit scales by 50% and provide additional credits to more households.

Under the expanded program the basic OESP benefit scale increased from $30-$50 to $45-$75 a month and the enhanced OESP benefit scale would increase from $45-$75 to $68-$113 a month for eligible consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to allow for the program to transition from the rate base to the tax base, and become administered by a Ministry or other entity as may be prescribed. The cost to the fiscal plan would be $186M in 2017/18. The bill provides further amendments designed to allow information sharing between the Ontario Disability Support Program (ODSP) and the entity responsible for OESP. The intention is that this information sharing will allow for the automat enrolment of individuals that are already enrolled under the ODSP, but it is currently unknown to what extent this will significantly impact the enrolment under the program.

Commented [HT38]: ENERGY: do you have any numbers on this point? Were other programs considered other than ODSP? Can we put something in about continuing efforts to improve the enrolment?

RRRP Enhancement (Delivery Charge Relief):

Currently, RRRP is a $241.9M program paid for by the ratepayers. For an average residential customer, the cost of supporting RRRP is roughly $1.58 per month. For other customers, the cost to support the RRRP can range from $65 for a greenhouse to $8,000 for a medium industrial. RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province, including Hydro One R2 customers. The delivery charge includes a distribution cost, which can vary across LDCs, and distribution costs are highest for Hydro One R2 and R1 (medium density) customers.

There are also some LDCs with relatively high distribution costs that, when coupled with high consumption patterns, can result in very high bills for consumers (Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma).

In 2016 the OEB made a ruling that all LDCs need to move to fixed distribution charges. The OEB found that fixed distribution charges would establish a fairer way to recover the costs of providing distribution service, and provides greater revenue stability for distributors, which will position them for technological change in the sector, remove any disincentive to promote conservation, and help with their investment planning.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a distribution rate protection program and the ability to cap the distribution charges of prescribed distributors. The amendments also establish that this program will be funded by the tax base.

The intention is to draft regulations permitted under this section of the bill to Harmonize the fixed distribution rates to the lowest distribution cost of the LDCs mentioned above

at $38/month (which is the forecast rate for Northern Ontario Wires). If the costs of another LDC moved above these in the future, a regulation change would be required to for that LDC to receive RRRP. These enhancements are expected to benefit approximately 800,000 customers in Ontario.

Targeted RRRP consumers would see additional savings on their monthly bill that would vary based on their consumption level and cost to fiscal plan would be $344M in 2017/18, $243M of which is a transfer of existing programs to the tax base. If the legislation and required regulations are passed, the program would become active as of July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Commented [HT39]: Need new estimate of transferred program cost starting from July 1.

On-reserve First Nations Delivery Credit

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances. In this instance, historic grievances relate to lands affected by energy developments.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a tax base funded delivery credit program for on-reserve customers with the details as prescribed in the regulations. The intention is to enact regulations that would eliminate the delivery charge for all on-reserve First Nation household customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate.

Eligible recipients would be automatically enrolled in the program (~21,500 customers) and receive an average monthly benefit of $85. The program will cost approximately $20M annually and, provided the legislation and regulations are passed, would become effective July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Expected Impacts of the Proposal on Electricity bills:

The impact of proposed legislation to an eligible customer's bill in July 2017 is an average 25% decrease (combined with the equivalent amount to the 8% provincial portion of the HST from ORECA effective Jan. 1, 2017) for residential consumers, followed by an increase in price over time. This includes the ~~8%~~ rebate for an equivalent amount to the 8% provincial portion of the HST that came into effect on January 1, 2017. Between May 2018 and April 2022 electricity rates will be set by regulation with the intention that rate increases would be kept in line with CPI.

Commented [HT40]: ENERGY: Can you provide analysis on the impact for customers that will receive the RRRP etc?

Customers that are eligible for the RRRP enhancements and the OESP will see further reductions in their electricity rates beyond the 25%

Residential (750 kWh/month)	Actual 2016	2017	2018	2019	2020	2021
Total Bill (includes HST)	**158**	**164**	**167**	**170**	**181**	**178**
Total Bill (excludes HST)	140	145	148	150	160	158
Impact of GA Financing		-26	-26	-26	-32	-28
Impact of Tax-Basing Social Programs		-2	-2	-2	-3	-3
Subtotal		117	120	122	125	127
8% rebate		-9	-10	-10	-10	-10
HST		15	16	16	16	17
Revised Bill (includes HST)	**158**	**123**	**126**	**128**	**131**	**133**
Year-over-Year Change		-22%	2%	2%	2%	2%
Change from Forecast		**-25%**	**-25%**	**-25%**	**-28%**	**-25%**

Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	**160**	**165**	**160**	**162**	**173**	**169**
Class B Revised Total (excludes HST)	**160**	**162**	**157**	**159**	**170**	**166**
Year-over-Year Change		1%	-3%	1%	7%	-2%
Change from Forecast		-2%	-2%	-2%	-2%	-2%

Large Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class A Total (excludes HST)	**90**	**91**	**93**	**88**	**95**	**96**
Class A Revised Total (excludes HST)	**90**	**88**	**90**	**84**	**92**	**93**
Year-over-Year Change		-2%	2%	-6%	9%	1%
Change from Forecast		-4%	-4%	-4%	-4%	-4%

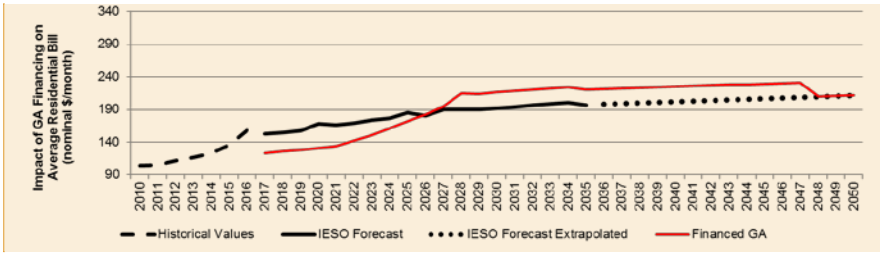
Notes: *Based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing.*

Commented [HT41]: Energy to provide updated chart

Risks and Considerations:

Future Impacts to Electricity Rates

Borrowing money to defer GA costs for ratepayers would lower costs in the short term but result in substantial debt and higher electricity prices in the future. Based on the GA deferral portion of the plan, electricity prices would increase to about 10% above the actual cost of electricity over the recovery period (peaking at 13%). The proposal may create the expectation that the government is committed to reducing or holding constant the absolute cost of electricity for consumers. Under the proposal, the government would not have the ability to control this portion of electricity rates in the future outside of recourse to the fiscal plan.



Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at a maximum of 13% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Commented [HT42]: ENERGY to confirm if this needs to be updated.

The government may be criticized for creating a new debt structure which could be compared to the previous debt retirement charge (DRC). The previous debt retirement charge was removed from residential bills in January 2016 and is scheduled to be removed for remaining customers in April 2018.

Future repayment cost estimates are based on a static assumed interest rate of 5% (actual interest rate may differ), and forecast electricity market conditions and demand levels. Declining demand levels due to conservation, technology adoption, and self-generation would increase the costs borne by remaining customers to decease the debt associated with GA financing. This would increase the risk that the province would have to absorb some of the debt in the future. To mitigate against the risk that increased self-generation poses, the bill provides that the Clean Energy Adjustment may not be "set-off". In other words, it would exist as a separate and distinct component of the bill that could not be reduced by methods such as net-metering.

Not all generating assets will continue operations at the end of their contract. If the Fair Allocation Amount is not properly designed, future rate payers will be paying the cost for assets that are no longer in use, which would be unconstitutional-, unless legislatively authorised as a tax (See page 1~~6~~7- Legal Risk). High capital costs, equipment obsolescence or surplus capacity / low demand conditions mean that some generators will shut down at the end of their contract. Future ratepayers would be paying for these assets that no longer produce power in paying down the deferred GA and accumulated interest costs.

Accounting and Provincial Credit Rating and Borrowing

The significant amount of additional provincial borrowing needed to refinance the GA and associated risks and fiscal costs (interest rates, repayment timelines) could put pressure on the Province's credit rating and overall borrowing capacity.

The complexity of the structure and length of deferral (i.e., recovery of debt) increase the overall risk of the proposal and decrease transparency to the public. The structure of the GA deferral was designed to result in an (1) increase in provincial borrowing (2) no

increase in net debt, and (3) no impact on annual surplus/deficit. However, depending on funding to OPG/ OPG Trust from the Province, an increase in interest on debt and an increase on income from OPG will result. The structure is also contingent on the size of the GA deferral that is seen as possible, which, as previously mentioned, increases the likelihood of pressures on the fiscal plan in the near future. (See page 17- Fiscal Pressure)

Rating agencies and investors in the Province's debt may view all of the borrowing (whether by the Province directly or the OPG Trust) as an obligation of the Province. Depending on the magnitude of the debt incurred, the Province's borrowing cost may be impacted.

The Ontario Auditor General (OAG) has been briefed on the proposal and has had access to the March 1, 2017 policy submission for the Fair Hydro Plan. While the auditors of OPG and IESO have provided their assessments and the Office of the Provincial Controller Division (OPCD) has been engaged, the OAG has historically raised concern with "rate regulated accounting" and may take this into account when the provincial books are audited (i.e., it may impact whether the OAG qualifies the provincial books).

Based on early assessments, only a maximum of 18% rate relief [TBC] can be justified by amortizing contracts over the useful life of the underlying assets. Reducing electricity rates up to or beyond this amount is dependent on increased borrowing. All of the deferral is dependent on increased borrowing. The 18% referenced here is the limit based on review of the contracts and a Eurig assessment and also includes the rebate for an amount equivalent to the 8% provincial portion of the HST~~reduction~~ that was already provided.

Commented [HT43]: To be updated when Navigant prelim report and OPG analysis complete

Legal Risk – constitutionality of financing the GA

The current GA amount paid by consumers is a regulatory charge. One of the requirements of a valid regulatory charge (as opposed to a tax) is that the person paying the charge either benefits from the regulatory scheme or causes the need for regulation. In principle, refinancing a portion of the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Former Supreme Court Justice Binnie has provided legal analysis of this proposal, stating that the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations could jeopardize the nature of this being a regulatory charge.

A proposal for refinancing the GA that appears to cross-subsidize near-term consumers at the expense of long-term consumers by back-loading costs more than if costs were spread equally over the estimated lifespan of generation and conservation assets presents a moderately high risk (more likely than not) of constituting a tax. If the government fails to establish that the relevant electricity generating assets will continue to

perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).Were the charge characterized as a tax, in the event of a challenge, it would be struck down by a court as unconstitutional and consumers would be entitled to recover their payments. This risk could be eliminated, either up front or retroactively, by the imposition of a valid tax.

The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

The bill has been drafted to mitigate the constitutional risk of the proposal and clearly articulates the desire to balance the costs and benefits of assets across generations. The bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. In addition, external consultant Navigant has provided an interim report on the costs and benefits of the long lived assets which supports the previous conclusions regarding the size of the GA deferral that would be supportable. This is further supported by the conclusions of OPG's independent analysis of the question.

Commented [HT44]: TBC

Commented [HT45]: ENERGY please confirm. Need to clearly articulate any differences that may exist between these analyses

MAG and Blakes are confident that the structure is constitutionally sound, but, as identified above, that this will highly depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism.

In addition, the structure of the GA refinancing means that the infrastructure included as part of the clean energy adjustment (i.e. amortized over 30 instead of 20 years) will need to be in service over the entire 30 year amortization period or provide benefits to the system in some way over the whole period. In practice this may mean that the government will have limited ability to alter the generation mixture included under the clean energy adjustment, including natural gas generation facilities, which may at some point be seen as inconsistent with the province's commitments to reduce greenhouse gasses. This risk has been mitigated in the bill, by allowing for prescribed natural gas generation contracts to be excluded from the clean energy benefit calculation.

Commented [HT46]: Needs ground truthing

Fiscal Pressure

Commented [HT47]: TBS please review closely

This proposal aligns with the 2017 Budget fiscal plan, but involves significant ongoing risks. The proposal does not include a scheduled review period or an end date, resulting in an ongoing fiscal pressure, which may increase in the out years, and could only be removed by a legislative amendment.

The cost projections in this proposal are highly sensitive to interest rates and other assumptions:

- The proposal assumes GA refinancing does not have a fiscal impact because the associated legal authority and accounting treatment requirements are met. If the costs of GA refinancing were accounted for as an expense to the fiscal plan, the fiscal impact would be significant.
- The term and timing of the GA refinancing are highly dependent on the IESO's forecast of GA costs and actual interest rates.

The extent of fiscal pressures is also dependent on other factors (i.e., OAG could qualify Ontario's books or issue an adverse opinion). Due to the complexity and size of the proposal, the government has commissioned external opinions on the legal, fiscal, and accounting requirements. Energy's advisor and IESO auditor, KPMG, has provided an accounting opinion that the principles of the structure are sound, and this opinion can be released publicly when desired. This opinion may not change the likelihood of a contrary opinion by the OAG, but does provide a tool for government to point to in justifying its decisions.

Commented [HT48]: TBC

There is also a risk that credit rating agencies and the market may take an alternate view as to the size of the GA deferral that is possible before becoming unconstitutional. If the Fair Adjustment exceeds this analysis, it may increase the perceived risk of the investment asset and therefore its financeability / saleability, which would result in reduced market uptake and reduce the amount of near term rate reduction that would be achievable under the plan. This is why the increases in electricity rates between May 2018 and April 2022 are to be set by regulation as opposed to legislating that they increase by CPI. It may not be possible to legally hold the rate reductions to increase by CPI, and if the government wanted to hold to this commitment, the difference would need to come out of the fiscal plan, which has not been forecasted. Each percentage point of reduction that the structure cannot provide would result in an approximate $150M [TBC] cost to the tax base. This has not been provided for in the bill, but it is likely that the government will receive questioning along these lines and why the previously committed CPI increases are not explicitly stated in the bill.

Commented [HT49]: Needs ground truthing

Note that if the IESO is not able to sell the regulatory asset (i.e., the OPG SPV is unable to get financing to purchase it), then the IESO would require financing from an alternative source. The IESO has requested a backstop credit facility from the Ontario Financing Authority. This would be associated with a fiscal impact risk.

There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Legislative Officers

The Ontario Auditor General (OAG) has expressed views on rate regulated accounting, which will likely be raised again upon the announcement of this suite of initiatives. The

Commented [HT50]: Energy to update.

OAG was provided copies of the Cabinet Submission seeking policy approval for Ontario's Fair Hydro Plan and has been briefed by officials from the Ministry of Energy. The OAG will have opportunities to publicly state her views through the Public Accounts committee in the summer of 2018 and in her pre-election report.

The Financial Accountability Officer (FAO) has not been consulted on this proposal and is expected to have an opinion on how this proposal may impact the state of the province's finances.

Commented [HT51]: Energy to update from discussion with FAO

OPG Mechanism

- Accountability
  - Bill attempts to balance the independence of the OPG trust with regulatory oversight and the market's need for certainty in recovering the GA financing that it provides.
  - Accountability to the government or the public, amount of government control of the entity, including future rate increases.

Commented [HT52]: Needs to be recast given limitation on control after initiated

- New structure
  - Structure is complex, involving:
    - IESO as originator of the regulated asset and responsible for flow of funds;
    - OEB as regulator of the new mechanism;
    - OPG responsible for financing and managing the mechanism; and
    - The Province providing ongoing equity capital infusions to OPG and backstop.
  - Addition of financial agency to current operational obligations of OPG – not the current expertise of OPG. However, OPG has experience managing large financial assets and liabilities through the jointly managed Ontario Nuclear Funds as well as its own pension fund. In addition, could possibly dilute OPG's focus on current high priority responsibilities (i.e., electricity generation and nuclear refurbishment).
  - This financing structure would be unique to Canada – uniqueness reduces likelihood of all risks being known/mitigated. Highly specialized expertise would be required.
  - Connection to BPS compensation framework/lack of national comparator.
  - Unknown transaction, admin, consultant costs. OEB would review OPG's cost as the Financial Services Manager
- Debt
  - Opportunity for significant shifting of the Ontario's electricity sector over the lifespan of the repayment (30 years). Through sector/policy/government position shifting, possibility of new entity/structure abandoning debt and Ontario having to take a write down.

  - Risk transfer / portion of debt that Ontario would be responsible for would be the higher risk portion.
  - Repayment plan and impact on rate payers highly dependent on interest rates

- Public perception/reaction (could be seen as similar to the process preparing Hydro One for IPO).

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change.

- Program design will require an evaluation of whether the existing programs are effective and achieving their outcomes (e.g. the OESP has a current uptake of 30% and program changes are proposed in advance of an increased effort to reach 100% uptake)
- The OESP matrix no longer follows the Low Income Measure (LIM) which creates inconsistencies between how programs are applied and may put pressure other provincial programs to increase funding amounts.

Benefits for all Consumer Classes

The Fair Hydro Plan includes some benefits for all consumer classes as well as targeted benefits to those with the greatest need. It is likely that the government will be criticized for providing benefits to those who may not be in need (e.g., wealthy cottage communities, etc.).

Stakeholder Considerations:

General public (including residential and small businesses) – Likely support a proposal that is projected to provide up to 25% in rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but likely to question the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications.

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral the remainder of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an

expectation government is going to take specific action to mitigate their increases due to Cap & Trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Commented [HT53]: Confirm work still ongoing on this piece

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generation as part of the "Clean Energy Adjustment."

Solar PV sector – May react negatively to price relief as it can be seen to undercut the affordability of distributed renewable generation assets such as solar PV, and undermines the economic arguments behind net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

Delivery:

If passed, the legislation will enable the price mitigation measures to begin to take effect on July 1, 2017. The 2017 LTEP will be released to the public in the summer2017 and would reinforce/integrate with Ontario's Fair Hydro Plan. Regulations are required under the major components of the legislation in order to fully implement the initiative and clarify program details.

Commented [HT54]: TBC

1. Refinancing Global Adjustment assets in order to defer ratepayer costs / Mechanism to defer GA costs

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

Commented [HT55]: This needs more elaboration and confirmation. Last discussion I was part of on this point hadn't landed exactly how long it is expected that the IESO retains the Reg Asset for before sale to OPG.

2. Enhancing Social and Conservation Programs

OESP Enhancements

New OESP program details would require TB/MBC approval.

Changes to regulation will be required to establish and define the parameters for the proposed changes. The financial flow-through mechanism would likely be modelled after processes used for the OREC (8% rebate). The amendments made in this bill allow for a transition period where the program continues to draw on the existing IESO variance account until the account can no longer maintain the program. IESO is required to notify the Ministry of Energy when it expects the variance account to be depleted (likely sometime in the fall). At this time

The proposed changes will take time to implement as they would require changes to the central system and the LDCs' billing systems. The OEB and their central service provider will need to work with LDCs, MOF, and the CRA on the changes to this program (delivery mechanism, funding source, application system, eligibility).

Commented [HT56]: Requires update

RRRP Enhancement

Regulations would be required to establish the details of the program. OEB estimates that the implementation would take at least six months after finalizing regulations. For this reason it is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st which will put an immediate pressure on the OEB and LDCs as implementation is required no later than October 1, 2017. A mechanism will need to be created to ensure that all parties are aligned in the yearly forecasting and costing of the program.

On-Reserve First Nations Delivery Credit

The OEB would need to work with the LDCs to identify the eligible on-reserve consumers. A communications plan could include public release of the OEB report and a commitment to working with the LDCs on implementation details.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Once available, the rebate would appear on customer's electricity bills as a reduction in, or credit for, their delivery line.

There is a risk that either non-status Indigenous communities without reserves or Metis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Linkages:

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer-fall 2017. These plans identify needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The Ontario Rebate for Electricity for Electricity Consumers Act, 2016, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) was a five-year legislated program put in place as a broad-based (RPP-eligible), transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB expired on December 31, 2015.

Commented [RK57]: TBC

Debt Retirement Charge – On January 1, 2016 the government ended the electricity Debt Retirement Charge (DRC) on residential users, earlier than planned, and put in place the low-income targeted OESP, effective 2016. For all other consumers, the Electricity Act was amended so that the DRC is ~~schedul~~legislated to be removed ~~by~~ April 1, 2018.

Industrial Conservation Initiative – Ministry of Energy program implemented in January 2011 to help large industrial consumers reduce their electricity costs by ~~shirftin~~reducing electricity consumption ~~away from~~ in peak periods. As part of the Fair Hydro Plan, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all electricity consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – approved as part of Ontario's Fair Hydro Plan, and under development, the Affordability Fund is intended to expand access to conservation funding to targeted consumers that do not currently qualify as low-income for the purposes of the Home Assistance Program (HAP).

Commented [HT58]: insert

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded~~met~~ by the January 2017 ~~8%~~ rebate amount equal to the 8% provincial portion of the HST.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings. **Note:** Funding electricity support programs through the tax-base rather than the rate base will also provide saving to Class A and B consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON)- is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed to "consider options for legislation/regulation change that lessen the impact on residential tenants of increased energy costs from cap and trade". As part of the review of the Residential Tenancies Act, the Ministry of Housing is working on a proposal that will address that commitment. The proposal is expected to come to Cabinet in spring 2017.

Commented [HT59]: To get updated language on the RTA amendments

Proposed Cabinet Minute

Approval of draft bill for introduction

Cabinet approved version XX-XX of this draft legislation for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

Prepared based on draft submission

I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence. The concurrence letter from the Minister to the company will note key elements of the business plan,

how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its 2017-2019 Business Plan (Board-approved?) to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO.~~,~~ It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets. ~~financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending~~ (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)
  - Provincial borrowing would be offset by an increase in an investment asset in OPG.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged (Check is OFA)

Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments~~changes~~ ~~for~~ from the Ontario Financing Authority and~~,~~ MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards.~~.~~ The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.

Commented [RK1]: "from"?

Commented [BA2]: Also added MoF changes for IFRS risk

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province may make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 201~~7~~8.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - The figures in the OPG Board approved 2017-2019 Business Plan~~, along with OFA forecast updates for OFHP (TBC),~~ show a decrease in earnings before tax of $~~84M~~ 29~~49~~M in 201~~6~~-17~~-18~~ and $~~89M~~ 556M in 2017-18 [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by an increase~~s~~ of $~~59M~~ 112M in 2018-19 and a decrease of $14~~120M~~ 62M in 2019-20 versus ~~over~~ the estimates in the 2016 Budget. The 2019-20 decrease largely reflects an IFRS-

Commented [JK3]: Added to address Ron's comment.

Commented [BA4R3]: Check figures

related consolidation risk of $200M) as described above.~~,~~

OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4~~63~~6M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

Net income in 2018 and 2019, (before OFA and MoF adjustments) is projected~~lanned~~ to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
- The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
- Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

  OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

  OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering

Commented [RK5]: I'd say separate out the differences related to the business plan from the Provincial consolidation adjustment for IFRS.

Commented [BA6]: Edit 463

(e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.

Accounting risks: A~~ny~~ change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected~~could~~ to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

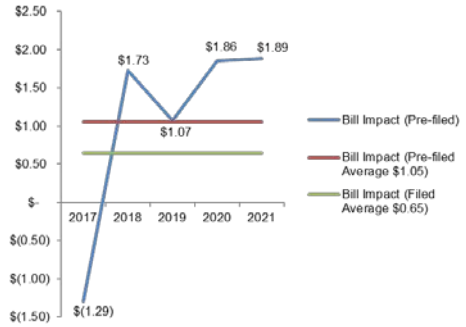
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

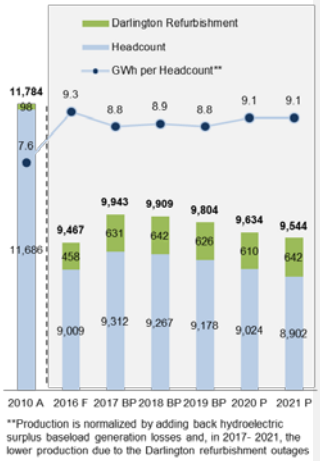
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



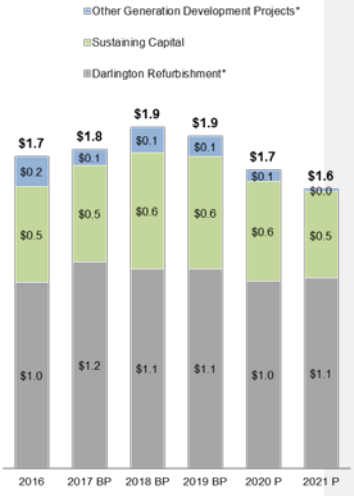
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	~~705~~
Income Tax	224	159	182	~~108~~
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	~~111~~96	~~184~~166	~~154~~135	~~189~~170
2017 Ontario Budget				
Ontario Power Generation				
Net Income (before IFRS Risk)	379	480	678	726
~~ONFA-related~~ IFRS ~~Risk~~Consolidation Adjustment	(75)	(400)		(200)?
GA – OPG Trust ~~Interest Revenue~~Net Income Impact (assumed, to offset IOD)	17	54	99	153
OPG Head Office*		222		
Net Income	~~387~~304	~~497~~97	732	825
Income Tax	?92	?92	?135	?170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	~~(84)~~(167)	~~(89)~~(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?(132)	?(67)	?(47)	?6
TOTAL OF OPG CHANGES	?(299)	?(556)	?212	?182

- Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

Commented [RK7]: I thought a small amount (100?) was ultimately included here too -- CHECK

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Table below to be updated – OFA

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2017~~6~~-1~~9~~8 OPG Business Plan				
Combined Other PILs & Other GRC[2]	~~353~~329	350~~8~~	363~~6~~	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218~~5~~	232~~20~~	243~~20~~	241
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	~~135~~110	118~~40~~	124~~0~~	121
~~OPG Monthly Update (August 2016)~~				
Net Income (including OPG Head Office sale)	~~361~~379	702~~-~~	678~~-~~	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	-75	-400	-	~~-~~-200
Income Tax PILs to OEFC	~~98~~92	166~~-~~	135~~-~~	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017~~1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.~~

~~2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.~~

~~3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)~~

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From:	John Kim
To:	James Strang (MOF)
Cc:	Bruno Amara
Subject:	RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date:	Tuesday, May 02, 2017 2:38:09 PM

While I don't see why we wouldn't facilitate the request, we would require Minister's authorization of some sort and staff level, we view that TB/MBC should be made aware of the request/requirement.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Tuesday, May 02, 2017 2:34 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

CO has a question below. Is this an OFA decision, or is a TB/MBC decision needed?

From: Hindmarch-Watson, Tim (CAB)
Sent: May 2, 2017 1:58 PM
To: Strang, James (TBS)
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Thanks James.

At a few points in the OFA comments they say "The IESO has requested a backstop credit facility from the OFA." Do you know if the plan is to grant this request?

Thanks!

Tim Hindmarch-Watson
416-325-4618

From: Strang, James (TBS)
Sent: May-02-17 12:43 PM
To: Hindmarch-Watson, Tim (CAB)
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Tim, just got some feedback from Ontario Financing Authority.

James

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 2, 2017 12:39 PM
To: Strang, James (TBS)
Cc: Bruno Amara
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Hi James,

I sense we missed the boat and there's new information but see attached comments/edits.

John

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Monday, May 01, 2017 8:51 AM
To: Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
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Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

Draft note from Cabinet Office. They're looking for feedback by EOD today (May 1).

I'm happy to coordinate any responses.

James

From: Hindmarch-Watson, Tim (CAB)
Sent: April 28, 2017 3:46 PM
To: Fung, Felix (TBS); Skubel, Chris (TBS)
Cc: Strang, James (TBS); Moore, Karen (CAB)
Subject: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

Hi Felix and Chris:

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Please try to have any comments to me by EOD on Monday so I can get it to my DM and the Secretary on Tuesday.

Have a great weekend,

Tim Hindmarch-Watson
Policy Advisor
Justice, Resource and Environmental Policy

Policy and Delivery Division
Cabinet Office
416-325-4618

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From:	John Kim
To:	James Strang (MOF)
Subject:	RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date:	Tuesday, May 02, 2017 12:55:29 PM

Just got it from a separate channel too….thanks James.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Tuesday, May 02, 2017 12:41 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Have you gotten the FPC deck? See attached.

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 2, 2017 12:39 PM
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From:	Strang, James (TBS)
To:	John Kim
Subject:	RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date:	Tuesday, May 02, 2017 12:40:45 PM
Attachments:	FW MATERIAL Fiscal Prep Committee May 3 2017.msg

Have you gotten the FPC deck? See attached.

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 2, 2017 12:39 PM
To: Strang, James (TBS)
Cc: Bruno Amara
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

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Policy Advisor
Justice, Resource and Environmental Policy
Policy and Delivery Division
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From: Laughton, Patrick (TBS) [Patrick.Laughton@ontario.ca]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Maria Duran-Schneider (MOF) [Maria.Duran-Schneider@ontario.ca]; Didem Proulx (MTCU) [Didem.Proulx@ontario.ca]; Gary Wuschnakowski (MOF) [Gary.Wuschnakowski@ontario.ca]; Felix Fung (MOF) [Felix.Fung@ontario.ca]; James Strang (MOF) [James.Strang@ontario.ca]; Andrea Dutton (MOF) [Andrea.Dutton@ontario.ca]; Nadine Petsche (MOF) [Nadine.Petsche@ontario.ca]; Sophie Liu (TCU) [Sophie.Liu@ontario.ca]; Violetta Goralski (MAG) [Violetta.Goralski@ontario.ca]; Helen Graham (MOF) [Helen.Graham@ontario.ca]; Helder Marcos (MCSS) [Helder.Marcos@ontario.ca]
CC: Nina Arbabzadeh (EDU) [Nina.Arbabzadeh@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Mercedes Sawosch (CAB) [Mercedes.Sawosch@ontario.ca]
Subject: FW: MATERIAL: Fiscal Prep Committee, May 3, 2017
Date: Tuesday, May 02, 2017 08:15:31
Attachment 1: 23121467-v9-Ontario Fair Hydro Plan Act - Briefing Presentation.pptx

---

Good morning everyone –

Please see attached materials which are tracking to FPC tomorrow re. Fair Hydro. It would helpful for folks to review for issues and we can discuss at our rate mitigation weekly meeting this afternoon.

Thanks,

P.

From: Bosco, Pina (CAB)
Sent: May-01-17 9:06 PM
To: Angus, Helen (TBS); Betzner, Lynn (CAB); Bevan, Andrew (OPO); Bossin, Bryan (OPO); Bromm, William (CAB); Davidson, Steven (CAB); Ghiassi, Ali (MOF); Greenberg, Martha (CAB); Hughes, Karen (TBS); Jackson, Kelly (MOF); Jancik, Mike (TBS); MacKenzie, Rebecca (OPO); Madhany, Shamira (CAB); McEachern, Gillian (OPO); McIntyre, Moira (OPO); Mendes, Elizabeth (MOF); Mksyartinian, Jacob (OPO); Orsini, Steve (CAB); Pichelli, Jason (TBS); Rowe, Mary (OPO); Schuurman, Tim (MOF); Thompson, Scott (MOF); Tomney, Genevieve (OPO); Zegarac, George (MOI)
Cc: An, Derrick (OPO); Baird, Natasha (MOF); Borges, Judy (OPO); Bosco, Pina (CAB); Corluka, Marijana (CAB); Farrow, Alicia (CAB); Foster, Robert (CAB); Hartog, Erika (TBS); Kwamena, Boafoa (CAB); Laughton, Patrick (TBS); MacIntyre, Kyle (TBS);

Marangoni, Emily (OPO); Matela, Angelo (CAB); McLean, David (MOF); Noursi-Scott, Diana (OPO); Roach, Jackie (CAB); Tinkler, Tanya (CAB)
Subject: MATERIAL: Fiscal Prep Committee, May 3, 2017

Hello everyone,

Attached is material for this week's Fiscal Prep Committee mtg which is scheduled to take place on Wednesday, May 3rd from 10:15 – 11:45 in Boardroom 6501.

Thank you,

Pina

Pina Bosco

Executive Advisor (Acting)

Office of the Secretary of the Cabinet

(416) 325-7641

The Proposed Fair Hydro Act

May 3, 2017

Purpose

- Purpose is to walkthrough the main elements of the legislation.

- The Act consists of two components:
  - Part 1: Legislation to provide for the fair allocation of costs of electricity over time \
  - Part 2: Legislative amendments for social programs

- The proposed *Fair Hydro Act, 2017* would be an omnibus bill with 2 schedules: the *Ontario Fair Hydro Plan Act, 2017* and amendments to the *Ontario Energy Board Act, 1998*

Part 1 – Overview of Legislation to Provide for the Fair Allocation of Costs of Electricity Over Time

1. Ontario Fair Hydro Plan Act – Fundamental Principles
2. Brief Overview of the Legislation
3. Stakeholder Consultation and the Process to Prepare the Legislation
4. Building Blocks of the Legislation
   - What costs are part of the program?
   - How are the costs allocated fairly amount ratepayers now and in the future?
   - What consumers does the program apply to?
   - How is the program financed?
4. How the Legislation Works
   - Clean Energy Initiative
   - Clean Energy Costs and Benefits
   - Clean Energy Adjustments
   - Fair Adjustment
   - Fair Allocation Amount
   - Regulatory Asset and the Investment Asset
   - Issuance and Payment of Debt
   - Financing Plan
5. Who Does What
   - Minister of Energy
   - Role of OPG
   - Role of IESO
   - Role of LDCs
   - Role of OEB

Ontario Fair Hydro Plan Act – Fundamental Principles

- The actions taken by the Government of Ontario to achieve a clean, modern, and reliable electricity system have resulted in significant costs. The burden of financing the electricity system improvements and funding key programs has unfairly fallen on the shoulders of today's consumers.

- The proposed Ontario Fair Hydro Plan Act (OFPA) is founded on the principle that costs related to the development of a clean, modern and reliable electricity system (with a diverse supply mix) ought to be charged to those consumers, today and in the future, who will be the beneficiaries of those costs.

- The Government of Ontario is committed to ensuring that the costs of financing these investments are allocated fairly among present and future generations of consumers.

- The challenge inherent in the development of the legislation was the need to balance several key factors: the fundamental principles of the program, the program's desired accounting treatment, ratepayer interests, expectations of the financial markets, financeability, and legal considerations.

Stakeholder Consultation and the Process to Prepare the Legislation

- The development of the Ontario Fair Hydro Plan Act was preceded by extensive consultation, on an ongoing basis, with representatives from the Ontario Energy Board (OEB), IESO, Ontario Power Generation (OPG), the Ontario Provincial Controller's Office Division (OPCD), the Ministry of Energy, the Ministry of Finance, dealers, investment advisors and Canadian (and in some cases U.S.) counsel for each of the involved parties.

- As appropriate, other Ministries were circulated with drafts of the legislation and consulted on particular issues.

- Several drafts of the legislation were circulated among stakeholders and several mark-ups of draft legislation were received in response.

- Lengthy face to face meetings also took place with stakeholders and their counsel both as a group and individually.

- Legislative counsel were involved on a daily basis and produced multiple versions of the legislation.

- A steering committee chaired by the Deputy Minister met and were briefed weekly on the status of the legislation (i.e., the "Rate Mitigation Implementation Group" consisting of senior executives of the Ministry of Energy, Cabinet Office, Ministry of Finance, Treasury Board Secretariat, OFA, OPCD, OPG, OEB and IESO.

Brief Overview of the Legislation – Fair Allocation

- Legislation is based on the principle that the costs incurred to move to a clean, modern and reliable electricity system creates benefits that will be experienced by multiple generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those multiple generations.

- The legislation does two things: (i) it establishes the fundamental elements of the fair allocation program, and, (ii) it puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations.

- With respect to the “fair allocation”, the legislation identifies:
  - What costs ought to be more fairly allocated (“clean energy costs”);
  - Mechanisms to allocate costs fairly among generations of consumers (“fair adjustment” and “fair allocation”);
  - The consumers to whom the program applies (“specified consumers”);
  - How the program is funded (borrowing on the strength of the revenue stream from consumers); and
  - The roles of various provincial entities in the program (i.e., Minister of Energy, Ontario Energy Board, IESO and OPG).

Brief Overview of the Legislation – Financeability

- In order to ensure the financeability of the program, considerable portions of the legislation are devoted to dealing with the “nuts and bolts” of what is required for successful financing including,
  - The quantification of the value of the regulatory asset;
  - The transfer of the regulatory asset to the (OPG) financing entity (which creates the “investment asset”);
  - The establishment of the “invoicing” process that ensures the investor’s “line of sight” to the investment asset;
  - The establishment of an OPG financing plan to ensure, among other things, an appropriate program of financing the shortfalls that are created by the deferred collection of revenues; and
  - Provisions setting out the way in which the financings are backed by amounts payable by specified consumers.

Building Blocks of the Legislation – What Costs are Part of the Program?

- In order to achieve its purpose, the legislation establishes the following “building blocks”:
  - Clean Energy Initiative – This is the term used to describe the Government of Ontario’s policies to foster growth and investment in and remove barriers and promote opportunities for clean and renewable energy sources and technologies and promoting conservation and demand management. The “clean energy costs” under the legislation arise from the “clean energy initiative”.
  - Clean Energy Costs – These are costs (attributable to the “clean energy initiative”) that are to be more fairly distributed among generations of consumers.
  - Clean Energy Benefits – These are the value of the benefits derived by the “specified consumers” (including the clean energy costs).
  - Clean Energy Adjustments – This is adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing.

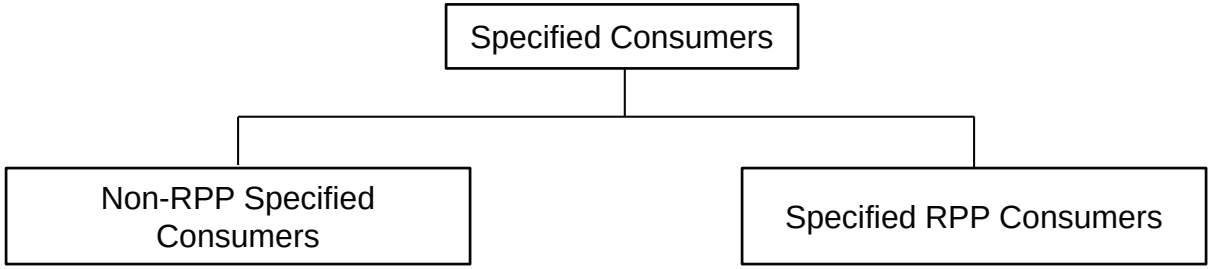
Building Blocks of the Legislation – How are the Costs to be Allocated?

- Fair Adjustment – This is the adjustment that gives the “relief” to certain specified consumers during the period from July 1, 2017 to June 30, 2021 (including this program’s portion of the 25 per cent reduction).

- Fair Allocation Amount – This is the concept/mechanism by which the fair distribution of “clean energy costs” (including, for example, financing costs, the cost of the power contracts, and the costs of the fair adjustment) is calculated and implemented.

Building Blocks of the Legislation – What Groups of Consumers Does the Program Apply To?

- Specified Consumers – This is the defined group of consumers to whom the legislative program applies. These consumers are persons who have an account with an electricity vendor for the supply of electricity in Ontario and,
  - Have a demand for electricity of 50 kilowatts or less (or as otherwise prescribed);
  - Annually use not more than 250,000 kilowatt hours of electricity (or as otherwise prescribed);
  - Carry on a farming business (basically pursuant to the *Farm Registration and Farm Organizations Funding Act*);
  - Have an account with an electricity vendor that is for a “dwelling”, condominium property, residential complex or co-operative housing; or
  - Are otherwise prescribed.



Building Blocks of the Legislation – How is the Program Financed?

- The ability to engage in the fair distribution of clean energy costs among the specified consumers requires financing during periods where the collection of the clean energy costs is, as part of the fair allocation, deferred to later years (thereby creating a revenue shortfall). A series of complex provisions are required to:
  - (i) Enable the financing, and
  - (ii) Meet requirements known to be important to rating agencies and investors.

- Regulatory Asset – This is fundamentally IESO's right to recover the revenues that it has deferred collecting because the clean electricity costs are being allocated across generations of ratepayers.

- Investment Asset – This is the asset that results when the regulatory asset is transferred to the (OPG) financing entities.

- The (OPG) financing entities will fund the acquisition (transfer) of the investment asset in the capital markets.

How the Legislation Works – Clean Energy Initiative

- The “clean energy initiative” concept is set out by definition. Its purpose is to establish the fundamental basis for the legislation.

- The definition is self-explanatory and is as follows:

“clean energy initiative” means the policies of the Government of Ontario related to,

a) eliminating coal generation and fostering the growth of and investment in clean, modern and reliable energy sources and technologies,,

b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies,

c) promoting conservation, demand management and energy efficiency; and

d) investing in energy infrastructure to ensure a clean, modern and reliable system;

How the Legislation Works – Clean Energy Costs and Benefits

- "Clean energy costs" are those costs that arise from the "clean energy initiative" and are allocated to the specified consumers for past, present and expected costs.

- The costs included in the "clean energy costs" include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act* (basically, the Global Adjustment provisions) which relate to contracts for,
  - Renewable energy generation or capacity;
  - Conservation and demand management, including shortage;
  - Energy efficiency; and
  - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act* or as prescribed); and
  - Payments made under section 78.5 of the *Ontario Energy Board Act.*

- Other such costs to be included in "clean energy costs" may be prescribed

- These are the costs to be distributed fairly among the specified consumers through the "fair allocation amount".

How the Legislation Works – Fair Allocation Adjustment

- The fair adjustment provisions are set out in Part II of the legislation.

- Part II establishes that the rate that will be payable by "specified RPP consumers" from May 1, 2017 to April 30, 2018 for the first fair adjustment is the rate that would be required from this program to contribute to that consumer to receiving a total a monthly invoice amount that is 25 per cent lower than the monthly invoice amount for that consumer under the "comparison rate". The comparison rate is a rate to be determined by the OEB using the method prescribed by regulation under s 79.16(1)(b) of the OEB Act.

- Part II includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program (i.e., adaptation of invoices must be implemented by August 1, 2017 followed by a subsequent lump sum credit to the consumer once the invoice is adapted).

- The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021). After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.

How the Legislation Works – Fair Allocation Amount

- The Minister sets the fair allocation amount.

- The establishment of the “fair allocation amount” is required to,
  - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the “specified consumers” for applicable “reference periods”; and
  - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (largely arising from the redistribution of cost across generations of consumers).

- The “fair allocation amount” is to have regard to:
  - Clean energy costs and allocating the appropriate proportionate amount of the clean energy benefits to the “specified consumers” (in the applicable “reference periods”);
  - Reasonable assumptions regarding the time value of money, the number of consumers in the “reference period”; and
  - Expected electricity consumption for the reference period.

How the Legislation Works – Regulatory Asset and Investment Asset

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets.

- The Act enables the financing of this IESO funding deferral, on an ongoing basis, by establishing the funding deferral as a "regulatory asset". In simple terms, the regulatory asset is IESO's right to recover the revenues that it has deferred collecting.

- IESO will then legally transfer portions of this right to recover revenues to the (OPG) financing entities.

- The (OPG) financing entity that receives the transfer of the right to recover revenues acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments"). This is generally described in the legislation as the "investment asset".

- The (OPG) financing entity will need to finance its acquisition (from IESO) of the investment asset, and it will do so in the capital markets.

How the Legislation Works – Issuance and Payment of Debt

- Debt securities and related funding obligations will be incurred by one or more (OPG) financing entities. These entities will be managed by OPG, as the financial services manager.

- The financings will be backed primarily by the “clean energy adjustments” payable by specified consumers. The “clean energy adjustments” will track the actual payment obligations incurred by the financing entities when they become due and payable. To ensure intergenerational fairness, these amounts will be managed by OPG to align with the “fair allocation amounts” ascribed to each of the next 60 six month periods ending in 2047 (or such later period as prescribed).

- IESO and each electricity distributor will act as agent for the financing entities to impose, invoice and collect the clean energy adjustments, which will be channeled through to pay each financing entity’s related funding obligations.

- To support the program, the Government of Ontario will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be achieve highest rated securities, although that will largely depend on issues such as the strength of the Government of Ontario’s undertakings not to adversely affect the program through subsequent legislation.

How the Legislation Works – Financing Plan

- The Financing Plan is prepared by the Financial Services Manager (OPG).

- The Financing Plan is the plan which is intended to set out when a “funding obligation” (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the “investment interest” from IESO.

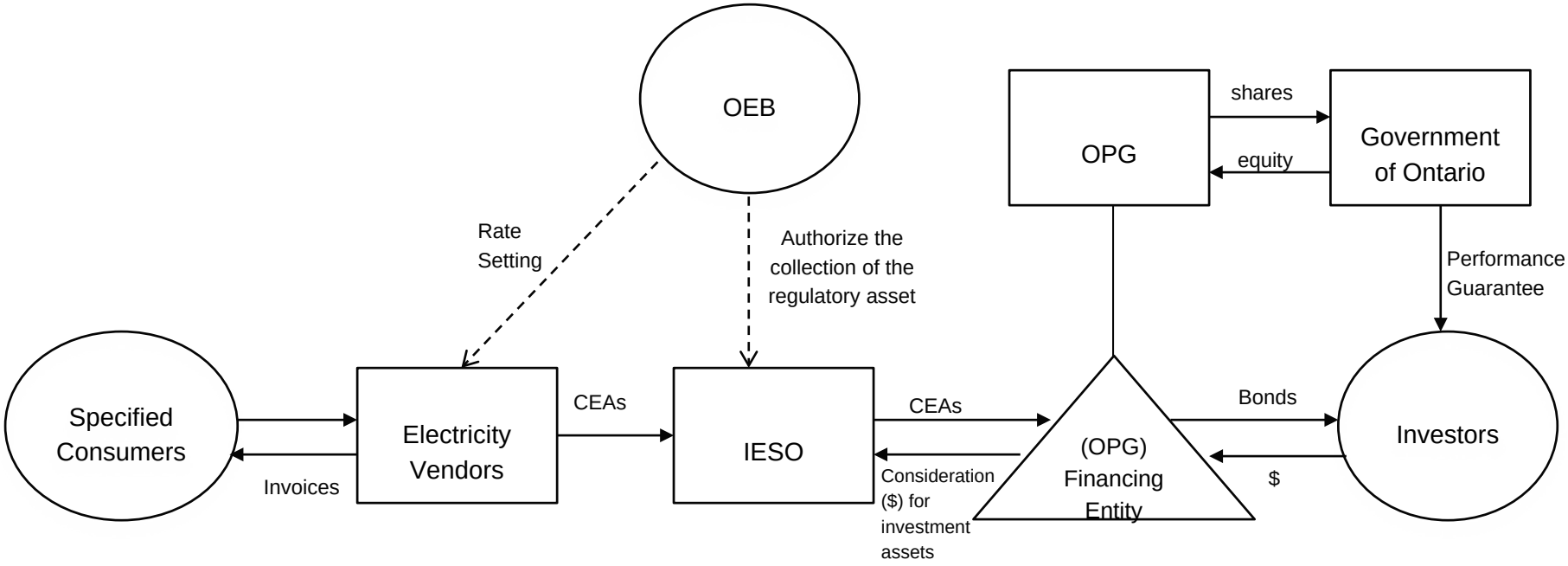
- There are rules that apply to the Financing Plan:
  - It must align with the “estimated finance amount” that will become due and payable during a “reference period”;
  - It must take into account the “fair allocation” and any “fair adjustment”;
  - It must plan to implement the financing in a reasonable and cost effective manner that reflects prevailing market terms and conditions; and
  - It must be based on certain reasonable assumptions set out in regulations (for example, related to anticipated IESO shortfalls, maturity of funding obligations, availability of refinancings, redemption opportunities and liquidity, and similar assumptions).

How the Legislation Works – Financing Plan (Continued)

- The (OPG) Financial Services Manager must incur funding obligations in conformity with the applicable Financing Plan.

- The Financing Plan will guide OPG's decisions regarding the repayment terms of the debt securities to be issued by financing entities. The Financing Plan will also deal with fundamental issues, such as the alignment (using derivatives) of any foreign currency obligations incurred by financing entities with the Canadian dollar cash flows arising through the clean energy adjustments.

How the Financing Structure Works



Note: CEAs are “clean energy adjustments”

Who Does What – Role of the Minister of Energy

- Determine the “fair allocation amount” applicable for each reference period. The fair allocation amounts will be set for all reference periods at the beginning of the program, based on reasonable expectations and forecasts at that time.

Who Does What – Role of the OPG

- As financial services manager, OPG will be responsible for the following under the Act:
  - Prepare and implement Financing Plan.
  - Establish and administer the financing entities.
  - Capitalize the financing entities by acquiring subordinated debt and equity, as required to achieve OPG's accounting and capital markets objectives.
  - Estimate and "true up" periodic finance amounts, to be passed through as regulatory charges in the form of Clean Energy Adjustments.

Who Does What – Role of IESO

- Calculate and record IESO funding shortfalls from time to time in a variance account, giving rise to a right of recovery from specified consumers to the extent not funded through the financings.

- Transfer the IESO's rights of recovery to (OPG) financing entities, in consideration for cash payments made by the financing entities from the proceeds of their financings.

- Coordinates the collection of "clean energy adjustments" from Electricity Distributors.

- Remit "clean energy adjustments" to (OPG) financing entity, for payment of financing entity funding obligations.

- Fund initial interest costs and expenses during the first 4 years.

Who Does What – Role of LDCs

- Obligation to invoice specified consumers.
- Collect, as agent of the investment interest owners, “clean energy adjustments” from specified consumers.
- Hold money received for clean energy adjustments in trust until remittance to the IESO.

Who Does What – Role of the OEB

- Determine and set rates to account for fair adjustments, fair allocations and clean energy adjustments (monthly adjustments).

- Determine and set rates and process to allow IESO to recover funding shortfalls (to the extent such amounts are not transferred to an (OPG) financing entity and financed in the capital markets).

- Review the administrative costs of OPG in connection with the administration of the program.

Part 2 – Overview of Legislative Amendments for Social Programs

- As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:
  - Enhancing and providing tax-based funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates;
  - Enhancing and providing tax-based funding for the Ontario Electricity Support Program (OESP); and
  - Creating a new First Nation On-Reserve Delivery Credit and providing for tax-based funding.

Overview of RRRP and Broadened Distribution Rate Protection

- Section 79 of the *Ontario Energy Board Act* would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Ontario Electricity Support Program

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.

- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.

- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.
  - Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
  - This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

First Nations Delivery Credit

- Energy is proposing legislative amendments that would establish a first Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.

- The proposed First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.

- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.

From: John Kim
To: James Strang (MOF)
Cc: Bruno Amara
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date: Tuesday, May 02, 2017 12:39:11 PM
Attachments: DLEG-847_ID49011_LRC_CBN- Rate Mitigation- Draft- No materials- V4_Markup3.docx

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Hi James,

I sense we missed the boat and there's new information but see attached comments/edits.

John

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Monday, May 01, 2017 8:51 AM
To: Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Cc: Felix Fung (MOF) <Felix.Fung@ontario.ca>; Chris Skubel (MGS) <Chris.Skubel@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sandy Luk (MOHLTC) <Sandy.Luk@ontario.ca>
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

Draft note from Cabinet Office. They're looking for feedback by EOD today (May 1).

I'm happy to coordinate any responses.

James

From: Hindmarch-Watson, Tim (CAB)
Sent: April 28, 2017 3:46 PM
To: Fung, Felix (TBS); Skubel, Chris (TBS)
Cc: Strang, James (TBS); Moore, Karen (CAB)
Subject: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

Hi Felix and Chris:

As mentioned earlier in the week, please find attached the draft CBN re the rate mitigation legislation for the TBS' review (password same as previous materials). This has been prepared with no materials and should be reviewed closely. I have left comments in the margin where I am looking for specific review or confirmation of particular details. I am interested in ensuring alignment in how we are characterizing the proposal and its risks.

The note is a bit on the longer side at the moment, so suggestions to economize without losing key pieces would also be helpful.

The note is undergoing concurrent review with Energy and my management now. My ADM will likely pass

this along to Cindy and Karen for concurrent review given the time crunch, but please feel to pass along as well.

Please try to have any comments to me by EOD on Monday so I can get it to my DM and the Secretary on Tuesday.

Have a great weekend,

Tim Hindmarch-Watson
Policy Advisor
Justice, Resource and Environmental Policy
Policy and Delivery Division
Cabinet Office
416-325-4618

Ontario

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy

DRAFT Financing Global Adjustment

Commented [HT1]: Name as in EVista- Will update as item is updated.

Cabinet (info)	TB/MBC	Cabinet	Announcement	TB/MBC	Cabinet	Introduction
Feb 15, 2017	March 1, 2017	March 1, 2017	March 2, 2017	May 9, 2017	May 10, 2017	May 11, 2017

Summary of Proposal

The proposed legislation contains a variance from Cabinet direction, which is detailed in the ministry's variance memo and within this note.

Context for Decision:

This proposal follows Cabinet direction to the Ministry of Energy to take the necessary steps to implement electricity price mitigation initiatives that would provide additional rate relief to Ontario electricity ratepayers.

The proposed legislation enables approaches to fairly allocate the costs of the Global Adjustment (GA) amongst current and future electricity rate payers, and help the most vulnerable Ontarians through enhancements to electricity support programs through ~~tax base~~government funding. To fully implement the initiative, the Ministry of Energy will be seeking future approvals for regulations identified in the proposed bill, while working to maintain existing public policy objectives such as~~:~~ maintaining a reliable electricity system, Ontario's commitment to reducing the impacts of climate change and commitment to achieve greenhouse gas (GHG) reduction targets.

The proposed legislation:

1. Establishes a framework to finance a portion of the GA costs in order to reduce costs for ratepayers in the near term and spread the costs of the GA more fairly across ratepayers between July 1, 2017 and April 30, 2047:
   - July 1, 2017 to April 20, 2018, reduces after-tax electricity costs for specified consumers by 25%.
   - May, 1 2018 to April 31, 2022, electricity rates will be set by Order in Council (OIC) with the intention to keep increases in line with the Consumer Price Index (CPI) (See page 17- Fiscal Pressure)
   - May 1, 2022 to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and

Commented [RK2]: 30?

administrative costs, around 10% of total electricity costs. (See page 14- Future Impacts to Electricity Rates)

Commented [HT3]: TBC by Energy

- Through the bill and subsequent amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998, e*xpanding the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO), to provide for appropriate oversight, putting in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the deferred GA costs. (See page 19- OPG Mechanism)

2. Expands electricity support programs for the most vulnerable consumers and moves program costs from the rate base to the tax base. The bill amends the *Ontario Energy Board Act, 1998* to:
   - ~~M~~move the recently expanded Ontario Electricity Support Program (OESP) to ~~the tax base~~be government funded, transition the program to be administered by the Crown, and to enable information exchange between the Ontario Disability Support Program to potentially allow for automatic enrolment procedures to be established;
   - ~~Amends the Ontario Energy Board Act, 1998 to e~~enable a broadening of the Rural or Remote Electricity Rate Protection (RRRP), including harmonizing distribution costs for customers with the highest distribution rates and moving the program to be government funded~~the tax base~~; and,
   - ~~Amends the *Ontario Energy Board Act, 1998* to~~ require the establishment of a government funded program to provide a delivery credit to prescribed on reserve customers.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price, helping to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, fixed generation costs, such as renewables, gas and nuclear contracts, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:

  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable, per unit charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable, per unit charge and a fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.
  - Line Loss: The costs to recover electricity that is lost as heat when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One –** Customer service types are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. The more customers there are in the area, the lower the cost to serve. R1 customers are considered 'medium density' customers and R2 are considered 'low density customers.'
- **Ontario Power Generation (OPG) –** A business corporation owned by the ~~p~~Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to comment on various items.
- **Independent Electricity System Operator (IESO) –** An independent corporation and agency of the Ministry of Energy that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Class A Consumer –** Large commercial and large industrial consumers with average peak load size above 3 MW, subject to eligibility. Class A consumers pay GA based on their electricity consumption during the five highest peak demand hours during the year. On January 1, 2017 the threshold for Class A eligibility was lowered to 1MW for all consumer types. In April 2017, the threshold for Class A eligibility for manufacturing and certain industries, including greenhouses, was lowered to 500 kilowatts.
- **Non-RPP Class B Consumer –** Commercial, institutional and small industrial consumers, typically with load size under 3 MW. Class B consumers pay GA as a

volumetric rate applied to all electricity consumption. Class B consumers include those Class A eligible that choose not to become Class A.

- **Special Purpose Vehicle (SPV) –**
- **Security Interest –**

Commented [HT4]: TBS: Do you have standard language that you would recommend using?

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. There has been increased media attention and public pressure for the government to provide ratepayer relief. On March 2, 2017, the Ontario government announced its electricity rate mitigation package, Ontario's Fair Hydro Plan, which included the initiatives contained in the proposed legislation. The government has committed to implement further rate relief measures by the summer 2017.

What is the expected cost to government?

The total cost of the proposal is $4.1B [TBC] in 2017/18, $1,599M funded through the fiscal plan and $2.5B to be funded through the electricity rate base.

Commented [HT5]: TBC as this includes the equity injection.

Commented [BA6]: Is it clear here what is mean by "cost"? Fiscal cost plus higher debt.

Commented [JK7]: TBS, pls. check this figure. I believe there is an updated figure ($1,438?).

TABLE 1: Cost Impact ($M)	2017-18	2018-19	2019-20	2020-21
Moving Social Programs to Government-Funded (details provided in the chart below)	499	753	829	892
GA Financing	2,534	2,668	2,942	3,420
OPG Loan / Province's Capital Injection to OPG Share Purchase (i.e. equity injection or debt)	1,100	?	?	?
Cumulative Total	4,133	3,421	3,771	4,312

Commented [BA8]: Maybe should avoid calling this a loan

Commented [RK9]: Should this be just assumed att 44% of the GA deferral amount?

Commented [BA10]: May be confusing to total these amounts. 1st row is a fiscal impact while equity injection represents increase in debt but no fiscal impact.

Commented [JK11]: Also, 2.5bn in 2017-18 includes the Province's capital injection

Commented [HT12]: TBC

The proposed bill identifies OPG as the Financial Services Manager and would therefore take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from the IESO through OPG Trust. ~~The~~ OPG would finance these purchases through a combination of an equity investment by the Province ($1.1 B in 2017-18; See Table 1) and external private sector financing. The structure ~~has been designed to~~would increase gross debt of the Province (to finance the equity injection in OPG), ~~increase interest on debt related to that external debt,~~ increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. ~~The equity investment has been structured so that the underlying regulatory asset will offset the additional debt to not impact the province's net debt.~~

Commented [BA13]: Do we need to distinguish between OPG as financial service manager and OPG Trust which would purchase regulatory assets?

The estimate for the combined impact of the non-Global Adjustment initiatives that would begin in 2017/18 is expected to be $499M in 2017/18, growing to $753M in 2018/19 and rising. This represent~~s~~ed an additional pressure ~~on~~ that has been incorporated into the 2017 Budget's fiscal~~the~~ plan. These estimates are based on variable inputs such as program uptake and future energy consumption of various consumer groups, and are therefore subject to change.

Commented [BA14]: Additional to? As proposed this is the only pressure on the fiscal plan. The GA financing as proposed has no impact on the fiscal plan but does impact debt.

TABLE 2: Fiscal Impact ($M)	17-18	18-19	19-20	20-21
RRRP Enhancements*	344	472	484	497
OESP Enhancements	140	261	325	375
First Nations On-Reserve Delivery Credit	15	20	20	20
Total	499**	753	829	892

***Note:** Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate base.
****Note**: Value adjusted from $665 million to reflect July 2017 implementation.

There is inherent risk in the financial estimates because the calculations are highly dependent on forecasts of the total consumption and bills of customers eligible for the RPP, the cost of borrowing, electricity demand and electricity market conditions and accounting assumptions. In addition, under the proposal, electricity prices would increase around 10% above forecast residential monthly bills from 2028 to 2047.The public may expect that the government is committed to reducing or holding constant the absolute cost of electricity for consumers in the longer term. Under the proposal, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future. (See page 17- Fiscal Pressure)

What are the key steps to deliver this proposal?

- May 11, 2017 - introduce legislation.
- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of the Fair Hydro Plan.
- Information postings of proposed regulations.
- June ?? 2017- Energy to bring regulations to TB/MBC.
- June ??, 2017- Energy to bring regulations to LRC/Cabinet.
- July 1st, 2017- the remaining Fair Hydro Plan reductions and programs would take effect. Programs that are not established on this day for technical implementation issues will have benefits that are retroactively applied to customers once program is operational in individual LDCs.

Commented [HT15]: Energy: Pelase refine

How will the changes be communicated?

Commented [HT16]: CO and Energy Comms to review.

On March 2, 2017, the Premier made a high profile announcement of additional relief to reduce electricity costs for Ontarians. Coinciding with this event, there was news releases with backgrounders, a technical briefing of the media, a public education campaign to raise awareness of the rebates and initiatives in place to reduce electricity bills, and an Ontario website that includes all the programs and initiatives that the government is undertaking to reduce electricity costs.

Building on the previous announcements, on May 11, 2017, the Premier is to make a high profile announcement of the plans to introduce the necessary legislation to implement Ontario's Fair Hydro Plan to provide additional relief to reduce electricity costs for Ontarians.

Given the risk identified that the GA financing may have a fiscal impact, communication will need to be clear that the proposed draft legislation meets the legal, accounting and financial requirements to not have a fiscal impact.

Notes and Recommendation from LRC

LRC item direct to Cabinet.

Cabinet Office Analysis

The proposed legislation allows for the implementation of the main elements of Ontario's Fair Hydro Plan (FHP) announced March 2 to provide further rate relief to Ontario electricity ratepayers. The FHP, including the Global Adjustment (GA) smoothing proposal, will provide residential consumers 25% in rate relief on their bills on average in aggregate (including the 8% announced in 2016) ~~for eligible consumers of the Regulated Price Plan (RPP)~~ between July 1, 2017 and April 31, 2018 ("The Fair Adjustment"). Other eligible farm and small business consumers under the Regulated Price Plan (RPP) would also receive a benefit. Electricity rates would then change by amounts prescribed in the regulations under the bill, with the intention to keep rate increases in line with Consumer Price Index (CPI) between May 1, 2018 and April 30, 2022.

Commented [AP17]: The 25% is an average or for every customer?

Commented [BA18]: Should sentence read "…25% in rate relief on average…"?

Commented [HT19]: Need to add estimate of benefits from the other programs, particularly RRRP as I think the impact, along with GA, is going to be closer to 40 or 50% for some customers

Ontario produces and publishes a Long-Term Energy Plan (LTEP) every three to four years, with the next LTEP scheduled for release in the summer of 2017. LTEP principles that will guide decision-making are affordability, reliability, clean energy, community and Indigenous engagement, and conservation. Through extensive consultation with the public, stakeholders and Indigenous partners through the fall of 2016, the Ministry has identified key priorities, and, Ontario's Fair Hydro Plan combined with new policy or program announcements in the LTEP, will provide the comprehensive future planning perspective for Ontario's energy sector.

Commented [HT20]: Confirm with PO and Energy

1. Refinancing the Global Adjustment

The proposed legislation establishes the framework to defer some of the current GA costs to future ratepayers by recognizing the longer term benefit of these assets to the electricity system ~~(similar to extending and re-financing a mortgage)~~. The methodology is based on the assumption that some generation assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts, and that future ratepayers are expected to continue to be able to utilize and benefit from these assets, and that they will also reduce the need to finance the development of new generation assets in the future.

Many of the contracted generation assets are expected to have useful lives that extend beyond the term of their current financial contracts (typically 20 years). Similarly, conservation costs are recovered through the GA on an annual basis while conservation initiatives can provide benefits to the electricity system over many years.

According to a legal opinion by former Supreme Court Justice Binnie, the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations leaves the process more susceptible to constitutional challenge and could jeopardize the nature of the clean energy adjustment being a regulatory charge, and risk it being deemed an unlawful tax. The bill has been drafted to mitigate this risk and clearly articulates the desire to fairly attribute intergenerational costs and benefits. In addition the bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. (See page 16- Legal Risk)

Key elements of this component of the bill include:

Fair Adjustment

- July 1, 2017- April 30, 2018- the bill outlines an immediate 25% reduction (on average) in rates for eligible residential consumers in recognition of the investment in clean energy initiatives since 2005. Other RPP eligible consumers would also receive a benefit.
- May 1, 2018- April 30, 2022- the bill allows for rates to be set by regulation, with the intention that rates will increase in line with CPI over this time, consistent with government commitments. (See page 17- Fiscal Pressure)
- Ontario Energy Board (OEB) would calculate appropriate adjustments for "specified consumers".

Clean Energy Adjustment

- Determined by Ontario Power Generation (OPG) as the Financial Services Manager, the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principlale, interest, transaction costs and administrative costs associated with the fair adjustment (regulatory/investment asset).
- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- May 1, 2022- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing Independent Electricity System Operator (IESO) and Local Distribution Companies (LDC) processes.
- In accordance with the regulations, the OEB to set the rate at which "specified consumers" are invoiced to recover the clean energy adjustment.

Fair Allocation Amount

Commented [AP21]: OPG intends to recover interest costs every year through the Trust in order to pay the interest payments from debt sourced from the capital markets. Thus, the clean energy adjustment charge would start in 2017, not 2022.

Commented [SQ222]: I had this comment initially too but the opposite side to this is that they will simply capitalize those costs and will result in increased financing requirements over the first 4 years.

- The fair allocation amount is calculated by the Financial Services Manager consistent with the principles of the bill.
- Established for the purposes of allocating the costs of the clean energy initiative to provide inter-generational fairness to rate payers; and aligning funding obligations that may be incurred during each reference period (typically every 6 months).
- Provided to the Minister of Energy who will ensure that the information is made public in an appropriate way.
- Principles established in the bill require proper match over time between the costs of providing facilities for clean electricity generation and conservation and the consumers who benefit from these investments in the system. (Page 16- Legal Risk; See page 17- Fiscal Pressure)

Financing Plan

- Prepared by the Financial Services Manager to determine if potential funding obligations should be incurred to acquire an investment interest in accordance with the bill.
- Provided to the Minister Energy who may remove the Financial Services Manager if the Financing Plan is not consistent with the principles of the bill and the Financial Services Manager has been given the opportunity to address the Minister's concerns.
- May be amended as determined by the Financial Services Manager.
- In practical terms, the Financing Plan is intended to show how debt (with varying degrees of incurrence dates, maturities, interest rates) will be used over time.
- The OEB would review the administrative costs of the Financial Services Manager.

Regulatory Asset and Investment Asset

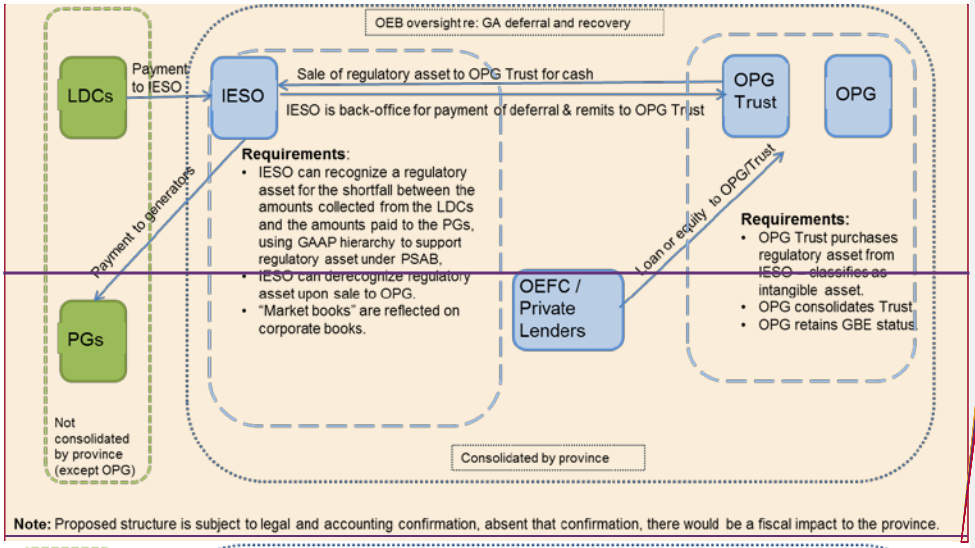
- Regulatory Asset created as IESO incurs a funding shortfall equal to the difference between the rates it receives after the implementation of the Fair Adjustment and the amounts owed under generation and conservation contracts (i.e. the comparison rate minus rates after fair adjustment).
- Subject to OEB approval, IESO would record the funding shortfall as a regulatory asset, as~~.~~ IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until May 1, 2022.
- The Financing Plan contemplates the Financial Services Manager establishing financing entities (OPG Trust/Special Purpose Vehicle (SPV)) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.

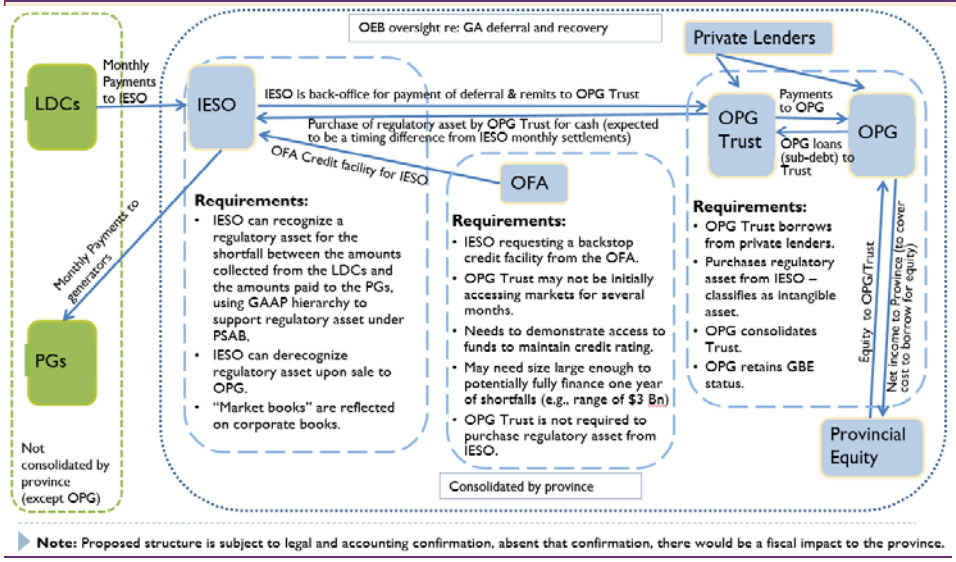
Commented [AP23]: Is this a different point from Ernst & Young advice OPG must have the ability to appoint and remove the Trustee (or Board of Trustees), with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the SPV.

- This purchase and sale turns the regulatory asset into an investment asset for the investment interest owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests including by dividend or undivided interest, consistent with the Financing Plan. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 5 years (May 1, 2022) the IESO has the rights to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority. (See page 17- Fiscal Pressure)
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Crown Undertaking (Guarantee or Backstop)

- The Crown would undertake not to do anything to adversely affect an investment asset or funding obligation, including hinder, impair, prejudice the charging, collection or remittance of the clean energy adjustment.
- The Minister of Energy, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill.
- The Minister of Finance, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.





Commented [HT24]: Energy: Please provide updated chart with terminology from the legislation embedded.

Commented [JK25]: CEFD/OFA will have an updated version for this provided to Energy.

Commented [RK26R25]: To show potential OFA financing to IESO.

Also, need to show Provincial equity into OPG (not from OEFC).

The bill establishes a structure in which the IESO records the GA cost recovery deferral ~~is recorded~~ as a regulatory asset (regulated by the OEB), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time ("The Fair Adjustment"). Eligible residential consumers would receive an average 25% reduction in electricity rates from July 1, 2017 to April 30, 2018. Eligible farms and small businesses would also receive a benefit. The IESO may then

Commented [HT27]: Section to be compared against the legislation's compendium when available.

sell the regulatory asset, at which time it becomes an investment asset. The investment asset owner (OPG Trust/SPV or trust "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

Under the proposed framework, OPG, acting in its role as the "Financial Services Manager", and following the principles in the bill, would regularly calculate the "Fair Allocation Amount" to ensure a proper match of the allocation of the intergenerational costs and benefits. To recoup the costs associated with the fair adjustment, consumers, starting in May 2022 would be invoiced the "Clean Energy Adjustment" on their electricity bills through existing IESO and LDC processes. The OEB would set the rates at which the clean energy adjustment could be collected.

OPG is planning to create a SPV or Trust to finance the GA. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. The variability will likely largely result from the financing of the SPV/Trust, and therefore OPG will have the ability to direct the financing of the Trust and both benefit from its financing strategy and be at risk as a result of it.

OPG Trust/SPV will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG's debt would be funded through a combination of an equity investment by the Province (See Table 1 on page 4) and external financing through a securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG (to offset the interest on debt). ~~The proposed structure is expected to result in: (1) increase in provincial gross debt offset by an equivalent in regulatory assets resulting in no change in net debt, and (2) an increase in interest on debt paid by the province offset by higher earnings from OPG resulting in no impact on annual deficit of the province.~~

The legislation commits the government to backstop the financing if the government were to ever hinder the collection of the clean energy adjustment including revoking or changing the legislation or regulations. In other words, the OPG and its debt holders would have their capital guaranteed and paid for directly by the Province if such a situation were to occur. The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time, but could be as high as $1-1.5B annually [TBC]. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future.

The proposed structure has been extensively reviewed by KPMG (Energy advisor and IESO auditor), and the firm has provided an accounting opinion confirming the validity of the structure under PSAB [TBC]. This opinion can be made public [TBC] to support the governments rational for the plan. In addition, MAG and Blakes are confident that the structure is constitutionally sound, but that this will depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism. Based on the

Commented [SQ228]: Has this been a plan to define? Annually? Semi-annually? Monthly?

Commented [SQ229]: This should be prefaced with the fact that this risk only arises after OPG would have decided to purchase the Regulatory Asset from IESO, which it is not obligated to do so.

Commented [JK30]: In the latest legislative drafting we have seen.

Commented [SQ231]: This is focussed on accounting fiscal impact but cash flow impact is still present. Province would require cash to pay for IOD and unless those higher earnings (re: cash) is divdended back to Province to cover IOD payments, my guess would be that there is a fiscal impact in terms of IOD.

Commented [JK32]: Albeit relatively small compared to the deferred GA amounts.

Commented [HT33]: Based on commentary from implementation meetings. Don't believe this includes estimates of private lender borrowing costs. Please advise

Commented [SQ234]: Furthermore, this would likely be the "additional" impact. The Province's equity injection, which is currently offset by expected higher earnings, would cease to exists resulting in fiscal impact as well. Could result in $2-3B annually. Please confirm.

Commented [HT35]: Energy to confirm

current analysis there is a moderately high risk that the GA financing will have a fiscal impact on the Province before 2022.

For clarity: the following structural requirements have been met: [TBC]

Commented [HT36]: TBC based on receipt of professional opinions etc.

- IESO requirements :
  - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB;
  - IESO can derecognize regulatory asset upon sale to OPG;
  - "Market books" are reflected on corporate books; and,
  - OEB to act as regulator.

Commented [SQ237]: Currently, I don't believe this is the case for IESO. Will this be the case going forward?

- OPG requirements:
  - OPG Trust/SPV purchases regulatory asset from IESO – classifies as intangible asset;
  - OPG consolidates Trust/SPV; and
  - OPG retains GBE status.

However, despite the fact that the structure has satisfied the legal, fiscal, and accounting requirements outlined in the policy submission, there remain some fundamental risks that the province would need to accept:

- The structure is unique in Canada and possibly the world, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the Unites States, but officials are currently unaware of any example that would compare to the size, complexity, or fluidity of what is proposed;
- Complexity of the structure and length of deferral/recovery increases risk and decrease transparency;
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan;
- Government would not know the price of private borrowing that would be required for the OPG Trust to work and will have limited control over OPG's direct operations as the Financial Services Manager. While removal of the Financial Services Manager is provided for in the bill, in practice this may prove problematic once the system is operational; and
- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and therefore its saleability. Could decrease amount of rate reduction achievable under this mechanism.

2. Enhancing electricity supports for vulnerable Ontarians and shifting costs from rate payer funded to government funded:

<u>Moving the Ontario Electricity Support Program (OESP) to the tax base:</u>

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The program was launched in January 2016 and has had roughly 30% enrolment. Consistent with Cabinet direction, the program was recently expanded to increase the existing benefit scales by 50% and provide additional credits to more households.

Under the expanded program the basic OESP benefit scale increased from $30-$50 to $45-$75 a month and the enhanced OESP benefit scale would increase from $45-$75 to $68-$113 a month for eligible consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to allow for the program to transition from the rate base to the tax base, and become administered by a Ministry or other entity as may be prescribed. The cost to the fiscal plan would be $186M in 2017/18. The bill provides further amendments designed to allow information sharing between the Ontario Disability Support Program (ODSP) and the entity responsible for OESP. The intention is that this information sharing will allow for the automat enrolment of individuals that are already enrolled under the ODSP, but it is currently unknown to what extent this will significantly impact the enrolment under the program.

Commented [HT38]: ENERGY: do you have any numbers on this point? Were other programs considered other than ODSP? Can we put something in about continuing efforts to improve the enrolment?

RRRP Enhancement (Delivery Charge Relief):

Currently, RRRP is a $241.9M program paid for by the ratepayers. For an average residential customer, the cost of supporting RRRP is roughly $1.58 per month. For other customers, the cost to support the RRRP can range from $65 for a greenhouse to $8,000 for a medium industrial. RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province, including Hydro One R2 customers. The delivery charge includes a distribution cost, which can vary across LDCs, and distribution costs are highest for Hydro One R2 and R1 (medium density) customers.

There are also some LDCs with relatively high distribution costs that, when coupled with high consumption patterns, can result in very high bills for consumers (Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma).

In 2016 the OEB made a ruling that all LDCs need to move to fixed distribution charges. The OEB found that fixed distribution charges would establish a fairer way to recover the costs of providing distribution service, and provides greater revenue stability for distributors, which will position them for technological change in the sector, remove any disincentive to promote conservation, and help with their investment planning.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a distribution rate protection program and the ability to cap the distribution charges of prescribed distributors. The amendments also establish that this program will be funded by the tax base.

The intention is to draft regulations permitted under this section of the bill to Harmonize the fixed distribution rates to the lowest distribution cost of the LDCs mentioned above

at $38/month (which is the forecast rate for Northern Ontario Wires). If the costs of another LDC moved above these in the future, a regulation change would be required to for that LDC to receive RRRP. These enhancements are expected to benefit approximately 800,000 customers in Ontario.

Targeted RRRP consumers would see additional savings on their monthly bill that would vary based on their consumption level and cost to fiscal plan would be $344M in 2017/18, $243M of which is a transfer of existing programs to the tax base. If the legislation and required regulations are passed, the program would become active as of July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Commented [HT39]: Need new estimate of transferred program cost starting from July 1.

On-reserve First Nations Delivery Credit

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances. In this instance, historic grievances relate to lands affected by energy developments.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a tax base funded delivery credit program for on-reserve customers with the details as prescribed in the regulations. The intention is to enact regulations that would eliminate the delivery charge for all on-reserve First Nation household customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate.

Eligible recipients would be automatically enrolled in the program (~21,500 customers) and receive an average monthly benefit of $85. The program will cost approximately $20M annually and, provided the legislation and regulations are passed, would become effective July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Expected Impacts of the Proposal on Electricity bills:

The impact of proposed legislation to an eligible customer's bill in July 2017 is an average 25% decrease (combined with the equivalent amount to the 8% provincial portion of the HST from ORECA effective Jan. 1, 2017) for residential consumers, followed by an increase in price over time. This includes the ~~8%~~ rebate for an equivalent amount to the 8% provincial portion of the HST that came into effect on January 1, 2017. Between May 2018 and April 2022 electricity rates will be set by regulation with the intention that rate increases would be kept in line with CPI.

Commented [HT40]: ENERGY: Can you provide analysis on the impact for customers that will receive the RRRP etc?

Customers that are eligible for the RRRP enhancements and the OESP will see further reductions in their electricity rates beyond the 25%

Residential (750 kWh/month)	Actual 2016	2017	2018	2019	2020	2021
Total Bill (includes HST)	**158**	**164**	**167**	**170**	**181**	**178**
Total Bill (excludes HST)	140	145	148	150	160	158
Impact of GA Financing		-26	-26	-26	-32	-28
Impact of Tax-Basing Social Programs		-2	-2	-2	-3	-3
Subtotal		117	120	122	125	127
8% rebate		-9	-10	-10	-10	-10
HST		15	16	16	16	17
Revised Bill (includes HST)	**158**	**123**	**126**	**128**	**131**	**133**
Year-over-Year Change		-22%	2%	2%	2%	2%
Change from Forecast		**-25%**	**-25%**	**-25%**	**-28%**	**-25%**

Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	**160**	**165**	**160**	**162**	**173**	**169**
Class B Revised Total (excludes HST)	**160**	**162**	**157**	**159**	**170**	**166**
Year-over-Year Change		1%	-3%	1%	7%	-2%
Change from Forecast		-2%	-2%	-2%	-2%	-2%

Large Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class A Total (excludes HST)	**90**	**91**	**93**	**88**	**95**	**96**
Class A Revised Total (excludes HST)	**90**	**88**	**90**	**84**	**92**	**93**
Year-over-Year Change		-2%	2%	-6%	9%	1%
Change from Forecast		-4%	-4%	-4%	-4%	-4%

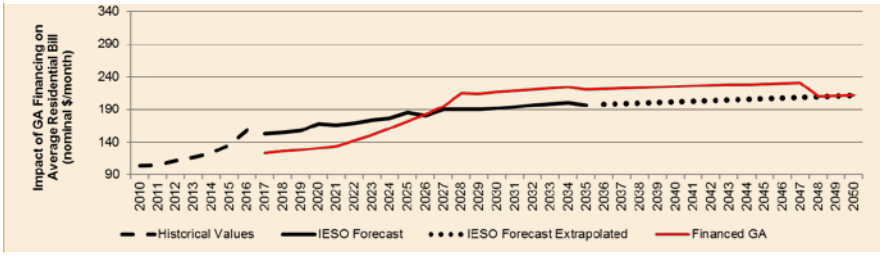
Notes: *Based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing.*

Commented [HT41]: Energy to provide updated chart

Risks and Considerations:

Future Impacts to Electricity Rates

Borrowing money to defer GA costs for ratepayers would lower costs in the short term but result in substantial debt and higher electricity prices in the future. Based on the GA deferral portion of the plan, electricity prices would increase to about 10% above the actual cost of electricity over the recovery period (peaking at 13%). The proposal may create the expectation that the government is committed to reducing or holding constant the absolute cost of electricity for consumers. Under the proposal, the government would not have the ability to control this portion of electricity rates in the future outside of recourse to the fiscal plan.



Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at a maximum of 13% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Commented [HT42]: ENERGY to confirm if this needs to be updated.

The government may be criticized for creating a new debt structure which could be compared to the previous debt retirement charge (DRC). The previous debt retirement charge was removed from residential bills in January 2016 and is scheduled to be removed for remaining customers in April 2018.

Future repayment cost estimates are based on a static assumed interest rate of 5% (actual interest rate may differ), and forecast electricity market conditions and demand levels. Declining demand levels due to conservation, technology adoption, and self-generation would increase the costs borne by remaining customers to decease the debt associated with GA financing. This would increase the risk that the province would have to absorb some of the debt in the future. To mitigate against the risk that increased self-generation poses, the bill provides that the Clean Energy Adjustment may not be "set-off". In other words, it would exist as a separate and distinct component of the bill that could not be reduced by methods such as net-metering.

Not all generating assets will continue operations at the end of their contract. If the Fair Allocation Amount is not properly designed, future rate payers will be paying the cost for assets that are no longer in use, which would be unconstitutional-, unless legislatively authorised as a tax (See page 1~~6~~7- Legal Risk). High capital costs, equipment obsolescence or surplus capacity / low demand conditions mean that some generators will shut down at the end of their contract. Future ratepayers would be paying for these assets that no longer produce power in paying down the deferred GA and accumulated interest costs.

Accounting and Provincial Credit Rating and Borrowing

The significant amount of additional provincial borrowing needed to refinance the GA and associated risks and fiscal costs (interest rates, repayment timelines) could put pressure on the Province's credit rating and overall borrowing capacity.

The complexity of the structure and length of deferral (i.e., recovery of debt) increase the overall risk of the proposal and decrease transparency to the public. The structure of the GA deferral was designed to result in an (1) increase in provincial borrowing (2) no

increase in net debt, and (3) no impact on annual surplus/deficit. However, depending on funding to OPG/ OPG Trust from the Province, an increase in interest on debt and an increase on income from OPG will result. The structure is also contingent on the size of the GA deferral that is seen as possible, which, as previously mentioned, increases the likelihood of pressures on the fiscal plan in the near future. (See page 17- Fiscal Pressure)

Rating agencies and investors in the Province's debt may view all of the borrowing (whether by the Province directly or the OPG Trust) as an obligation of the Province. Depending on the magnitude of the debt incurred, the Province's borrowing cost may be impacted.

The Ontario Auditor General (OAG) has been briefed on the proposal and has had access to the March 1, 2017 policy submission for the Fair Hydro Plan. While the auditors of OPG and IESO have provided their assessments and the Office of the Provincial Controller Division (OPCD) has been engaged, the OAG has historically raised concern with "rate regulated accounting" and may take this into account when the provincial books are audited (i.e., it may impact whether the OAG qualifies the provincial books).

Based on early assessments, only a maximum of 18% rate relief [TBC] can be justified by amortizing contracts over the useful life of the underlying assets. Reducing electricity rates up to or beyond this amount is dependent on increased borrowing. All of the deferral is dependent on increased borrowing. The 18% referenced here is the limit based on review of the contracts and a Eurig assessment and also includes the rebate for an amount equivalent to the 8% provincial portion of the HST~~reduction~~ that was already provided.

Commented [HT43]: To be updated when Navigant prelim report and OPG analysis complete

Legal Risk – constitutionality of financing the GA

The current GA amount paid by consumers is a regulatory charge. One of the requirements of a valid regulatory charge (as opposed to a tax) is that the person paying the charge either benefits from the regulatory scheme or causes the need for regulation. In principle, refinancing a portion of the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Former Supreme Court Justice Binnie has provided legal analysis of this proposal, stating that the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations could jeopardize the nature of this being a regulatory charge.

A proposal for refinancing the GA that appears to cross-subsidize near-term consumers at the expense of long-term consumers by back-loading costs more than if costs were spread equally over the estimated lifespan of generation and conservation assets presents a moderately high risk (more likely than not) of constituting a tax. If the government fails to establish that the relevant electricity generating assets will continue to

perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).Were the charge characterized as a tax, in the event of a challenge, it would be struck down by a court as unconstitutional and consumers would be entitled to recover their payments. This risk could be eliminated, either up front or retroactively, by the imposition of a valid tax.

The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

The bill has been drafted to mitigate the constitutional risk of the proposal and clearly articulates the desire to balance the costs and benefits of assets across generations. The bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. In addition, external consultant Navigant has provided an interim report on the costs and benefits of the long lived assets which supports the previous conclusions regarding the size of the GA deferral that would be supportable. This is further supported by the conclusions of OPG's independent analysis of the question.

Commented [HT44]: TBC

Commented [HT45]: ENERGY please confirm. Need to clearly articulate any differences that may exist between these analyses

MAG and Blakes are confident that the structure is constitutionally sound, but, as identified above, that this will highly depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism.

In addition, the structure of the GA refinancing means that the infrastructure included as part of the clean energy adjustment (i.e. amortized over 30 instead of 20 years) will need to be in service over the entire 30 year amortization period or provide benefits to the system in some way over the whole period. In practice this may mean that the government will have limited ability to alter the generation mixture included under the clean energy adjustment, including natural gas generation facilities, which may at some point be seen as inconsistent with the province's commitments to reduce greenhouse gasses. This risk has been mitigated in the bill, by allowing for prescribed natural gas generation contracts to be excluded from the clean energy benefit calculation.

Commented [HT46]: Needs ground truthing

Fiscal Pressure

Commented [HT47]: TBS please review closely

This proposal aligns with the 2017 Budget fiscal plan, but involves significant ongoing risks. The proposal does not include a scheduled review period or an end date, resulting in an ongoing fiscal pressure, which may increase in the out years, and could only be removed by a legislative amendment.

The cost projections in this proposal are highly sensitive to interest rates and other assumptions:

- The proposal assumes GA refinancing does not have a fiscal impact because the associated legal authority and accounting treatment requirements are met. If the costs of GA refinancing were accounted for as an expense to the fiscal plan, the fiscal impact would be significant.
- The term and timing of the GA refinancing are highly dependent on the IESO's forecast of GA costs and actual interest rates.

The extent of fiscal pressures is also dependent on other factors (i.e., OAG could qualify Ontario's books or issue an adverse opinion). Due to the complexity and size of the proposal, the government has commissioned external opinions on the legal, fiscal, and accounting requirements. Energy's advisor and IESO auditor, KPMG, has provided an accounting opinion that the principles of the structure are sound, and this opinion can be released publicly when desired. This opinion may not change the likelihood of a contrary opinion by the OAG, but does provide a tool for government to point to in justifying its decisions.

Commented [HT48]: TBC

There is also a risk that credit rating agencies and the market may take an alternate view as to the size of the GA deferral that is possible before becoming unconstitutional. If the Fair Adjustment exceeds this analysis, it may increase the perceived risk of the investment asset and therefore its financeability / saleability, which would result in reduced market uptake and reduce the amount of near term rate reduction that would be achievable under the plan. This is why the increases in electricity rates between May 2018 and April 2022 are to be set by regulation as opposed to legislating that they increase by CPI. It may not be possible to legally hold the rate reductions to increase by CPI, and if the government wanted to hold to this commitment, the difference would need to come out of the fiscal plan, which has not been forecasted. Each percentage point of reduction that the structure cannot provide would result in an approximate $150M [TBC] cost to the tax base. This has not been provided for in the bill, but it is likely that the government will receive questioning along these lines and why the previously committed CPI increases are not explicitly stated in the bill.

Commented [HT49]: Needs ground truthing

Note that if the IESO is not able to sell the regulatory asset (i.e., the OPG SPV is unable to get financing to purchase it), then the IESO would require financing from an alternative source. The IESO has requested a backstop credit facility from the Ontario Financing Authority. This would be associated with a fiscal impact risk.

There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Legislative Officers

The Ontario Auditor General (OAG) has expressed views on rate regulated accounting, which will likely be raised again upon the announcement of this suite of initiatives. The

Commented [HT50]: Energy to update.

OAG was provided copies of the Cabinet Submission seeking policy approval for Ontario's Fair Hydro Plan and has been briefed by officials from the Ministry of Energy. The OAG will have opportunities to publicly state her views through the Public Accounts committee in the summer of 2018 and in her pre-election report.

The Financial Accountability Officer (FAO) has not been consulted on this proposal and is expected to have an opinion on how this proposal may impact the state of the province's finances.

Commented [HT51]: Energy to update from discussion with FAO

OPG Mechanism

- Accountability
  - Bill attempts to balance the independence of the OPG trust with regulatory oversight and the market's need for certainty in recovering the GA financing that it provides.
  - Accountability to the government or the public, amount of government control of the entity, including future rate increases.

Commented [HT52]: Needs to be recast given limitation on control after initiated

- New structure
  - Structure is complex, involving:
    - IESO as originator of the regulated asset and responsible for flow of funds;
    - OEB as regulator of the new mechanism;
    - OPG responsible for financing and managing the mechanism; and
    - The Province providing ongoing equity capital infusions to OPG and backstop.
  - Addition of financial agency to current operational obligations of OPG – not the current expertise of OPG. However, OPG has experience managing large financial assets and liabilities through the jointly managed Ontario Nuclear Funds as well as its own pension fund. In addition, could possibly dilute OPG's focus on current high priority responsibilities (i.e., electricity generation and nuclear refurbishment).
  - This financing structure would be unique to Canada – uniqueness reduces likelihood of all risks being known/mitigated. Highly specialized expertise would be required.
  - Connection to BPS compensation framework/lack of national comparator.
  - Unknown transaction, admin, consultant costs. OEB would review OPG's cost as the Financial Services Manager
- Debt
  - Opportunity for significant shifting of the Ontario's electricity sector over the lifespan of the repayment (30 years). Through sector/policy/government position shifting, possibility of new entity/structure abandoning debt and Ontario having to take a write down.

  - Risk transfer / portion of debt that Ontario would be responsible for would be the higher risk portion.
  - Repayment plan and impact on rate payers highly dependent on interest rates

- Public perception/reaction (could be seen as similar to the process preparing Hydro One for IPO).

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change.

- Program design will require an evaluation of whether the existing programs are effective and achieving their outcomes (e.g. the OESP has a current uptake of 30% and program changes are proposed in advance of an increased effort to reach 100% uptake)
- The OESP matrix no longer follows the Low Income Measure (LIM) which creates inconsistencies between how programs are applied and may put pressure other provincial programs to increase funding amounts.

Benefits for all Consumer Classes

The Fair Hydro Plan includes some benefits for all consumer classes as well as targeted benefits to those with the greatest need. It is likely that the government will be criticized for providing benefits to those who may not be in need (e.g., wealthy cottage communities, etc.).

Stakeholder Considerations:

General public (including residential and small businesses) – Likely support a proposal that is projected to provide up to 25% in rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but likely to question the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications.

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral the remainder of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an

expectation government is going to take specific action to mitigate their increases due to Cap & Trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Commented [HT53]: Confirm work still ongoing on this piece

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generation as part of the "Clean Energy Adjustment."

Solar PV sector – May react negatively to price relief as it can be seen to undercut the affordability of distributed renewable generation assets such as solar PV, and undermines the economic arguments behind net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

Delivery:

If passed, the legislation will enable the price mitigation measures to begin to take effect on July 1, 2017. The 2017 LTEP will be released to the public in the summer2017 and would reinforce/integrate with Ontario's Fair Hydro Plan. Regulations are required under the major components of the legislation in order to fully implement the initiative and clarify program details.

Commented [HT54]: TBC

1. Refinancing Global Adjustment assets in order to defer ratepayer costs / Mechanism to defer GA costs

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the introduction of enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

Commented [HT55]: This needs more elaboration and confirmation. Last discussion I was part of on this point hadn't landed exactly how long it is expected that the IESO retains the Reg Asset for before sale to OPG.

2. Enhancing Social and Conservation Programs

OESP Enhancements

New OESP program details would require TB/MBC approval.

Changes to regulation will be required to establish and define the parameters for the proposed changes. The financial flow-through mechanism would likely be modelled after processes used for the OREC (8% rebate). The amendments made in this bill allow for a transition period where the program continues to draw on the existing IESO variance account until the account can no longer maintain the program. IESO is required to notify the Ministry of Energy when it expects the variance account to be depleted (likely sometime in the fall). At this time

The proposed changes will take time to implement as they would require changes to the central system and the LDCs' billing systems. The OEB and their central service provider will need to work with LDCs, MOF, and the CRA on the changes to this program (delivery mechanism, funding source, application system, eligibility).

Commented [HT56]: Requires update

RRRP Enhancement

Regulations would be required to establish the details of the program. OEB estimates that the implementation would take at least six months after finalizing regulations. For this reason it is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st which will put an immediate pressure on the OEB and LDCs as implementation is required no later than October 1, 2017. A mechanism will need to be created to ensure that all parties are aligned in the yearly forecasting and costing of the program.

On-Reserve First Nations Delivery Credit

The OEB would need to work with the LDCs to identify the eligible on-reserve consumers. A communications plan could include public release of the OEB report and a commitment to working with the LDCs on implementation details.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

Once available, the rebate would appear on customer's electricity bills as a reduction in, or credit for, their delivery line.

There is a risk that either non-status Indigenous communities without reserves or Metis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Linkages:

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer-fall 2017. These plans identify needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The Ontario Rebate for Electricity for Electricity Consumers Act, 2016, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) was a five-year legislated program put in place as a broad-based (RPP-eligible), transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB expired on December 31, 2015.

Commented [RK57]: TBC

Debt Retirement Charge – On January 1, 2016 the government ended the electricity Debt Retirement Charge (DRC) on residential users, earlier than planned, and put in place the low-income targeted OESP, effective 2016. For all other consumers, the Electricity Act was amended so that the DRC is ~~schedul~~legislated to be removed ~~by~~ April 1, 2018.

Industrial Conservation Initiative – Ministry of Energy program implemented in January 2011 to help large industrial consumers reduce their electricity costs by ~~shirftin~~reducing electricity consumption ~~away from~~ in peak periods. As part of the Fair Hydro Plan, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all electricity consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – approved as part of Ontario's Fair Hydro Plan, and under development, the Affordability Fund is intended to expand access to conservation funding to targeted consumers that do not currently qualify as low-income for the purposes of the Home Assistance Program (HAP).

Commented [HT58]: insert

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded~~met~~ by the January 2017 ~~8%~~ rebate amount equal to the 8% provincial portion of the HST.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings. **Note:** Funding electricity support programs through the tax-base rather than the rate base will also provide saving to Class A and B consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON)- is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed to "consider options for legislation/regulation change that lessen the impact on residential tenants of increased energy costs from cap and trade". As part of the review of the Residential Tenancies Act, the Ministry of Housing is working on a proposal that will address that commitment. The proposal is expected to come to Cabinet in spring 2017.

Commented [HT59]: To get updated language on the RTA amendments

Proposed Cabinet Minute

Approval of draft bill for introduction

Cabinet approved version XX-XX of this draft legislation for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.

From: John Kim
To: James Strang (MOF)
Cc: Bruno Amara; Felix Fung (MOF); Salman Qadir
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date: Wednesday, May 03, 2017 11:57:49 AM

So along this line, we were doing more digging and we will try to arrive at what approvals are needed….

If an OIC is required, what would be the process? For one of the current facilities, it is put in place under the authority of an OIC as we currently understand it. Just looking for your guidance on the OIC process.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Wednesday, May 03, 2017 11:50 AM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Felix Fung (MOF) <Felix.Fung@ontario.ca>
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

This should be included in Energy's TB/MBC submission with a requested minute. The submission should speak to size of the credit facility and fiscal plan implications.

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 2, 2017 2:38 PM
To: Strang, James (TBS)
Cc: Bruno Amara
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

While I don't see why we wouldn't facilitate the request, we would require Minister's authorization of some sort and staff level, we view that TB/MBC should be made aware of the request/requirement.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Tuesday, May 02, 2017 2:34 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

CO has a question below. Is this an OFA decision, or is a TB/MBC decision needed?

From: Hindmarch-Watson, Tim (CAB)
Sent: May 2, 2017 1:58 PM
To: Strang, James (TBS)
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Thanks James.

At a few points in the OFA comments they say "The IESO has requested a backstop credit facility from

the OFA." Do you know if the plan is to grant this request?

Thanks!

Tim Hindmarch-Watson
416-325-4618

From: Strang, James (TBS)
Sent: May-02-17 12:43 PM
To: Hindmarch-Watson, Tim (CAB)
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Tim, just got some feedback from Ontario Financing Authority.

James

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 2, 2017 12:39 PM
To: Strang, James (TBS)
Cc: Bruno Amara
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Hi James,

I sense we missed the boat and there's new information but see attached comments/edits.

John

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Monday, May 01, 2017 8:51 AM
To: Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Cc: Felix Fung (MOF) <Felix.Fung@ontario.ca>; Chris Skubel (MGS) <Chris.Skubel@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sandy Luk (MOHLTC) <Sandy.Luk@ontario.ca>
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

Draft note from Cabinet Office. They're looking for feedback by EOD today (May 1).

I'm happy to coordinate any responses.

James

From: Hindmarch-Watson, Tim (CAB)
Sent: April 28, 2017 3:46 PM

To: Fung, Felix (TBS); Skubel, Chris (TBS)
Cc: Strang, James (TBS); Moore, Karen (CAB)
Subject: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

Hi Felix and Chris:

As mentioned earlier in the week, please find attached the draft CBN re the rate mitigation legislation for the TBS' review (password same as previous materials). This has been prepared with no materials and should be reviewed closely. I have left comments in the margin where I am looking for specific review or confirmation of particular details. I am interested in ensuring alignment in how we are characterizing the proposal and its risks.

The note is a bit on the longer side at the moment, so suggestions to economize without losing key pieces would also be helpful.

The note is undergoing concurrent review with Energy and my management now. My ADM will likely pass this along to Cindy and Karen for concurrent review given the time crunch, but please feel to pass along as well.

Please try to have any comments to me by EOD on Monday so I can get it to my DM and the Secretary on Tuesday.

Have a great weekend,

Tim Hindmarch-Watson
Policy Advisor
Justice, Resource and Environmental Policy
Policy and Delivery Division
Cabinet Office
416-325-4618

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From: John Kim
To: Bruno Amara; Shajee Kathirgamanathan
Subject: RE: DRAFT RAN Ontario Fair Hydro Plan
Date: Monday, May 08, 2017 3:17:11 PM

Could we have a quick chat?

From: John Kim
Sent: Monday, May 08, 2017 11:11 AM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Subject: FW: DRAFT RAN Ontario Fair Hydro Plan

Fyi, just in….looks like it was received yesterday.

From: Fung, Felix (TBS) [mailto:Felix.Fung@ontario.ca]
Sent: Monday, May 08, 2017 11:09 AM
To: Judy George-Harris (MGS) <Judy.George-Harris@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Violetta Goralski (MAG) <Violetta.Goralski@ontario.ca>; Helder Marcos (MCSS) <Helder.Marcos@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: DRAFT RAN Ontario Fair Hydro Plan

Hi everyone,

In advance of our 11:45 am meeting with Karen - please find attached our latest draft TB/MBC assessment note for the OFHP along with the TB submission and LRC submission received from Energy.

Thanks,
Felix

From: John Kim
To: Ronald Kwan
Cc: Bruno Amara; Shajee Kathirgamanathan; Salman Qadir
Subject: RE: DRAFT RAN Ontario Fair Hydro Plan
Date: Monday, May 08, 2017 4:36:12 PM

Hi Ron,

The 30-year wording is for the term of the OIC, not for the term of lending.

Thanks,

John

From: Ronald Kwan
Sent: Monday, May 08, 2017 4:29 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: Re: DRAFT RAN Ontario Fair Hydro Plan

Hi John,

I'm a little confused. At this time, I thought we were only going to respond to the IESO with a short term facility, and seek a longer one only if needed. So, while it might be a risk that it might have to be converted in future to long-term, do we need so much 30-year wording here?

Ron

From: John Kim
Sent: May 8, 2017 3:56:25 PM
To: Ronald Kwan
Cc: Bruno Amara; Shajee Kathirgamanathan; Salman Qadir
Subject: FW: DRAFT RAN Ontario Fair Hydro Plan

Hi Ron,

On this, we are reviewing the materials but it looks like they dropped our staff level note contents OIC right into their RAN. (Appendix F) Could you have a look and let us know if you have concerns as we would like to let them know of any issues.

Thanks,

John

From: Fung, Felix (TBS) [mailto:Felix.Fung@ontario.ca]
Sent: Monday, May 08, 2017 11:09 AM
To: Judy George-Harris (MGS) <Judy.George-Harris@ontario.ca>; Didem Proulx (MTCU) <Didem.Proulx@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Violetta Goralski (MAG) <Violetta.Goralski@ontario.ca>; Helder Marcos (MCSS) <Helder.Marcos@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: DRAFT RAN Ontario Fair Hydro Plan

Hi everyone,

In advance of our 11:45 am meeting with Karen - please find attached our latest draft TB/MBC assessment note for the OFHP along with the TB submission and LRC submission received from Energy.

Thanks,
Felix

From: Bruno Amara
To: John Kim
Subject: RE: Draft GA Sub debt term sheet - Performance Fee Recommendations
Date: Friday, June 02, 2017 1:42:05 PM

Nope. I'm just trying to check which sheet this refers to.

From: John Kim
Sent: Friday, June 02, 2017 1:41 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: Draft GA Sub debt term sheet - Performance Fee Recommendations

I didn't know there was a meeting this afternoon….do you see an invite on your calendar?

From: Ken Kandeepan
Sent: Friday, June 02, 2017 1:29 PM
To: Carlos Yep <Carlos.Yep@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>
Cc: Graham Monroe <Graham.Monroe@ofina.on.ca>; Connie Chen <Connie.Chen@ofina.on.ca>; Opal Kandelas <Opal.Kandelas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; 'Montgomery, Kaitlin (MOF)' <Kaitlin.Montgomery@ontario.ca>
Subject: RE: Draft GA Sub debt term sheet - Performance Fee Recommendations

Carlos, Mike and Jim

Since I will not be available for the meeting this afternoon here is my single comment.

I have concerns with the weighted average calculation of both the benchmark and actual issuance including the debt issued to the Trust by OPG funded by the 44% equity injection given that there are no market forces in play with regard both issuance and funding of this tranche, at least from an OPG perspective.

The only way in which this tranche is acceptable for performance inclusion is by OPG linking the yield on this debt to what was issued to the markets by the Trust. For example the debt from the equity injection is X bps above or below what was issued in the markets for equal tenors. Even so a linked component in the benchmark, in my opinion, adds limited value.

Thanks

Ken k

From: Carlos Yep
Sent: Wednesday, May 31, 2017 9:06 AM
To: Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>; Opal

Kandelas <Opal.Kandelas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; 'Montgomery, Kaitlin (MOF)' <Kaitlin.Montgomery@ontario.ca>
Subject: FW: Draft GA Sub debt term sheet - Performance Fee Recommendations

fyi

From: LIU Sheen -TREASURY [mailto:sheen.liu@opg.com]
Sent: Wednesday, May 31, 2017 9:03 AM
To: Carlos Yep <Carlos.Yep@ofina.on.ca>
Cc: LEE John -TREASURY <john.s.lee@opg.com>; RYFA Ken -TREASURY <ken.ryfa@opg.com>; PRESTON Stuart -TREASURY <stuart.preston@opg.com>; HAHN PARKER Janet -TREASURY <j.hahnparker@opg.com>
Subject: RE: Draft GA Sub debt term sheet

Carlos,

Attached for your review please also find the recommended structure of variable performance fee and benchmark relating to GA financing. We can discuss it at our meeting with OFA as well.

Sheen

From: LIU Sheen -TREASURY
Sent: Tuesday, May 30, 2017 4:26 PM
To: 'Carlos Yep'
Cc: LEE John -TREASURY; RYFA Ken -TREASURY; PRESTON Stuart -TREASURY; HAHN PARKER Janet -TREASURY
Subject: Draft GA Sub debt term sheet

Carlos,

Further to our discussions re establishing GA financing benchmark. Attached please find the draft term sheet of the subordinated debt (from Province equity injection). Could you please review and circulate it to the appropriate contacts/group on your side. We'd also like to set up a meeting with OFA, at your earliest convenience, to go over the document and get your feedback. Please let us know your availability.

Thanks

Sheen

<< File: Draft Subordianted Debt Term Sheet.doc >>

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From:	Ken Kandeepan
To:	Carlos Yep; Mike Manning; James Devine
Cc:	Graham Monroe; Connie Chen; Opal Kandelas; John Psinas; John Kim; Bruno Amara; "Montgomery, Kaitlin (MOF)"
Subject:	RE: Draft GA Sub debt term sheet - Performance Fee Recommendations
Date:	Friday, June 02, 2017 1:29:01 PM

Carlos, Mike and Jim

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From: Bruno Amara
To: John Kim
Subject: RE: Draft GA Sub debt term sheet - Performance Fee Recommendations
Date: Friday, June 02, 2017 1:44:02 PM

OK thx. that what I'm looking at.

From: John Kim
Sent: Friday, June 02, 2017 1:43 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: Draft GA Sub debt term sheet - Performance Fee Recommendations

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From: John Kim
To: Chris Skubel (MGS)
Cc: Emily Kerr; Bruno Amara
Subject: RE: Draft TB Sub - Electrictiy Regs
Date: Monday, June 12, 2017 4:25:17 PM

Thanks for that. That is helpful information for Emily.

As for the report back on the 14th, is it fair to say the focus is on the regs? What about any outstanding issues such as indemnities, Provincial guarantee, etc. What would be the main focus of the 14th TB date and the one on the 27th?

The OFA is also working to provide the IESO with a new credit facility primarily for short to medium term funding needs.

In a nutshell, we're trying to get a sense of the path forward vis-à-vis the two TB dates.

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 3:28 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Emily Kerr <Emily.Kerr@ofina.on.ca>
Subject: RE: Draft TB Sub - Electrictiy Regs

Hi John – Given the Board meeting is tomorrow I don't think ENERGY will take into consideration any of our comments (sadly). It may be more appropriate to flag and concerns/risks/etc. in the assessment note that I am hoping to distribute this evening.

The regulatory amendments related to OESP were previously tracking to Cabinet on June 14th but have now been moved to June 27th (hence no mention in this submission).

Thanks,
Chris

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: June-12-17 3:25 PM
To: Skubel, Chris (TBS)
Cc: Kerr, Emily (OFA)
Subject: RE: Draft TB Sub - Electrictiy Regs

Hi Chris,

We are looking at this - Is there a window for comments or is it more of an FYI that this is final?

My colleague Emily was looking at this and noticed that there is no mention of OESP. Not sure what the reason for that while other programs are mentioned.

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From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 12:26 PM
To: Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>
Cc: Afshin Malekzadeh (MOHLTC) <Afshin.Malekzadeh@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; James Strang (MOF) <James.Strang@ontario.ca>
Subject: Draft TB Sub - Electrictiy Regs

Hi Everyone – Please find attached a draft TB sub for the electricity regs (that we received this morning) tracking to TB/MBC tomorrow.

We'll share a draft RAN later today.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

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From:	Bruno Amara
To:	John Kim
Cc:	Shajee Kathirgamanathan; Salman Qadir
Subject:	RE: Draft TB Sub - Electrictiy Regs
Date:	Monday, June 12, 2017 4:00:53 PM

Hi John, I'm wondering if we should raise these and other issues and let Chris decide how to deal with them. My concerns are as follows:

1. report back seems to be mainly about regs, so maybe desire to keep the focus on regs.
2. indemnities is one of a number of outstanding issues, e.g. performance guarantee, PiLs exemption etc. Should they all be noted or is tyere another venue for this?
3. not sure how far indemnity discussion has gone and whether this is place to raise it
4. less concerned about IESO credit facility. It has been mentioned and is relatively non-controversial

What do you think?

From: John Kim
Sent: Monday, June 12, 2017 3:42 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: Draft TB Sub - Electrictiy Regs

Hi,

This was Emily's question more so than ours. Would it be fair to ask Chris to provide coverage on IESO's request for a credit facility and IESO's and OPG's requests for indemnities in their RAN note?

Any thoughts on that?

John

From: Skubel, Chris (TBS) [mailto:Chris.Skubel@ontario.ca]
Sent: Monday, June 12, 2017 3:28 PM
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From: Skubel, Chris (TBS)
To: John Kim
Cc: Emily Kerr
Subject: RE: Draft TB Sub - Electrictiy Regs
Date: Monday, June 12, 2017 3:28:10 PM

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To: Chris Skubel (MGS)
Cc: Emily Kerr
Subject: RE: Draft TB Sub - Electrictiy Regs
Date: Monday, June 12, 2017 3:25:28 PM

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From: John Kim
To: Bruno Amara
Subject: RE: Draft TB Sub - Electrictiy Regs
Date: Monday, June 12, 2017 2:10:23 PM

Yeah, Gavin had explained the distinction between the two to me last week. Bill 132 includes the OFHPA and other changes, I think.

I am wondering if there's an opportunity for us to add something that we need to see Energy acknowledge. And not sure if there is a window to do that either…..so I'm taking a look to see what we could add in for that purpose.

John

From: Bruno Amara
Sent: Monday, June 12, 2017 2:08 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: Draft TB Sub - Electrictiy Regs

I don't think anything immediate is needed. This is a report back to report on status/plan for the regs.

But I did note something that I didn't get before. There is a distinction between Bill 132 Fair Hydro Plan Act, 2017 and Ontario Fair Hydro Plan Act, 2017.

The former was an Act to enact the Ontario Fair Hydro Plan Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998. I don't think that has any implications for any of our notes. I assume all those acts/amendments were passed on March 31, 2017.

But I'll pass the document around. Sounds like we get a RAN note this afternoon from TBS.

Bruno

From: John Kim
Sent: Monday, June 12, 2017 12:35 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: Draft TB Sub - Electrictiy Regs

Hi Bruno,

Heading out for lunch but let's take a look to see what if any actions are needed.

Thanks,

John

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From:	Skubel, Chris (TBS)
To:	John Kim
Cc:	Emily Kerr; Bruno Amara
Subject:	RE: Draft TB Sub - Electrictiy Regs
Date:	Monday, June 12, 2017 5:23:30 PM

Hi John – The focus on the 14th is only the regs. In terms of the 27th, they are reporting back on 2 additional regs related to OESP and GA. The material is silent on any outstanding issues on indemnities, provincial guarantees, etc as you can see…

Chris

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: June-12-17 4:25 PM
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Cc: Kerr, Emily (OFA); Bruno Amara
Subject: RE: Draft TB Sub - Electrictiy Regs

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Sent: Monday, June 12, 2017 12:26 PM
To: Sophie Liu (TCU) <Sophie.Liu@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Nick Smook (MOF) <Nick.Smook@ontario.ca>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca>
Cc: Afshin Malekzadeh (MOHLTC) <Afshin.Malekzadeh@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; James Strang (MOF) <James.Strang@ontario.ca>
Subject: Draft TB Sub - Electrictiy Regs

Hi Everyone – Please find attached a draft TB sub for the electricity regs (that we received this morning) tracking to TB/MBC tomorrow.

We'll share a draft RAN later today.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

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From: John Kim
To: Ronald Kwan
Subject: RE: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
Date: Monday, June 12, 2017 3:14:22 PM

Hi Ron,

A comfort letter would be a significant step in my view. While not a certainty, a TPD letter providing comfort [establishing that no activity would result in tax liability ranking ahead of security holders] would be material to ratings agencies. Just not sure how that is done but if TPD can assure them that without putting those changes in place or motion.

John

From: Ronald Kwan
Sent: Monday, June 12, 2017 3:09 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: Fwd: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan

Hi John,

FYI, ands any view on a comfort letter vis-a-vis rating agencies?

Ron

Begin forwarded message:

> **From:** "Langleben, Ann (MOF)" <Ann.Langleben@ontario.ca>
> **Date:** June 12, 2017 at 2:55:39 PM EDT
> **To:** "Waterston, Michael (MOF)" <Michael.Waterston@ontario.ca>, "Kwan, Ronald (OFA)" <Ronald.Kwan@ofina.on.ca>
> **Cc:** "Lewis, Robin (MOF)" <Robin.Lewis@ontario.ca>, "Klassen, Daniela (MOF)" <Daniela.Klassen@ontario.ca>
> **Subject: FW: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan**
>
> Hi Michael, not sure if this has been forwarded to you or someone in your Branch. I just wanted you to be aware.
>
> CCTB involvement in this issue relates to a potential exemption for the entity. We are hindered in our ability to create one, since the structure has not been finalized and the options are still quite broad.
>
> Ron, we met with Sriram and he has asked me to contact you about whether a "comfort letter" regarding the tax issue would be sufficient for the credit rating agencies. If you have a minute later today, perhaps we can connect by phone (unless there is a straightforward answer).

From: RYFA Ken -TREASURY [mailto:ken.ryfa@opg.com]
Sent: June-12-17 12:22 PM
To: Nelms, Scott (MOF); LEE John -TREASURY; WONG Leslie -LAWDIV; SHAH Ameet -FIN & C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA); MAUTI John -FIN & C CTRL; JORDA Jenny -FIN & C CTRL
Subject: RE: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan

During today's call there was a general reference to potential credit rating agency concerns. That concern may not have come across clearly enough and here is some perspective on the specific concern. Given that this structure is very unique in the Canadian environment the credit rating agency will likely request a legal opinion – tax neutrality or run flat for tax – establishing that any activity of the financing entity will not result in a tax liability that would rank ahead of security holders.

-----Original Appointment-----
From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: Wednesday, June 07, 2017 3:09 PM
To: Nelms, Scott (MOF); LEE John -TREASURY; RYFA Ken -TREASURY; WONG Leslie -LAWDIV; SHAH Ameet -FIN & C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA)
Subject: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
When: Monday, June 12, 2017 11:00 AM-12:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: 416-212-8013 Passcode 4075747# (SN MC 6665#)

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From:	Waterston, Michael (MOF)
To:	Ronald Kwan; Ann Langleben (MOF)
Cc:	Robin Lewis (MOF); Daniela Klassen (MOF); John Kim
Subject:	RE: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
Date:	Monday, June 12, 2017 3:19:44 PM

Thanks Ann. It appears from the emails below that external legal counsel will be asked to provide a legal opinion on the application of the PILs regime.

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: June 12, 2017 3:13 PM
To: Langleben, Ann (MOF)
Cc: Waterston, Michael (MOF); Lewis, Robin (MOF); Klassen, Daniela (MOF); Kim, John (OFA)
Subject: Re: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan

Hi Ann,

I'm in a meeting right now. Not sure about a comfort letter's impact. I'd need to consult. And the view and experience of our IR folks may not reflect the particularities of this planned financing entity.

Ron

On Jun 12, 2017, at 2:55 PM, Langleben, Ann (MOF) <Ann.Langleben@ontario.ca> wrote:

> Hi Michael, not sure if this has been forwarded to you or someone in your Branch. I just wanted you to be aware.
>
> CCTB involvement in this issue relates to a potential exemption for the entity. We are hindered in our ability to create one, since the structure has not been finalized and the options are still quite broad.
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> Ron, we met with Sriram and he has asked me to contact you about whether a "comfort letter" regarding the tax issue would be sufficient for the credit rating agencies. If you have a minute later today, perhaps we can connect by phone (unless there is a straightforward answer).
>
> **From:** RYFA Ken -TREASURY [mailto:ken.ryfa@opg.com]
> **Sent:** June-12-17 12:22 PM
> **To:** Nelms, Scott (MOF); LEE John -TREASURY; WONG Leslie -LAWDIV; SHAH Ameet -FIN & C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA); MAUTI John -FIN & C CTRL; JORDA Jenny -FIN & C CTRL
> **Subject:** RE: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
>
> During today's call there was a general reference to potential credit rating agency concerns. That concern may not have come across clearly enough and here is some perspective on the specific concern. Given that this structure is very unique in the Canadian environment the credit rating agency will likely request a legal opinion – tax

neutrality or run flat for tax – establishing that any activity of the financing entity will not result in a tax liability that would rank ahead of security holders.

-----Original Appointment-----
From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: Wednesday, June 07, 2017 3:09 PM
To: Nelms, Scott (MOF); LEE John -TREASURY; RYFA Ken -TREASURY; WONG Leslie - LAWDIV; SHAH Ameet -FIN & C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA)
Subject: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
When: Monday, June 12, 2017 11:00 AM-12:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: 416-212-8013 Passcode 4075747# (SN MC 6665#)

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From:	Proulx, Didem (TBS)
To:	Bruno Amara; John Kim; Salman Qadir; Adam Prokop
Cc:	Sandy Ng (MCSCS); Ben Shannon (EDU); Dan Singh (EDU); Nadine Petsche (MOF)
Subject:	RE: Financial Assumptions and Risks
Date:	Wednesday, May 03, 2017 12:43:19 PM
Attachments:	ENERGY Models and Risks April 27 2017 v2.pptx

Dear Bruno, John, Salman and Adam – Hi!

We look forward to our meeting this afternoon and have the opportunity to discuss the models we received from Energy and OPG re: the GA smoothing, and the broader social programs. Our goal is to develop a robust understanding of the assumptions/models and the financial risks that may materialize under different scenarios. Happy to share with you what we know and we look forward to benefitting from your insights.

Here is a little deck we put together to reflect our understanding. We would greatly appreciate hearing about your thoughts about the models and financial risks that may be inherent. We also hope to talk about how we can best work together, with each other as central agencies, as well as the Ministry of Energy and the sector partners to allow for proactive management of issues/risks as they come up.

Looking forward to talking to you in person.

Cheers,
Didem

-----Original Appointment-----
From: Bruno Amara [mailto:Bruno.Amara@ofina.on.ca]
Sent: April-26-17 11:40 AM
To: Bruno Amara; Proulx, Didem (TBS); Kim, John (OFA); Salman Qadir; Adam Prokop; Ng, Sandy (TBS); Shannon, Ben (TBS); Singh, Dan (TBS); Petsche, Nadine (TBS)
Subject: Financial Assumptions and Risks
When: May-03-17 2:00 PM-3:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: CEFD Boardroom Large, 300 - 1 Dundas St. West

Hi Didem

Please forward the invite to your staff as needed. The scheduling assistant isn't showing me your schedule (may be an OFA thing). If above time doesn't work, perhaps you can send me a couple of alternatives.

Thanks
Bruno

Bruno Amara

Sr. Manager, Financial and Regulatory Analysis
Electricity Finance Branch
Corporate and Electricity Finance Division
Ontario Financing Authority

Tel: 416-325-1489
Email: bruno.amara@ofina.on.ca

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Office of the Treasury Board

Ontario Fair Hydro Plan
Analysis of Financial Models and Risks

April 2017

Purpose

- In March 2017, the government approved and announced the Ontario Fair Hydro Plan (OFHP), which committed to lowering electricity bills by 25% for the typical residential customer and holding rate increases to the rate of inflation for four years.
  - In addition to residential customers, small businesses and farms would also benefit from the initiative (approximately 90% of all customers).

- On April 12, 2017, Treasury Board Secretariat received two models:
  - The model the Ministry of Energy developed and used to support the March submission; and
  - The financial model that was developed by the Ontario Power Generation (OPG) that provides details regarding the financing of the proposed structure.

- The models received are based on high level aggregates and do not allow for running different scenarios that would allow TBS to determine the financial impact of potential changes in variables. In discussions with the Ministry of Energy and OPG, it has been agreed that these scenarios must be developed – both to help creation of a risk-based outlook for the province, as well as to respond to questions that will inevitably arise from the credit rating agencies.
  - Given the current focus on the legislative pieces, the scenarios will be done in the coming weeks.

- Hence this deck focusses on risks without providing $ impacts, and is intended to support ongoing discussions by highlighting factors as the legislation and regulations are drafted, and the initiative is implemented.

Overview

1 **Ontario Fair Hydro Plan: How does it work?**

- Overview of the model
- The Model: Phases
- The Model: Key assumptions

2 **What are the risks and implications?**

- Risks/sensitivities
- Next Steps: Scenario Testing

3 **Key Considerations and Risk Mitigation Strategies**

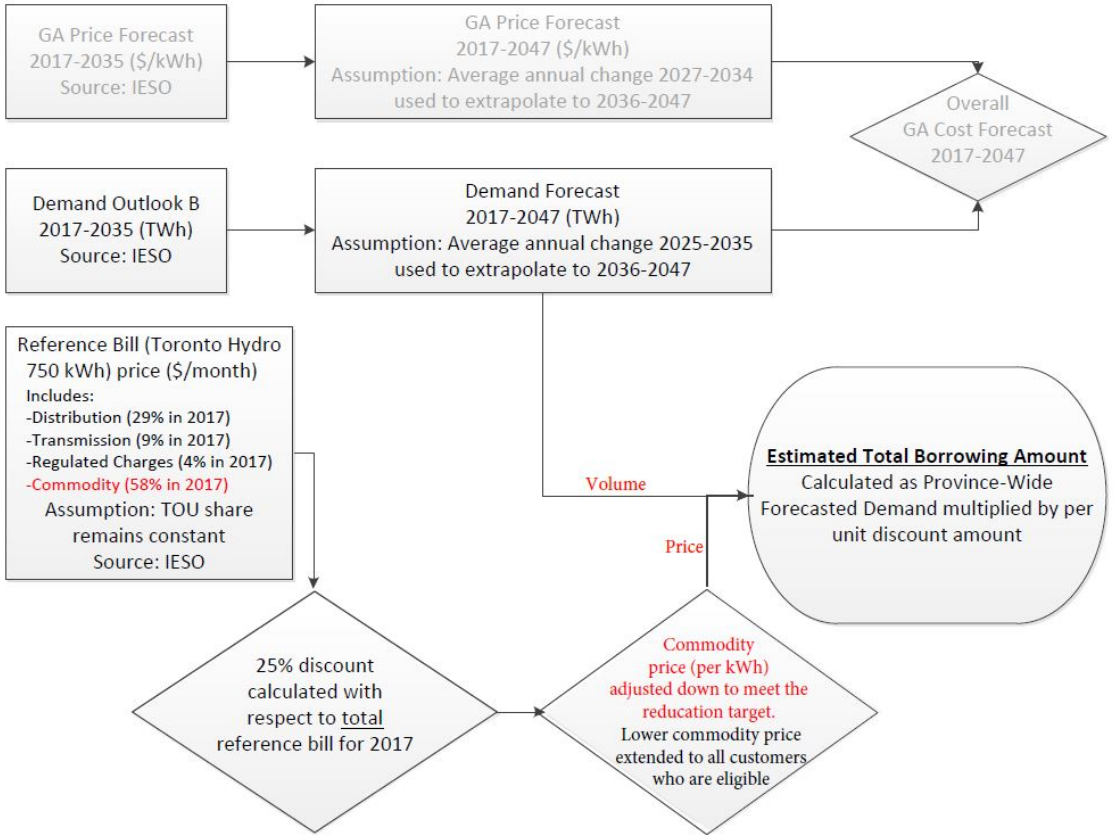
- **Options through Phases**
- **Monitoring & Early Warning Indicators**

1 Ontario Fair Hydro Plan

- Overview of the model
- The Model: Phases
- The Model: Key assumptions

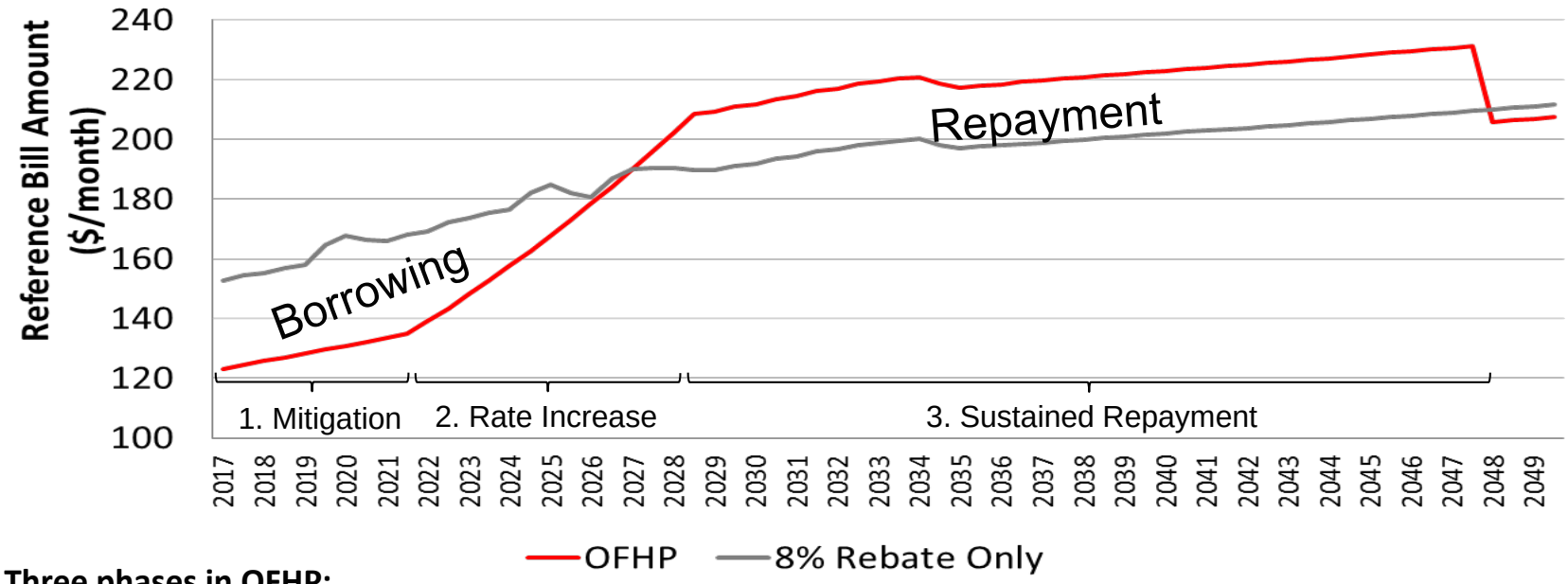
Ontario Fair Hydro Plan: Construct

- Through refinancing of the Global Adjustment (GA), which provides immediate rate relief by spreading the cost of electricity investments over a longer period of time, the OFHP reduces electricity bills by 25% for the typical residential customer in 2017, and holds rate increases to 2% (the expected rate of inflation).



Ontario Fair Hydro Plan: Phases

- OFHP can be thought of as having three phases:



Three phases in OFHP:

Phase 1: Mitigation

- 2017 bill set 25% lower than original projection (that did not include 8% HST rebate)
- Increase in bill capped to 2% per year until 2021

Phase 2: Rate Increase

- Bill **increases 6.3% each year** to avoid exceeding borrowing limit of $28B
- Planned increases end in 2028 when sustained repayment starts

Phase 3: Sustained Repayment

- Bill remains **10.4% higher** than projected with 8% rebate until 2047
- Difference represents financing repayment
- Total interest paid: **$26.2B**

Ontario Fair Hydro Plan: Key Assumptions

- The model is a high level and aggregate model, which is build on other independent forecasts (e.g. IESO demand forecast). There are a large number of assumptions built into the model explicitly and implicitly (as a large number of assumptions are embedded into the other forecasts that are used as inputs into this model).

- These variables can be bucketed into three groups (variables in red have significant impact):

Exogenous Variables

- Interest Rates
- USD/CAD Exchange Rate
- Debt ceiling of $28B (borrowing limit 10% of bill)
- Natural Gas Prices

Policy Parameters

- Use of Toronto Hydro Customer @ 750 kWh as the reference bill
- 25% bill reduction in 2017
- Bill increase capped at CPI annually until 2021
- Rate increase accelerate starting in 2022 in order to never exceed the $28B cap
- Payments set to fully repay by 2047
- Implementation approach

Other Model Inputs

- **IESO Demand Forecast (Outlook B)***
- **IESO Global Adjustment Forecast***

*** includes a large number of variables ranging from: generation costs, federal CO2 price, regulatory charges, energy conservation, technological disruption, exchange rates, load forecasting and seasonal adjustments, etc.)**

2

What are the risks and implications?

- Risks/sensitivities
- Next Steps: Scenario Testing

Assumptions and Risks: Eurig Compliance

- As outlined on slide 6, the base model has three phases:
  - Phase 1: Bill lowered by 25%, **increases kept to CPI growth (2%) from 2018-2022;**
  - Phase 2: Bill **increases 6.3% each year** from 2022 to 2028; and
  - Phase 3: While year-over-year increases slow down, **bills remain 10.4% higher** than what it would have been without the GA smoothing/OFHP.

- Analysis is currently underway to better understand intergenerational costs and benefits and the impact of GA smoothing on recovery charges that would be allowed under the current Eurig compliance rules.

- Depending on the legal determination, if the annual increases in bills or the commodity prices will be subject to caps, additional borrowing/provincial funding may be required.

- The next couple of slides explore various assumptions built into the model, and what any variation in these assumptions may mean. As such it is important to keep in mind that impacts referenced below will be incremental to the increases allowed under the current model and each would continue to be subject to similar Eurig limits.

Assumptions and Risks: Demand

- Demand is a key assumption built into the model. Both the Ministry of Energy and the OPG's models use IESO Demand Forecast (Outlook B – "Flat Demand Outlook"), which explores a level of long-term demand that roughly matches the level of demand that exists today.
  - Both MOE and OPG have confirmed that they believe this is the most appropriate outlook to use from the four that have been developed by IESO for the Ontario Planning Outlook.
  - TBS does NOT have access to the IESO model to run sensitivity analysis.

- While TBS does NOT have access to the IESO model to run sensitivity analysis, we have analyzed how prior IESO forecasts performed against actual electricity demand. Variance analysis suggests that, IESOs forecasts have been reasonably accurate in predicting short term (18-2 yrs), but tended to overestimate medium to long term demand vis-à-vis actuals. 2-4% overestimation was noted in 2005 of the near-term forecast (2006-2008); long-term forecasts are expected to be even less accurate due to increased uncertainties.

- If the current outlook has a similar bias (overestimation of demand) built in, there would be pressures built into the medium to long term outlook.
  - If actual demand is below projections, the fixed costs in the system (generation contracts, transmission and distribution) as well as the repayment requirements will have to recovered over a smaller amount of consumption, which would necessitate additional borrowing (assuming the $28B ceiling has not been reached), higher recovery rates, and if higher recovery rates (beyond the 10.3% built into the base outlook can't be exceeded for Eurig or other "absorbability" reasons) are not an option, then provincial financing.

- It is also important to note that the IESO forecast is the aggregate demand for all consumers across the province, whereas the program will cover approximately 90% of the users. If there are marked differences between the projected electricity demand for various classes, there may be an added margin for variance.

Assumptions and Risks: Interest Rates

- OPG has developed a detailed financial model where the borrowing is carried out in tranches, interest is paid for Yrs 1-10, with interest + principal payments starting in Yr 11.

- The model and current projects assume an interest rate of 5% per year.
  - It is important to note that the model is very sensitive to the interest rate.
  - The assumption of 5% is in line with the outlook reflected in the 2017 Budget and the current consensus of private sector economists for the 2017-2020 period.
  - **If interest rates rise steadily from 5% to 7% (historical average) between 2020 and 2024**
    - Phase 2: Bill **increases 7.3% each year** (compared to 6.3% without interest rate increase)
    - Phase 3: Bill remains **12.5% higher** (compared to 10.4% without interest rate increase) and the total interest paid increases to $37.5B (compared to the $26.2B that would be paid @ 5%)

- Consideration should be given to building permissive language in the proposed legislation and regulations to allow for timely course correction mechanisms. For instance, if interest rates are going up (or other variables are changing that is increasing pressure on the model), consideration could be given to allowing higher bill increases sooner (possibly moving up when Phase 2 starts, or allowing for transitional adjustments between 2% increases under Phase 1 and 2).
  - Section 7xx in the current draft legislation enables course corrections during the first phase (i.e. until April 30, 2022) through regulations made by the Lieutenant Governor in Council
  - Section 10xx in the current draft legislation enables course corrections after April 30, 2022 through determinations made by the Financial Services Manager (i.e. OPG)

Assumptions and Risks: System Costs

- The current framework is focused on providing relief on the overall electricity bill, by providing a sufficient reduction in the commodity price of electricity.

- For the Reference Bill that is being used as the analysis, 42% of the bill is currently covering electricity system costs (generation contracts, Transmission, Distribution, existing regulatory charges, etc.) and only 58% of the bill pertains to the commodity cost of electricity.

- In order to main the proposed bill reductions in total bills, it will be important to account for and actively manage the potential increases in the system costs.
  - If the system costs (generation, transmission, distribution, etc.) for the Toronto Hydro reference customer goes up, it would require a greater reduction in commodity prices (and hence significantly greater borrowing) to meet the commitment of 25% reduction and the subsequent 2% cap.
  - OPG's noted that additional system costs are deferred using financing up to 2030 after which they are amortized to 2047. TBS will be following up with the Ministry of Energy and OPG to get a better understanding of what may be built as assumptions into the base case with respect to this risk.

Other Risks That May Impact the Fiscal Plan

- The proposed structured will be reviewed by credit rating agencies to allow OPG to borrow in the open market. Depending on the perceived risks and credit assessment, there may be an impact on:
  - The interest at which OPG can borrow the funds;
  - The amount of equity/funding the province may have to inject into the Trust at the outset;
  - The nature and timing of guarantees that may be required.
- If the Trust can't raise the full funding requirements in the market as various tranches come due, additional cash injections would be required. Similarly, if the borrowing cap of $28B is reached sooner than forecast, the province may have to provide the incremental funding needed to float the program to 2047.
- Beyond 2022, when steep increases are required (from 6.3% per year under the base case (compound increase of 55%) to over 8% if there are changes in interest rates, demand, and/or other variables, such as natural gas), there will likely be additional pressure on the government to offset a part of the scheduled increases.

3 Key Considerations and Risk Mitigation Strategies

- Options through Phases
- Monitoring & Early Warning Indicators

Risk Response Actions by Phase

Available actions to respond to an emerging risk depends on the phase in which it is identified. Consideration should be given to building permissive language in the proposed legislation and regulations to allow for timely course correction mechanisms.

	Phase in which risk is identified		
Actions to respond to Risk	**Phase 1 - Mitigation**	**Phase 2: Rate Increase**	**Phase 3: Sustained Repayment**
Allowing greater rate increases during the remainder of the rate mitigation phase (change to policy direction)	✓		
Higher year-over-year increases throughout the rate increase phase	✓	✓	
Higher payment amounts throughout sustained payment phase	✓	✓	✓
Use public funds to ease pressure	✓	✓	✓

Risks – Fair Adjustment Phase – 2017-2022

- From 2017 to 2022, the Ontario Energy Board determines electricity rates
  - Lieutenant Governor in Council may make regulations prescribing the methodology to be applied by the OEB to determine electricity rates
- The table below summarizes impacts, potential actions, and indicators should any identified risk cause deviation from the MOE/IESO forecasted financing plans

Risk	Impact	Potential Action	Indicator
Electricity rates increases deviate from 2% annually	• Increases <2% will require more borrowing and result in reaching the $28B debt limit sooner (increasing the total repayment) • Increases >2% increases consumer bills, especially as the difference accumulates over time	• Section 6.1xx and 6.2xx could make reference to 2% and/or CPI to better align with the model forecasts	• Bi-annual electricity rates
Interest rates are > 5%	• Would result in reaching the $28B debt limit sooner than planned, increasing the total repayment amount • Increases consumer bills beyond the current forecast	• Section 6.1xx and 6.2xx could require that the methodology to determine rates be reviewed/updated should interest rates significantly increase over 5%	• Bi-annual interest rate
Electricity Demand Forecast is overestimated (approx. 2-4% historically)	• Would result in reaching the $28B debt limit sooner than planned, increasing the total repayment amount • Increases consumer bills beyond the current forecast	Section 6.1xx and 6.2xx could require that the methodology to determine rates be reviewed/updated should demand be significantly lower than projected	• Actual electricity consumption

From:	Bruno Amara
To:	John Kim
Subject:	RE: GA - IESO Role and Financing v4 - extract v6.pptx
Date:	Monday, May 01, 2017 6:34:34 PM
Attachments:	GA - IESO Role and Financing v4 - extract v9_Markup2.pptx

---

John

Looked good to me. I had a couple of minor wording suggestions.

From: Ronald Kwan
Sent: Monday, May 01, 2017 6:21 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi John,

How about this?

Ron

From: John Kim
Sent: May-01-17 17:42
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron,

Some edits. As discussed, I am not sure if we can say definitively what OPG Trust is expected to do.

John

From: Ronald Kwan
Sent: Friday, April 28, 2017 3:18 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Thanks Bruno.

I changed it to Energy's PW.

Ron

From: Bruno Amara
Sent: April-28-17 15:14
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron

We're fine with additional edits. See attached.

Thanks
Bruno

From: Ronald Kwan
Sent: Friday, April 28, 2017 2:53 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi,

I made a few more edits.

Ron

From: Ronald Kwan
Sent: April-28-17 14:11
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Bruno,

I had been thinking, to make it easier for Energy, to simply work with their version of the flow chart from the March CabSub.

That said, their version may have been updated since then anyways, but they could take out suggestions in.

I also added reworked some parts of the text slide, and dropped some detail, as it was rather dense – may still be!

Thanks,
Ron

From: Bruno Amara
Sent: April-28-17 11:28
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron

Attached are the updated slides per you request.

Thanks
Bruno

DRAFT

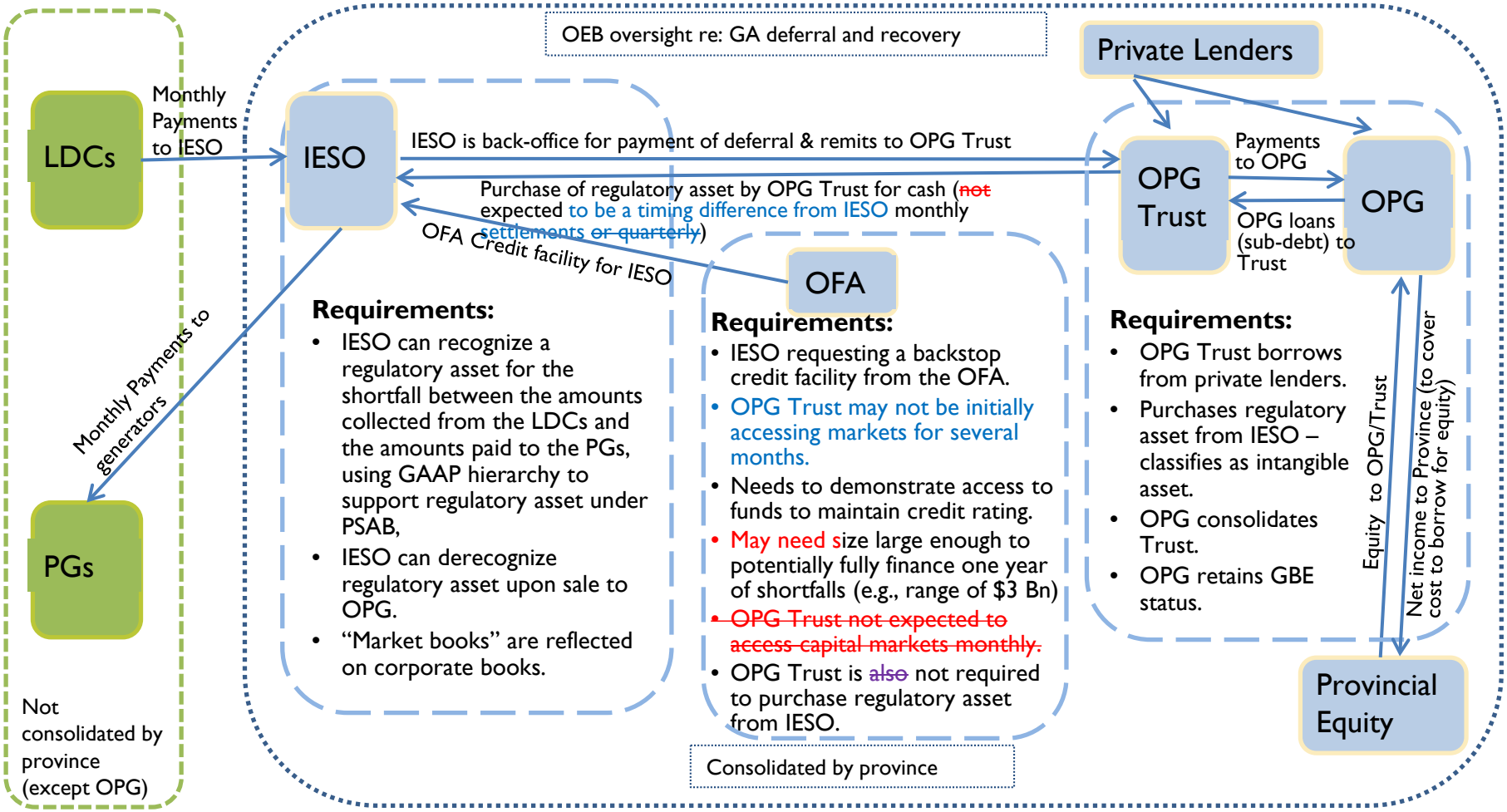
GA Financing Plan: Role of IESO

Corporate and Electricity Finance Division
April 28, 2017

DRAFT

GA Smoothing – Proposed Structure

- The following diagram provides an overview of the proposed GA smoothing structure, as well as interactions between sector entities and elements required to meet accounting objectives.



Note: Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

IESO Financing Requirements

- IESO will need to ensure that it continues to have the funds available to provide payments to generators on a monthly basis as part of the IESO settlements process, while recoveries from LDCs for Regulated Price Plan (RPP) / Fair Hydro Plan eligible customers will be lower.
- IESO has an existing credit facility from the OFA; however, a new or expanded facility is being requested.
- IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period.
  - OPG Trust is not expected to access public capital markets for several months after the start of the FHP, and may be purchasing the asset with a lag vs monthly settlements. Also, OPG Trust is not ~~nor is it~~ required to purchase the regulatory asset.
  - IESO will need a credit facility for interim financing.
  - IESO may require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.
- Based on Ministry of Energy's GA deferral plan, it is estimated that approximately $2.5-3.0 billion need to be deferred per year for over first 10 years, equal to approximately $200-250 million per month, on average.[1]
  - The size of the credit facility required to backstop IESO could be $2.5 to $3.0 billion ~~per year~~. [TBC]
- The monthly and annual amount being deferred and the resulting monthly amounts can be substantially different than forecast based on various factors, such as seasonality or electricity usage, as well as potential changes to electricity costs from OEB rate decisions, with IESO estimating deferral amounts as high as $400 million per month.
- Other factors that may increase IESO's financing requirements:
  - IESO will also incur financing charges that will need to be refinanced.
  - The financing and administration costs that OPG Trust incurs will need to be paid.
- There is an accounting risk on how OFA financing of the IESO requirements would be treated.
  - Even if IESO is allowed to recognized the Regulatory Asset, there is a risk as to whether this recognition will be permitted under the accounting standards (PSAS) upon consolidation with the Province.

[1] Based on Ministry of Energy's annual GA deferral amounts, assuming the monthly deferral is equally-weighted.

From:	Ronald Kwan
To:	Bruno Amara
Cc:	Deena Padamadan; Salman Qadir; Gavin He; John Kim
Subject:	RE: GA - IESO Role and Financing v4 - extract v6.pptx
Date:	Monday, May 01, 2017 6:45:13 PM
Attachments:	GA - IESO Role and Financing v4 - extract v10.pptx

Thanks Bruno. I saved a clean copy.

Ron

From: Bruno Amara
Sent: May-01-17 18:40
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx

Ron

Looked good to me. I had a couple of minor wording suggestions slide 1 and 2.

Bruno

From: Ronald Kwan
Sent: Monday, May 01, 2017 6:21 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi John,

How about this?

Ron

From: John Kim
Sent: May-01-17 17:42
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron,

Some edits. As discussed, I am not sure if we can say definitively what OPG Trust is expected to do.

John

From: Ronald Kwan
Sent: Friday, April 28, 2017 3:18 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Thanks Bruno.

I changed it to Energy's PW.

Ron

From: Bruno Amara
Sent: April-28-17 15:14
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron

We're fine with additional edits. See attached.

Thanks
Bruno

From: Ronald Kwan
Sent: Friday, April 28, 2017 2:53 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi,

I made a few more edits.

Ron

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Sent: April-28-17 14:11
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

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From: Bruno Amara
Sent: April-28-17 11:28
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron

Attached are the updated slides per you request.

Thanks
Bruno

DRAFT

GA Financing Plan: Role of IESO

Corporate and Electricity Finance Division
May 1, 2017

DRAFT

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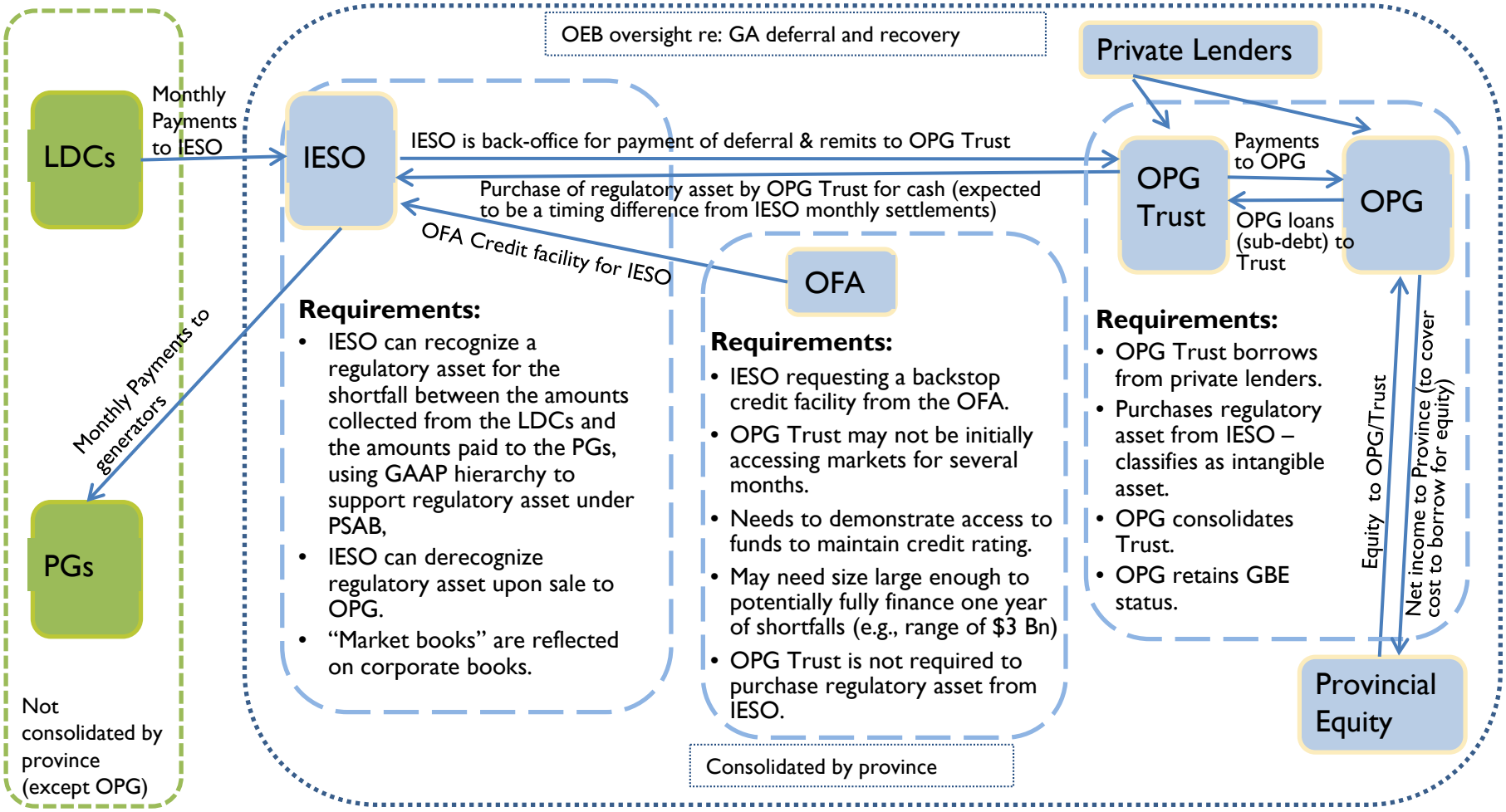

Note: Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

IESO Financing Requirements

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[1] Based on Ministry of Energy's annual GA deferral amounts, assuming the monthly deferral is equally-weighted.

From: Salman Qadir
To: John Kim
Cc: Bruno Amara
Subject: RE: Latest version of the ENE - OFHP note
Date: Tuesday, May 09, 2017 3:44:02 PM

I'm not sure. We would have to coordinate through CO no? I know a few years back I received a schedule of upcoming LRC dates - might be published yearly - just don't recall where that came from.

Patrick (MOF legal) had mentioned that this OIC would likely not go to TB since it does not require their approval (it's a statutory approval, not voted appropriation).

Salman

-----Original Message-----
From: John Kim
Sent: Tuesday, May 09, 2017 2:52 PM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: Latest version of the ENE - OFHP note

Fyi. And when would the next LRC date be?

-----Original Message-----
From: Ronald Kwan
Sent: May-09-17 11:57 AM
To: James Strang (MOF) <James.Strang@ontario.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: Re: Latest version of the ENE - OFHP note

Hi James,

Would "finance" be more accurate than "cover" -- at least at this time as per the intent? Cover might suggest funding, vs financing.

Also, the OIC we think would go to LRC. And the authority would be under CIPA.

I'd need to check with staff, and your advice, if such an OIC would need to go to TB.

Ron

> On May 9, 2017, at 11:38 AM, Strang, James (TBS) <James.Strang@ontario.ca> wrote:
>
> Does this work...essentially the same.
>
> iii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.
>
> Does the OIC come to TB?
>
>
> -----Original Message-----

> From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
> Sent: May 9, 2017 11:35 AM
> To: Strang, James (TBS)
> Cc: Kim, John (OFA)
> Subject: RE: Latest version of the ENE - OFHP note
>
> Hi James,
>
> How about this?
>
> iii)Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time or for a period of time, does not purchase any portion of the deferred Global Adjustment amounts payments. Note that an OIC to allow the OFA to provide an expanded credit facility will be requested.
>
> Ron
>
> -----Original Message-----
> From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
> Sent: May-09-17 11:11 AM
> To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> Cc: John Kim <John.Kim@ofina.on.ca>
> Subject: RE: Latest version of the ENE - OFHP note
>
> Please, you tell me - what is the minute you want to see.
>
> -----Original Message-----
> From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
> Sent: May 9, 2017 11:09 AM
> To: Strang, James (TBS)
> Cc: Kim, John (OFA)
> Subject: Re: Latest version of the ENE - OFHP note
>
>> Hi Janes,
>
>> Subsection (iii) of the proposed minute notes that the IESO is seeking a new credit facility, but it doesn't mention that it will be from us. Should the OFA be added in to the minute to make that clear?
>>
>>> Ron
>>>
>>> From: "Strang, James (TBS)" <James.Strang@ontario.ca<mailto:James.Strang@ontario.ca>>
>>> To: "John Kim" <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
>>> Cc: "Ronald Kwan" <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
>>> Subject: FW: Latest version of the ENE - OFHP note
>>>
>>> Latest version..
>>>
>>> From: Fung, Felix (TBS)
>>> Sent: May 8, 2017 6:41 PM
>>> To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
>>> Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
>>> Subject: RE: Latest version of the ENE - OFHP note
>>>
>>> Sorry! The file didn't work in my previous email. Please find attached the note again.
>>>
>>> From: Fung, Felix (TBS)

>>> Sent: May-08-17 6:34 PM
>>> To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
>>> Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
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>>> Hi everyone,
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>>> Please find attached the latest version of the OFHP assessment note - incorporating feedback from folks today.
>>>
>>> Patrick - two things to point out:
>>>
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>>> - the Ministry requested a new TP line to support "future rate mitigation initiatives". We struck out the minutes related to this request, given a TP can be created in the future once we have a specific future rate mitigation initiative (rather than just creating a placeholder now). However, we thought we would include it on page 12 in case folks do want that minute included.
>>>
>>> - We also included the Minute for media buy / ARB request. Let us know if there are any concerns with the language.
>>>
>>>
>>> Thanks - let us know if there are any concerns. Patrick - we will wait for your ok before we share the note with Energy.
>>>
>>> And many thanks to OCPD and COE for all your help and support on this.
>>>
>>> Felix
>>>
>>> <3 RAN Ontario Fair Hydro Plan Proposed Leg v5.doc>
>
> _____
>
> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
>
>

From: Ronald Kwan
To: James Strang (MOF)
Cc: John Kim
Subject: RE: Latest version of the ENE - OFHP note
Date: Tuesday, May 09, 2017 11:34:47 AM

Hi James,

How about this?

iii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time or for a period of time, does not purchase any portion of the deferred Global Adjustment amounts payments. Note that an OIC to allow the OFA to provide an expanded credit facility will be requested.

Ron

-----Original Message-----
From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: May-09-17 11:11 AM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>
Subject: RE: Latest version of the ENE - OFHP note

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From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: May 9, 2017 11:09 AM
To: Strang, James (TBS)
Cc: Kim, John (OFA)
Subject: Re: Latest version of the ENE - OFHP note

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>> From: "Strang, James (TBS)" <James.Strang@ontario.ca<mailto:James.Strang@ontario.ca>>
>> To: "John Kim" <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
>> Cc: "Ronald Kwan" <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
>> Subject: FW: Latest version of the ENE - OFHP note
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>>
>> From: Fung, Felix (TBS)
>> Sent: May 8, 2017 6:41 PM
>> To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
>> Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
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>>
>> Thanks - let us know if there are any concerns. Patrick - we will wait for your ok before we share the note with Energy.
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>> And many thanks to OCPD and COE for all your help and support on this.
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>> Felix
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This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From: Strang, James (TBS)
To: Ronald Kwan
Cc: John Kim
Subject: RE: Latest version of the ENE - OFHP note
Date: Tuesday, May 09, 2017 11:11:03 AM

Please, you tell me - what is the minute you want to see.

-----Original Message-----
From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: May 9, 2017 11:09 AM
To: Strang, James (TBS)
Cc: Kim, John (OFA)
Subject: Re: Latest version of the ENE - OFHP note

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>> Felix
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>> <3 RAN Ontario Fair Hydro Plan Proposed Leg v5.doc>

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From:	Salman Qadir
To:	John Kim; Bruno Amara
Cc:	Shajee Kathirgamanathan
Subject:	RE: Latest version of the ENE - OFHP note
Date:	Tuesday, May 09, 2017 9:41:25 AM

Sorry for another email.

There actually are folders for TB and CAB outside the folder I saved them in. Here is the new homes for the files I just saved:

Z:\Users\CEF\Hydro 2017\Electricity Prices\Mitigation Proposals\LRC
Z:\Users\CEF\Hydro 2017\Electricity Prices\Mitigation Proposals\TB

Salman

From: Salman Qadir
Sent: Tuesday, May 09, 2017 9:38 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Subject: RE: Latest version of the ENE - OFHP note

I have saved all of these in two folders:

- LRC Submission - 2017-05-09 (May 9)
- TB Submission - 2017-05-09 (May 9)

RAN notes are in the TB submission folder.

Z:\Users\CEF\Hydro 2017\Electricity Prices\Mitigation Proposals\Debt Financing the GA

From: John Kim
Sent: Monday, May 08, 2017 8:34 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: Latest version of the ENE - OFHP note

Fyi.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]

Sent: May-08-17 6:51 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: RE: Latest version of the ENE - OFHP note

Karen mentioning Gadi providing financing assessment? I think in the new format, easier for OFA Staff Comments to appear alongside TBS Staff Comments.

From: Strang, James (TBS)
Sent: May 8, 2017 6:49 PM
To: Kim, John (OFA)
Cc: Kwan, Ronald (OFA) (Ronald.Kwan@ofina.on.ca)
Subject: FW: Latest version of the ENE - OFHP note

Latest version..

From: Fung, Felix (TBS)
Sent: May 8, 2017 6:41 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
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Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
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And many thanks to OCPD and COE for all your help and support on this.

Felix

From: Salman Qadir
To: John Kim; Bruno Amara
Cc: Shajee Kathirgamanathan
Subject: RE: Latest version of the ENE - OFHP note
Date: Tuesday, May 09, 2017 9:37:32 AM

I have saved all of these in two folders:

- LRC Submission - 2017-05-09 (May 9)
- TB Submission - 2017-05-09 (May 9)

RAN notes are in the TB submission folder.

Z:\Users\CEF\Hydro 2017\Electricity Prices\Mitigation Proposals\Debt Financing the GA

From: John Kim
Sent: Monday, May 08, 2017 8:34 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: Latest version of the ENE - OFHP note

Fyi.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: May-08-17 6:51 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: RE: Latest version of the ENE - OFHP note

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Sent: May 8, 2017 6:49 PM
To: Kim, John (OFA)
Cc: Kwan, Ronald (OFA) (Ronald.Kwan@ofina.on.ca)
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Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
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Thanks - let us know if there are any concerns. Patrick - we will wait for your ok before we share the note with Energy.

And many thanks to OCPD and COE for all your help and support on this.

Felix

From:	Ronald Kwan
To:	James Strang (MOF); John Kim
Subject:	RE: Latest version of the ENE - OFHP note
Date:	Tuesday, May 09, 2017 8:59:19 AM

Hi James,

What time is the item going to TB?

Thanks,
Ron

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: May-08-17 6:49 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: FW: Latest version of the ENE - OFHP note

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And many thanks to OCPD and COE for all your help and support on this.

Felix

From: John Kim
To: Bruno Amara
Subject: RE: Latest version of the ENE - OFHP note
Date: Monday, May 08, 2017 8:55:35 PM

No, I don't think so. So not an actionable item, as far as I can see.

From: Bruno Amara
Sent: May-08-17 8:39 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: Re: Latest version of the ENE - OFHP note

Been on the road. I'll take a look when I get home. Do we need to do anything with this version?

Sent from my iPhone

On May 8, 2017, at 8:34 PM, John Kim <John.Kim@ofina.on.ca> wrote:

> Fyi.
>
> ---
>
> **From:** Strang, James (TBS) [mailto:James.Strang@ontario.ca]
> **Sent:** May-08-17 6:51 PM
> **To:** John Kim <John.Kim@ofina.on.ca>
> **Cc:** Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> **Subject:** RE: Latest version of the ENE - OFHP note
>
> Karen mentioning Gadi providing financing assessment? I think in the new format, easier for OFA Staff Comments to appear alongside TBS Staff Comments.
>
> ---
>
> **From:** Strang, James (TBS)
> **Sent:** May 8, 2017 6:49 PM
> **To:** Kim, John (OFA)
> **Cc:** Kwan, Ronald (OFA) (Ronald.Kwan@ofina.on.ca)
> **Subject:** FW: Latest version of the ENE - OFHP note
>
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>
> ---
>
> **From:** Fung, Felix (TBS)
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Thanks - let us know if there are any concerns. Patrick - we will wait for your ok before we share the note with Energy.

And many thanks to OCPD and COE for all your help and support on this.

Felix

From:	Strang, James (TBS)
To:	John Kim
Cc:	Ronald Kwan
Subject:	RE: Latest version of the ENE - OFHP note
Date:	Monday, May 08, 2017 6:50:49 PM

Karen mentioning Gadi providing financing assessment? I think in the new format, easier for OFA Staff Comments to appear alongside TBS Staff Comments.

From: Strang, James (TBS)
Sent: May 8, 2017 6:49 PM
To: Kim, John (OFA)
Cc: Kwan, Ronald (OFA) (Ronald.Kwan@ofina.on.ca)
Subject: FW: Latest version of the ENE - OFHP note

Latest version..

From: Fung, Felix (TBS)
Sent: May 8, 2017 6:41 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
Subject: RE: Latest version of the ENE - OFHP note

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Sent: May-08-17 6:34 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
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Thanks - let us know if there are any concerns. Patrick - we will wait for your ok before we share the note with Energy.

And many thanks to OCPD and COE for all your help and support on this.

Felix

From: Bruno Amara
To: Ronald Kwan
Cc: John Kim; Emily Kerr
Subject: RE: Latest version of the ENE - OFHP note
Date: Tuesday, May 09, 2017 4:08:51 PM
Attachments: 1 FINAL CO DLEG-847_ID49011_LRC_CBN- OFHP Implementation- V11.docx

---

Hi Ron

The only thing that I noted is the table on page 4 in the Section "What is the expected cost to government?" The table includes annual costs for moving social programs to the tax base but also includes the GA deferral amounts and sums the two. I think it's a bit apples and oranges and may be confusing as paragraph above also notes no fiscal impact to government from GA financing structure.

I think there is a small summing issue in 2017-18 column as well.

Bruno

From: Ronald Kwan
Sent: Tuesday, May 09, 2017 1:44 PM
To: John Kim <John.Kim@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: Fw: Latest version of the ENE - OFHP note

Hi,

Not sure what the last one you saw. Please review.

Thanks,
Ron

From: Strang, James (TBS) <James.Strang@ontario.ca>
Sent: May 9, 2017 1:40 PM
To: Ronald Kwan
Subject: RE: Latest version of the ENE - OFHP note

Sure

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: May 9, 2017 1:34 PM
To: Strang, James (TBS)
Subject: Re: Latest version of the ENE - OFHP note

Hi James,

And would you have the latest version of the CBN that you could share as well?

Thanks,
Ron

From: Ronald Kwan
Sent: May 9, 2017 11:57 AM
To: James Strang (MOF)
Cc: John Kim; Bruno Amara
Subject: Re: Latest version of the ENE - OFHP note

Hi James,

Would "finance" be more accurate than "cover" -- at least at this time as per the intent? Cover might suggest funding, vs financing.

Also, the OIC we think would go to LRC. And the authority would be under CIPA.

I'd need to check with staff, and your advice, if such an OIC would need to go to TB.

Ron

> On May 9, 2017, at 11:38 AM, Strang, James (TBS) <James.Strang@ontario.ca> wrote:
>
> Does this work...essentially the same.
>
> iii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.
>
> Does the OIC come to TB?
>
>
> -----Original Message-----
> From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
> Sent: May 9, 2017 11:35 AM
> To: Strang, James (TBS)
> Cc: Kim, John (OFA)
> Subject: RE: Latest version of the ENE - OFHP note
>
> Hi James,
>
> How about this?
>
> iii)Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has

the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time or for a period of time, does not purchase any portion of the deferred Global Adjustment amounts payments. Note that an OIC to allow the OFA to provide an expanded credit facility will be requested.
>
> Ron
>
> -----Original Message-----
> From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
> Sent: May-09-17 11:11 AM
> To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> Cc: John Kim <John.Kim@ofina.on.ca>
> Subject: RE: Latest version of the ENE - OFHP note
>
> Please, you tell me - what is the minute you want to see.
>
> -----Original Message-----
> From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
> Sent: May 9, 2017 11:09 AM
> To: Strang, James (TBS)
> Cc: Kim, John (OFA)
> Subject: Re: Latest version of the ENE - OFHP note
>
>> Hi Janes,
>
>> Subsection (iii) of the proposed minute notes that the IESO is seeking a new credit facility, but it doesn't mention that it will be from us. Should the OFA be added in to the minute to make that clear?
>>
>>> Ron
>>>
>>> From: "Strang, James (TBS)" <James.Strang@ontario.ca<mailto:James.Strang@ontario.ca>>
>>> To: "John Kim" <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
>>> Cc: "Ronald Kwan" <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
>>> Subject: FW: Latest version of the ENE - OFHP note
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>>> And many thanks to OCPD and COE for all your help and support on this.
>>>
>>> Felix
>>>
>>> <3 RAN Ontario Fair Hydro Plan Proposed Leg v5.doc>
>
> _____
>
> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
>
>

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy

Implementation of Ontario's Fair Hydro Plan

Cabinet (info)	TB/MBC	Cabinet	Announcement	TB/MBC	Cabinet	Introduction
Feb 15, 2017	March 1, 2017	March 1, 2017	March 2, 2017	May 9, 2017	May 10, 2017	May 11, 2017

Summary of Proposal

The proposed legislation contains a variance from Cabinet direction, which is detailed in the ministry's variance memo and within this note.

Context for Decision:

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. Up to 500,000 small businesses and farms would also benefit. These measures include the 8% rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills. OFHP includes some benefits for all consumer classes as well as targeted benefits to those with the greatest need, and includes the following major components:

- Refinancing the Global Adjustment (GA);
- Helping vulnerable electricity consumers;
- Extending the Industrial Conservation Initiative (ICI);
- Improving sector efficiency; and
- Modernizing Ontario's electricity market.

Since March 2, 2017, the Affordability Fund and ICI expansion have been implemented.

This proposal follows Cabinet direction to the Ministry of Energy to take the necessary steps to implement electricity price mitigation initiatives that support OFHP to provide additional rate relief to Ontario electricity ratepayers.

The proposed legislation, the *Fair Hydro Act, 2017*, if enacted, enables approaches to fairly allocate a portion of GA amongst specified current and future electricity rate payers ("Schedule 1- *Ontario Fair Hydro Plan Act, 2017*"), and help the most vulnerable Ontarians through enhancements to electricity support programs through government funding ("Schedule 2- Amendments to the *Ontario Energy Board Act, 1998*"). To fully implement the initiative, the ministry will be seeking future approvals for regulations identified in the proposed bill.

The proposed legislation:

1. Establishes a framework to refinance a portion of the GA costs in order to reduce costs for eligible electricity ratepayers ("specified consumers") in the near term while recovering these costs over the mid- to long-term:
   - July 1, 2017, to April 30, 2018, reduces, on average, after-tax electricity costs for prescribed typical consumers by 25% (inclusive of the 8% rebate and shifting of support program to be government funded).
   - May 1, 2018, to June 30, 2021, electricity rates will be prescribed by regulation. This regulation making authority would enable the government keep increases in line with the Consumer Price Index (CPI) (see page 17- Fiscal Pressure)
   - July 1, 2021, to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs (see page 14- Future Impacts to Electricity Rates). Time period may be extended by regulation.
   - Provides for amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*, to enable Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to address payment, settlement and cost-recovery obligations and to manage the refinanced GA costs. (see page 19- OPG Mechanism).
2. Expands electricity support programs for the most vulnerable consumers and moves program costs from the rate base to the tax base. The bill amends the *Ontario Energy Board Act, 1998* to:
   - Move the recently expanded Ontario Electricity Support Program (OESP) to government funding, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program (ODSP) and Ontario Works (OW) to potentially allow for automatic enrolment procedures to be established;
   - Enable the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial revenues, rather than from electricity customers.
   - Enable a broader government funded Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge.
   - Enable the provision of a government funded on-reserve First Nations Delivery Credit (FNDC), which would cover 100% of the delivery charge for on-reserve First Nation residential customers.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price

in order to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.

- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.) LDCs recover their costs through distribution rates. LDCs are licensed to serve a specific geographic area by the Ontario Energy Board (OEB). An LDC must receive Ontario Energy Board approval to charge a distribution rate.
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:
  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable per unit charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates for residential customers are moving to a fully-fixed charge by 2019 for most LDCs. Some LDCs, such as Hydro One and Algoma Power are transitioning over a longer period.
  - Line Loss: The costs to recover electricity that is lost when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One –** Customer service classes are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. Lower customer density increases the cost to serve. Residential class R1 customers are considered 'medium density' customers and residential class R2 are considered 'low density customers.' Hydro One also served urban residential customers, considered "high density" through its UR class. Hydro One also has urban and non-urban general service classes.
- **Ontario Power Generation (OPG) –** A business corporation owned by the Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an

open and transparent process to allow for stakeholders to participate in quasi-judicial proceedings and formal stakeholder consultations.

- **Independent Electricity System Operator (IESO) –** An independent corporation established under the *Electricity Act, 1998* that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Special Purpose Vehicle (SPV)** – **Special Purpose Vehicle (SPV) –** A Special Purpose Vehicle (SPV) sometimes referred to as a Special Purpose Entity (SPE) is an off-balance sheet legal entity created by the sponsor or originator. SPVs can be viewed as a method of isolating the risks of an underlying pool of exposures held by the sponsor and reallocating them to the SPV and often investors. This allows investors access to investment opportunities which would not otherwise exist, and provides a new source of revenue generation for the sponsor.
- **Security Interest –** A security interest is a type of property interest created by agreement or by operation of law over assets to secure the performance of an obligation, usually the payment of a debt. It gives the beneficiary of the security interest certain preferential rights in the disposition of secured assets.

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. On March 2, 2017, the Ontario government announced OFHP, and since then, there has been increased media attention and public pressure for the government to bring forward the legislation which would enact the commitments made in the Plan. The government has committed to implement further rate relief measures by the summer 2017. On April 20, 2017, the OEB announced that, starting in May, electricity rates would be 17% lower than would have otherwise been without the 8% rebate (OREC), the anticipated move of OESP costs to government funding, and a portion of the reductions estimated under OFHP based on a comfort letter sent from the Minister of Energy.

What is the expected cost to government?

While the GA refinancing structure is intended to result in no fiscal impact to the province, the total projected cost to the electricity rate base is $24.7B amortized until 2047, or longer as may be prescribed. In 2017-18, the GA refinancing cost is forecast to be $2.5B which would eventually be recovered through the rate base. Enhancing electricity support programs and moving to government funding will cost government $499M in 2017-18.

TABLE 1: Cost Impact ($M)	2017-18	2018-19	2019-20	2020-21
Moving Social Programs to Government-Funded (details provided in the chart below)	499	753	829	892
GA Financing (Assumes funded from the electricity rate base)*	2,500	2,600	3,000	3,500
Cumulative Total	2,933	3,353	3,829	4,392

***Note:** GA Financing includes equity injection from the province to OPG. $1.1B investment operating asset in 2017-18 (Ministry has received appropriations)

The GA refinancing portion of the bill establishes a structure in which the IESO records the GA cost recovery deferral as a regulatory asset (regulated by the OEB). The IESO may then sell the regulatory asset, at which time it becomes an investment asset. The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or "financing entities") may then further sell or securitize all or part of the investment asset to other parties in exchange for a funding obligation. Under this structure, OPG, acting as the "Financial Services Manager," would therefore take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from IESO. OPG would finance these purchases through a combination of an equity investment by the Province flowed through the OFA ($1.1 B in 2017-18; see Table 1) and external private sector financing. The structure would increase gross debt of the Province (to finance the equity injection in OPG), increase net investment in OPG (so no net debt impact), increase interest on debt related to that external debt, and increase earnings of OPG to offset the increase in interest costs. The Province's net debt will remain unchanged as the equity investment in OPG will offset the additional Provincial borrowing. This is expected to be fiscally neutral to the Province.

The estimate for the combined impact of the support programs for the most vulnerable consumers would begin in 2017-18 and is expected to be $499M in 2017-18, growing to $753M in 2018-19 and rising. This investment has been factored into the 2017 Ontario Budget's fiscal plan. These estimates are based on variable inputs such as program uptake, future energy consumption of various consumer groups and future distribution rates, and are therefore subject to change.

TABLE 2: Fiscal Impact ($M) of Social Programs	2017-18 Budget
Rural or Remote Rate Protection	344
Ontario Electricity Support Program	140
On-Reserve First Nations Delivery Credit	15

Note: As approved in the TB/MBC submission of Mach 1, 2017, and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31, 2018. ENERGY will return updated out-year figures following program implementation

There is inherent risk in the financial estimates given the number of variables that are included in the calculations (e.g. cost of borrowing (projections assume 5%), electricity demand and electricity market conditions and accounting assumptions). Under the mechanism, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future (see page 17- Fiscal Pressure).

What are the key steps to deliver this proposal?

- May 11, 2017 - Introduce legislation.

- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of OFHP.
- Energy will post a proposal to the regulatory registry in early May outlining proposed new regulations and amendments needed to support implementation.
- Early June 2017 [TBD]- Energy to bring regulations to TB/MBC.
- Early June 2017 [TBD]- Energy to bring regulations to Cabinet/LRC.
- July 1, 2017- the remaining reductions and initiatives associated with the OFHP would take effect. Programs that are not established on this day for technical implementation issues will have benefits that are retroactively applied to customers once program is operational in individual LDCs.

How will the changes be communicated?

On March 2, 2017, the Premier announced OFHP, which would lower electricity bills by 25% for all residential customers including many small businesses and farms. Communications was sustained through minister announcements, local MPP echoes, a radio campaign, and a webpage that features all the programs and initiatives the government is taking to reduce electricity costs.

On May 11, 2017, there will be a news release to announce the introduction of legislation to implement OFHP. Phase two of the marketing campaign will start this summer and will include radio and television.

A robust issues management plan will be developed to mitigate the GA financing risks.

Notes and Recommendation from LRC

LRC item direct to Cabinet.

Cabinet Office Analysis

The proposed legislation allows for the implementation of the key elements of Ontario's Fair Hydro Plan (OFHP) announced on March 2, 2017, to provide further rate relief to Ontario electricity ratepayers. The Global Adjustment (GA) partial refinancing proposal will provide, on average, 25% in electricity rate relief (including the 8% announced in 2016 and shifting of support program costs to the tax base) to "specified consumers" (i.e., residential, farms, small businesses, condominiums, long-term care homes and co-operative housing as prescribed) between July 1, 2017, and April 31, 2018 ("The Fair Adjustment"). Electricity rates would then change by amounts prescribed in the regulations. Regulation making authority would enable the government to keep rate increases in line with Consumer Price Index (CPI) between May 1, 2018, and June 30, 2021 (see page 17- Legal Risks). Additional relief will be provided to Ontarians most in need through enhancements to electricity support programs through government funding.

1. Partial Refinancing of the Global Adjustment:

The proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future. Similarly, conservation costs are currently recovered through the GA in the year they occurred while conservation initiatives can provide benefits to the system over many years.

The proposed *Fair Hydro Act, 2017* attempts to balance several key factors including financeability, accounting treatment and legal considerations by:

- Supporting financeability through a number of features, including a provincial undertaking not to interfere with clean energy adjustments once determined, which will be backstopped by a guarantee, and provisions intended to reduce borrowing costs and attract a wide investor base;
- Addressing the necessary accounting requirements through mechanisms to record funding, interest and the transfer of regulatory assets to avoid a fiscal impact to the province; and
- Mitigating legal risk by developing a methodology that attempts to ensure an alignment of costs with benefits to future rate payers.

In order for the clean energy adjustment to be characterized as a regulatory charge, the amount that could be refinanced would need to reflect the true value of the underlying assets being amortized over a longer period of time. According to a legal opinion by former Supreme Court Justice Binnie, there is a moderately high risk that the proposed change would be characterized as an unconstitutional tax rather than a valid regulatory charge because future consumers are being required to subsidize current consumers (see page 16- Legal Risk).

The bill establishes a structure in which the Independent Electricity System Operator (IESO) records the GA cost recovery deferral as a “regulatory asset” (regulated by the Ontario Energy Board (OEB)), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time from “specified consumers” (“the Fair Adjustment” and “IESO deferral”). Specified consumers would receive a reduction in electricity rates from July 1, 2017 to June 30, 2018 as based on a 25% reduction for a prescribed typical residential consumer. IESO may then sell the regulatory asset, at which time it becomes an “investment asset.” The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or “financing entities”) may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

The Minister, following the principles in the bill, would regularly calculate the “Fair Allocation Amount” to ensure a proper match of the allocation of the intergenerational costs and benefits in relation to each on the next 60 six month “reference periods.” The financings will be backed primarily by the clean energy adjustments payable by specified consumers. The clean energy adjustments will track the actual payment obligations incurred by the financing entities when they become due and payable.

OPG, in its role as the Financial Services Manager, will calculate the aggregate clean energy adjustment payable in each month of the reference period, and, to ensure intergenerational fairness, these amounts will be managed to align with the fair allocation amounts determined by the Minister. OEB would calculate the rates at which the clean energy adjustment could be collected from specified consumers. To recoup the costs associated with the fair adjustment, consumers would be invoiced the clean energy adjustment on their electricity bills through existing IESO and Local Distribution Companies' (LDC) processes, which will be channeled through to pay each financing entity's related funding obligations. However, electricity rates are projected to remain lower than would have otherwise been until about 2026-27 (pending the development of the fair allocation amount), and the clean energy benefit will appear on customer's bills once repayment of the accumulated debt begins.

OPG is planning to create a SPV or Trust to finance the partial GA refinancing. To maintain the integrity of the structure, OPG must have the ability to appoint and remove the Trustee (or Board of Trustees) of the SPV/Trust, with no veto right by the Province. No party shall have the ability to remove OPG from its role and authority in the SPV/Trust. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. OPG will have the ability to direct the financing of the SPV/Trust and both benefit from its financing strategy and be at risk as a result of it.

Once the OPG Trust/SPV has purchased the regulatory asset, which it is under no obligation to do, it will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG's debt would be funded through a combination of an equity investment by the Province through the OFA (see page 4: Table 1) and external financing through sale or securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG (to offset the interest on debt).

The legislation also provides that no action or omission by the OEB, the Minister, or the Crown is effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay the clean energy adjustment. Additionally, to support the program, the government will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The legislation enables these agreements. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be to achieve the highest rated securities, although that will depend on issues such as the strength of the undertaking not to adversely affect the program through subsequent legislation.

The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future (see page 14- Risks and Considerations).

Key elements of this schedule of the bill include:

Specified Consumers

- The defined group of consumers to whom the “Fair Adjustment” applies. Prescribed consumers include residential consumers, farms, small businesses, condominiums, long-term care homes and co-operative housing. These are primarily consumers eligible for the RPP, and aligns with the eligibility under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA).

Clean Energy Costs

- Clean energy costs are those costs that arise from the “clean energy initiative” and are allocated to the specified consumers for past, present and expected costs.
- The clean energy costs include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act*, *1998* (basically, the GA) which relate to contracts for:
    - Renewable energy generation or capacity, conservation and demand management, energy storage, and energy efficiency;
    - Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act, 1998* or as prescribed);
    - Payments made under section 78.5 of the *Ontario Energy Board Act, 1998*; and,
    - Other costs as may be prescribed.

Fair Adjustment

- The adjustment to rates to ensure intergenerational fairness.
- July 1, 2017- April 30, 2018- reduction in rates for “specified consumers” based on a 25% reduction for a prescribed typical consumer.
- May 1, 2018- June 30, 2021- the bill allows for rates to be set by regulation (see page 17- Fiscal Pressure).

Fair Allocation Amount

- Principles established in the bill require proper alignment over time between the costs of providing facilities for clean electricity generation and conservation (“clean energy costs”) and the consumers who benefit from these investments.
- The Minister of Energy sets the fair allocation amount, and is required to:
    - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the “specified consumers” for applicable “reference periods” (typically every 6 months); and,
    - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (see page 16- Legal Risk; page 17- Fiscal Pressure);

  - Align these costs with clean energy benefits expected to be received by rate payers in the future.

- Subsequent calculations may be undertaken by other agents as prescribed.

Clean Energy Adjustment

- Determined by Financial Services Manager (OPG), the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principal, interest, transaction costs and administrative costs associated with the fair adjustment and consistent with the fair allocation amount.
- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- July 1, 2017- June 30, 2021- OPG to internally capitalize the costs related to the fair adjustment, which will result in increased financing costs during this time.
- July 1, 2021- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing IESO and LDC processes. Note: it is not certain when the clean energy adjustment will ultimately appear on electricity bills as this will be tied to when repayment of the accumulated debt begins.
- In accordance with the regulations, the OEB to calculate the rate at which specified consumers are invoiced to recover the clean energy adjustment.

Regulatory Asset and Investment Asset

- A regulatory asset is created as IESO defers its right collect a portion of the rates that it would have otherwise received from customers/LDCs if not for the implementation of the Fair Adjustment.
- Subject to OEB approval, IESO records the funding shortfall as a regulatory asset, as IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until July 1, 2021.
- The Financing Plan contemplates the Financial Services Manager (OPG) establishing financing entities (OPG Trust/SPV) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset for the investment asset owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 4 years (July 1, 2021) the IESO has the right to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority (OFA) (see page 17- Fiscal Pressure).

- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

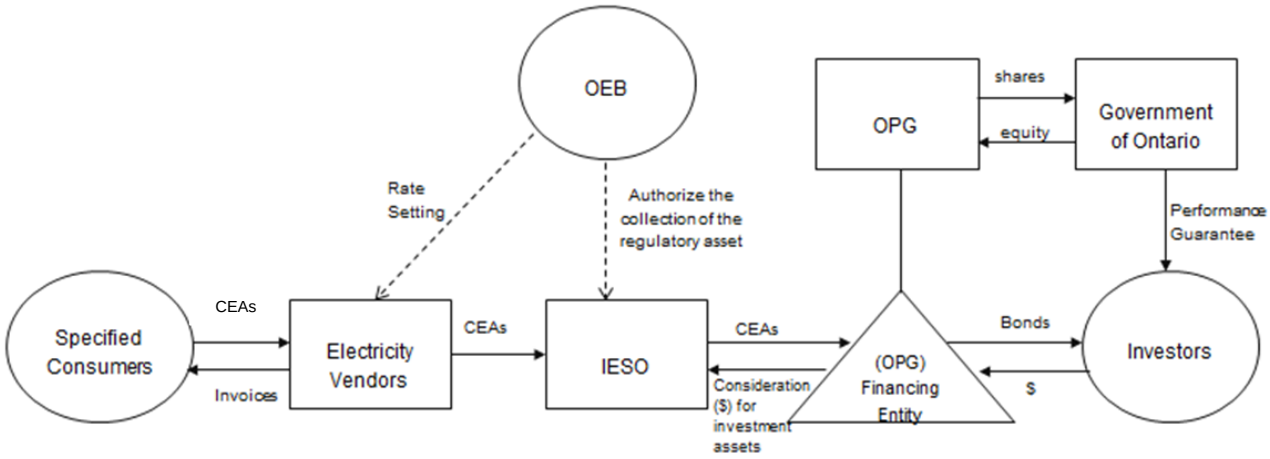
Financing Plan

- In practical terms, the Financing Plan is intended to show how debt (with varying incurrence dates, maturities and interest rates) will be used over time.
- Prepared by the Financial Services Manager (OPG), the Financing Plan is intended to set out when a "funding obligation" (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the "investment interest" from IESO. Plan to be provided to the Minister of Energy.

Crown Undertaking (Guarantee or Backstop)

- The bill provides that no action or omission of the Crown, OEB, or the Minister would be effective to reduce, impair, or postpone or terminate the obligations of specified consumers to pay the clean energy adjustment.
- The Ministers of Energy and Finance together, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill, including regarding the performance of the IESO or electricity vendors under the bill.
- The Ministers of Energy and Finance together, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.

Figure 1: Financing Structure



Note: CEAs are "clean energy adjustments".

External Opinions

The proposed structure's impacts on IESO has been extensively reviewed by KPMG (IESO auditor), and the firm has provided a final draft accounting opinion confirming the validity of the structure under Public Sector Accounting Board (PSAB) standards, which will be updated after the legislation, regulations, and commercial arrangements are complete. KPMG advises that the variance account created by the proposed legislation meets the accounting criteria for the recognition of a "regulatory asset". The KPMG

opinion is highly technical and contains information pertaining to the proposed legislation. While it would be possible to make the opinion public, the ministry is not recommending this approach and is considering alternative options to propose.

If the government intends to keep rate increases to the pace of CPI from May 2018 to July 2021, this may require recourse to the fiscal plan to maintain the constitutionality of the GA refinancing structure.

For clarity, the below requirements were to be met to ensure the structure was defensible, and, based on the opinions received, the ministry is confident that the bill achieves these objectives:

- IESO requirements:
    - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB; IESO can derecognize regulatory asset upon sale to OPG; “Market books” are reflected on corporate books; and, OEB to act as regulator.
- OPG requirements:
    - OPG Trust/SPV purchases regulatory asset from IESO – classifies as intangible asset; OPG consolidates Trust/SPV; and, OPG retains GBE status.

The ministry retained Blakes to provide external legal advice in the development of the legislation. The Blakes team provided securitization, constitutional law, energy sector and government expertise. This team was integral to balancing the accounting, legal and finaceability imperatives, as well as differing interests among OPG, IESO, OEB and investment dealers, in crafting the legislation. Blakes will continue to advise through the development of regulations and the commercial agreements that will ensue.

However, despite the fact that the structure has satisfied the fiscal, and accounting requirements and mitigated to the extent possible the legal risks outlined in the policy submission, there remain some fundamental risks:

- The structure is unique in Canada and possibly the world, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the Unites States, but officials are currently unaware of any example that would compare to the size, complexity or fluidity of the proposal;
- Complexity of the structure and length of deferral/recovery increases risk and decreases transparency;
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan;
- Government would not know the price of private borrowing that would be required for the OPG Trust to work and will have limited control over OPG’s direct operations as the Financial Services Manager; and,
- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and

therefore its saleability. This could in turn, decrease the amount of rate reduction achievable under this mechanism.

2. Enhancing Electricity Supports and Shifting Costs to Government Funding:

Moving the Ontario Electricity Support Program (OESP) to Government Funding

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The program was launched in January 2016 and has had roughly 30% enrolment. Under OFHP the program was recently expanded to increase the existing benefit credit amounts by 50% and provide additional credits to more households. Under the expanded program the basic OESP benefit scale increased from $30-$50 to $35-$75 a month and the enhanced OESP benefit scale would increase from $45-$75 to $52-$113 a month for eligible consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to allow for the program to transition from the rate base to the government funding, and allow for the potential transition of the program administration to the Crown or other entity. The cost to the fiscal plan would be $186 million in 2017-18. The bill provides further amendments designed to allow information sharing between the Ontario Works (OW) and the Ontario Disability Support Program (ODSP) and the entity responsible for OESP. The intention is that this information sharing will allow for the automatic enrolment of individuals that are already enrolled under the ODSP or OW, but it is currently unknown to what extent this will significantly impact new enrolment under the program. The ministry is continuing to work with MCSS to increase the uptake of the program and automate enrolment of current social assistance clients. The ministry and OEB are also working with the Canada Revenue Agency (CRA) to eliminate the CRA requirement for “wet signatures” on OESP application forms to streamline the application process.

Enhancing RRRP (Delivery Charge Relief) and Moving to Government Funding

Rural or Remote Rate Protection (RRRP) helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. Currently, RRRP is a $290M program paid for by the ratepayers. For an average residential customer, the cost of supporting RRRP is roughly $1.58 per month. For other customers, the cost to support the RRRP can range from $65 for a greenhouse to $8,000 for a medium industrial.

The proposed bill amends the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The intention is to draft regulations permitted under this section to move the portion of RRRP costs used to support Hydro One R2 customers from rate payers to government funding. This is the majority of the cost associated with RRRP.

The bill would further amend the *Ontario Energy Board Act, 1998* to enable the creation of a government funded distribution rate protection program and the ability to prescribe a maximum distribution charge for prescribed classes of residential customers for certain prescribed high cost distributors. The intention is to draft regulations permitted under this section of the bill to prescribe residential customers of the following LDCs to receive distribution rate protection: Hydro One R1 and R2 rate classes, Algoma Power (excluding reclassified residential customers), Atikokan Hydro, Sioux Lookout Hydro, Lakeland Power – Parry Sound, InnPower, Chapleau PUC, and Northern Ontario Wires.

The OEB would continue its usual rate setting activities for prescribed LDCs, as authorized under the *Ontario Energy Board Act, 1998*, and prescribed LDCs would continue to collect the revenue they are entitled. However, prescribed customers (~800,000 customers) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up of out provincial funds.

Targeted broadened RRRP consumers would see additional savings on their monthly bill that would vary based on their consumption level. Cost to fiscal plan would be $344 million in 2017/18. If the legislation and required regulations are passed, the program would become active as of a prescribed effective date (planned: July 1, 2017).

On-Reserve First Nations Delivery Credit

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances related to lands affected by energy developments.

The proposed bill amends the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers with the details to be prescribed in the regulations. The intention is to enact regulations that would eliminate the delivery charge for all on-reserve First Nation residential customers served by licenced electricity distributors, and eliminate the monthly service charge for customers of licensed distributors that charge a bundled rate.

Eligible recipients would be automatically enrolled in the program. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed effective date (planned: July 1, 2017).

RISKS AND CONSIDERATIONS

Future Impacts to Electricity Rates

The impact of proposed legislation to a typical eligible customer’s bill in July 2017 is a 25% decrease (combined with the 8% rebate effective January 1, 2017, and shifting of the funding of OESP and RRRP to provincial revenues), followed by an increase in

price over time. Between May 2018 and June 2021 electricity rates will be set in accordance with a methodology established by regulation which would enable rate increases to be kept in line with CPI (see page 17 – Legal Risk). Customers that are eligible for the RRRP enhancement, OESP, and the On-reserve First Nations Delivery Credit will see further reductions in their electricity rates by as much as 40-50%.

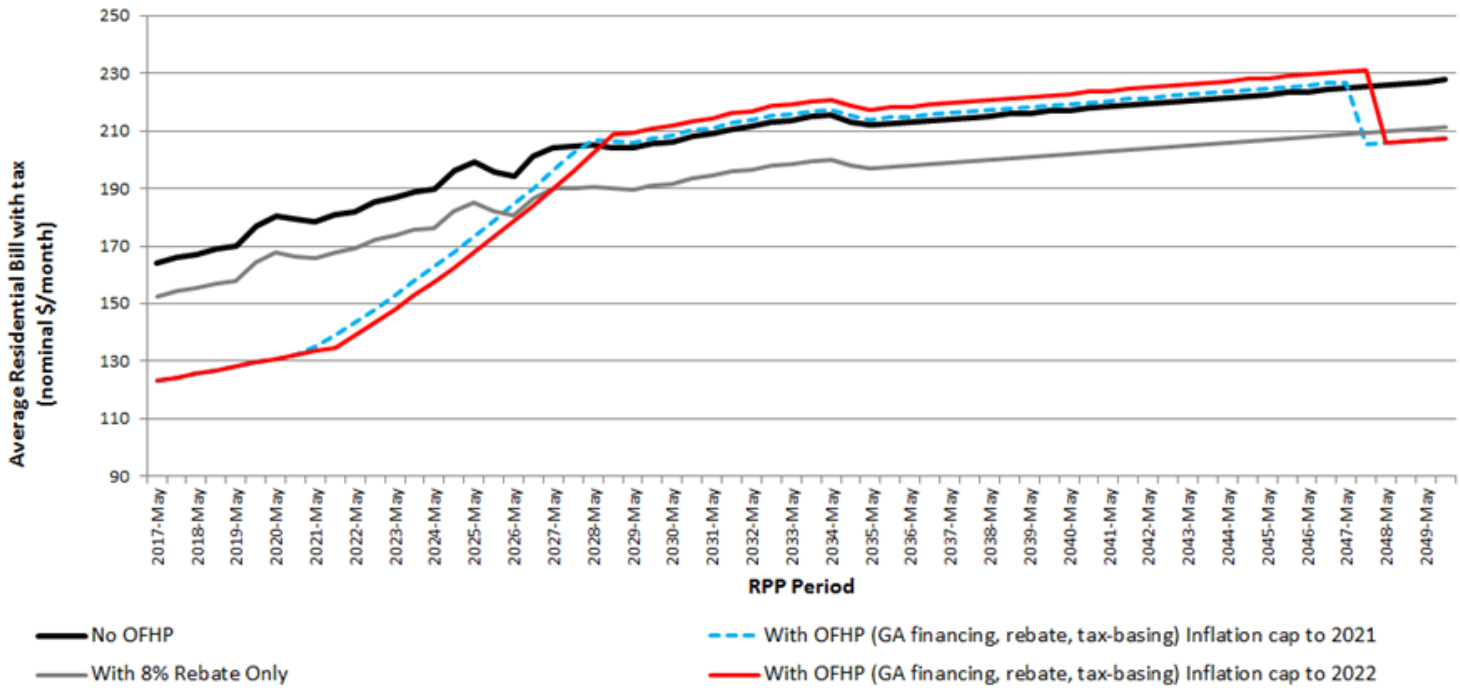
Original policy direction was to keep electricity rate increases in line with CPI until the end of 2021. While the government will have regulatory authority under the bill to establish rates after April 30, 2018, bills are expecting to begin to increase above the rate of inflation as of July 1, 2021 under current forecasts. This constitutes a variance from Cabinet direction. However, the government has publicly committed to 4 years of increases tied to the rate of inflation, which this plan addresses.

Borrowing money to refinance a portion of the GA costs for ratepayers lowers costs in the short term but results in substantial debt and higher electricity prices in the future. Under the plan, electricity prices have been projected to exceed forecast residential monthly bills by about 10% each year from what otherwise would have been from 2028 to 2047 (Note: Values are subject to change). Cabinet policy direction provided that electricity rates increases due to repayments should be capped at around 10% of the total electricity bill during the repayment phase of the plan. To maintain the integrity of the structure, the legislation does not provide a mechanism by which this level of bill increase can be ensured and therefore constitutes a variance from Cabinet direction. However, the debt rating will be impaired if the modelling suggests that rates could increase more than 10%, providing a cap in practical terms. The public may expect that the government is committed to reducing or holding constant the absolute cost of in the longer term and the government would not have the ability to control this portion of rates in the future.

Declining demand levels due to conservation, technology adoption, and self-generation would increase the costs borne by remaining customers to decease the debt associated with GA refinancing. IESO forecasted demand has historically been over-projected which also increases the risk of the static demand assumption. However, the reverse is also true, that if higher levels of electrification are achieved and demand increases, the cost of paying off the debt will be spread over a greater number of consumers. To partly mitigate against the risk that increased self-generation poses, the bill also provides that the clean energy adjustments may not be “set-off.” In other words, it would exist as a separate and distinct component of the bill that could not be reduced by methods such as net-metering.

The current model is based on a static interest rate of 5%. While this assumption is accurate within the current historically low interest rate environment, should interest rates increase above 5%, residential bills would also significantly increase during the repayment phase of the plan. All of these factors increase the risk that the province would have to absorb some of the debt in the future.

Figure 2: GA Smoothing for RPP-Eligible Only



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly bill with OFHP ($/month)	124	126	129	131	137	146	155	165	176	187	199	207	207	209	212	214	216	216	214	215	216	217	219	220	221	222	223	224	225	226	216	206
Year-over-year change (%)	n/a	2.01	2.01	2.01	4.25	6.44	6.44	6.44	6.44	6.44	6.44	3.61	0.08	1.20	1.29	1.14	0.93	-0.04	-0.88	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	-4.37	-4.61
Impact of GA financing and tax-basing ($/month)	-29.9	-30.0	-35.0	-34.4	-28.8	-24.0	-17.8	-14.2	-3.3	3.4	12.2	16.4	16.5	16.7	16.9	17.1	17.2	17.1	17.0	17.1	17.2	17.3	17.4	17.5	17.6	17.6	17.7	17.8	17.9	18.0	-3.9	-4.0
Total accumulated debt ($B)	2.5	5.2	8.2	11.6	14.7	17.5	19.9	22.0	23.5	24.1	24.2	23.7	23.1	22.5	21.8	21.0	20.1	19.2	18.3	17.2	16.1	14.9	13.7	12.3	10.9	9.3	7.7	5.9	4.1	2.1	0.0	0.0
Total change in accumulated debt ($B)	2.5	2.6	3.0	3.5	3.1	2.8	2.4	2.0	1.6	0.6	0.1	-0.5	-0.6	-0.6	-0.7	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2020 such that the average monthly residential electricity bill increases by 6.3% per year to a maximum of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Data shown above is by RPP period. Assumes RPP prices are adjusted in July 2021 instead of May 2021 to coincide with the end of the inflation cap. Fair allocation amounts subject to third party review.

Not all generating assets will continue operations at the end of their contract. If the fair allocation amount is not properly designed, future rate payers will be paying the cost for assets that are no longer in use, which would be unconstitutional, unless legislatively authorised as a tax (see page 16- Legal Risk). High capital costs, equipment obsolescence or surplus capacity / low demand conditions mean that some generators may shut down at the end of their contract. Future ratepayers would be paying for these assets that no longer produce power in paying down the refinanced GA and accumulated interest costs, and it would need to be justified that these assets are still providing some kind of benefit to the system after they cease operation.

Bill Presentment

Over the fall/winter of 2017, the Ministry will be working with LDCs to undertake a comprehensive review of electricity bill presentment regulations.

The ministry expects to prescribe LDCs:

- To include certain basic messaging on electricity bills;
- Starting July 1, 2017, for those eligible, include the On-reserve First Nations Delivery Credit as a line item; and
- Prescribe LDCs to include bill inserts over the next year with OFHP messaging.

With respect to the OFHP, while the 8% rebate is expected to continue to appear on eligible consumer's bills, the further reductions as part of the GA refinancing and moving social programs to government funding will not appear as a specific line item. It is uncertain when customers will begin to be invoiced the clean energy adjustment as a distinct item on their electricity bill. This will commence once repayment of the accumulated debt begins.

Accounting, Provincial Credit Rating and Borrowing

The significant amount of additional provincial borrowing needed to refinance the GA and associated risks and fiscal costs (interest rates, repayment timelines) could put pressure on the Province's credit rating and overall borrowing capacity.

The complexity of the structure and length of deferral (i.e., recovery of debt) increase the overall risk of the proposal and decrease transparency to the public. The structure of the GA refinancing was designed to result in an (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit. However, depending on funding to OPG from the Province, an increase in interest on debt and an increase on income from OPG will result. The structure is also contingent on the size of the partial GA refinancing that is seen as possible, which, as mentioned, increases the likelihood of pressures on the fiscal plan in the near future (see page 17- Fiscal Pressure).

In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt.

- The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line.
- The ministry has received an appropriation for $1.1 billion operating asset to support these injections for the fiscal year 2017/18, and will report back through PRRT for future funding. Based on the final fair allocation amount calculation, the equity injections would be required until the period of recovery begins.
- The injections will be fiscally neutral for the province as they will be offset with the value of shares purchased from OPG.
- To further support the operations and mechanics of the OPG SPV/Trust, additional work will be done through the regulations and supporting agreements /documents. E&Y concurs with OPG's assessment that accounting requirements to support "consolidation" of OPG SPV / Trust with OPG Inc. can be met.

Rating agencies and investors in the Province's debt may view all of the borrowing (whether by the Province directly or the OPG Trust/SPV) as an obligation of the Province. Depending on the magnitude of the debt, the Province's borrowing cost may be impacted. The structure of the guarantees from the Province that will be required by the market at the transaction stage may also impact the accounting analysis. These will be negotiated at a later stage.

OPG will seek to achieve the highest possible credit rating (AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV/Trust. Despite these factors, rating agencies may see the Province's rating forming a ceiling given the contingent guarantees that the Province will provide.

The Ontario Auditor General (OAG) has been briefed on the proposal and has had access to the March 1, 2017, policy submission for Ontario's Fair Hydro Plan. While the auditors of OPG and IESO have provided assessments and the Office of the Provincial Controller Division (OPCD) has been engaged, the OAG has historically raised concern with "rate regulated accounting" and may take this into account when the provincial books are audited (i.e., it may impact whether the OAG qualifies the provincial books).

Based on early assessments, only a maximum of 18% rate relief can be justified by amortizing contracts over the useful life of the underlying assets. Reducing electricity rates up to or beyond this amount by this method could undermine the nature of the regulatory charge and could only be achieved by relying on increased borrowing.

Legal Risk

The current GA amount paid by consumers is a regulatory charge. One of the requirements of a valid regulatory charge (as opposed to a tax) is that the person paying the charge either benefits from the regulatory scheme or causes the need for regulation. In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional

tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Former Supreme Court Justice Binnie has provided legal analysis of this proposal, stating that the amount that could be constitutionally financed as a regulatory charge as opposed to a tax would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations would jeopardize the nature of this being a regulatory charge.

A proposal for refinancing the GA that appears to cross-subsidize near-term consumers at the expense of long-term consumers by back-loading costs more than if costs were spread equally over the estimated lifespan of generation and conservation assets presents a moderately high risk (more likely than not) of constituting a tax. If the government fails to establish that the relevant electricity generating assets and conservation investments will continue to perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge and would be characterized as a tax. If characterized as a tax, in the event of a challenge, it would be struck down by a court as unconstitutional and consumers would be entitled to recover their payments. This risk could be eliminated, either up front or retroactively, by the imposition of a valid tax.

The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and conservation and the group of consumers who benefit year to year from those facilities and investments. By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

Mr. Binnie concluded that the proposed charge faces a moderately high risk of being characterized as an unauthorized tax rather than as valid regulatory charge because (1) there is a disproportionate back-end loading of the charge on 2021-2047 consumers for the benefit of 2017-2021 consumers and (2) because an unknown number of generating assets whose financing costs will be partly recovered from 2021-2047 consumers will not benefit them as they will no longer be in operation.

In addition, the structure of the GA refinancing means that the infrastructure included as part of the clean energy adjustment (i.e. amortized over 30 instead of 20 years) will need to be in service over the entire 30 year amortization period or provide benefits to the system in some way over the whole period. In practice this may mean that the government will have limited ability to alter the generation mixture included under the clean energy adjustments, including natural gas generation facilities, which may at some point be seen as inconsistent with the province’s commitments to reduce greenhouse gasses.

The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs

with the estimated clean energy benefits attributable to the same period. Limiting the near-term rate reductions to such amounts which can be justified as counterbalancing disproportionate GA payments during the 2005-2017 period ensures that the statutory 25% reduction is consistent with proportionate reallocation.

The bill also provides for provincial assurances, guarantees and a statutory cause of action. The provincial assurance provision is intended to mirror as closely as possible the language of a similar provision that appears in legislation in the United States that purports to limit a state legislature's ability to enact legislation that would affect the transaction. The main legal risk associated with the provision is that its precise legal purpose and intended effect are not clear. Under Canadian law, it is not possible for legislation to limit the future exercise of legislative power by the Legislature, including the power to amend or repeal statutory provisions or to expropriate private rights conferred under past statutes.

In light of this limitation, the U.S. provision has been modified to focus on possible actions by the executive branch of government that might undermine the value of the proposed securities (including regulation-making), rather than seeking to constrain the Legislature's powers. However, in the absence of some future statutory amendment, it is not clear what, if any, executive action could have the effect of undermining the payment obligation that would be imposed on consumers under the Act and, therefore, it is not clear what practical risk the provision is designed to mitigate against. This uncertainty creates a risk that a reviewing court could construe the provision in unanticipated ways.

The guarantee provisions are intended to backstop the provincial assurance provision and provide that:

- the Minister of Energy and Minister of Finance may, with LGIC approval, enter into agreements regarding the performance of IESO or electricity vendors; and
- the Minister of Energy and Minister of Finance may, pursuant to LGIC order, agree to guarantee and indemnify any debt, obligation, security or undertaking associated with an investment interest.

Legal risk to the province will be assessed as the agreements are negotiated and drafted.

A statutory cause of action may be created by LGIC regulation. Much like the provincial assurance provision, the statutory cause of action provision is intended to mirror features of US legislation. Legal risk to the province will be assessed as the regulation defining the statutory cause of action is developed.

Fiscal Pressure

This proposal aligns with the 2017 Budget's fiscal plan, but involves significant ongoing risks. Parts of the proposal do not include a scheduled review period or an end date, resulting in an ongoing fiscal pressure, which may increase in the out years, and could only be removed by a legislative amendment.

The cost projections are highly sensitive to interest rates and other assumptions:

- The proposal assumes GA refinancing does not have a fiscal impact because the associated legal authority and accounting treatment requirements are met. If the costs of GA refinancing were accounted for as an expense to the fiscal plan, the fiscal impact would be significant ($2.5B in 2017-18, escalating annually).
- The term and timing of the GA refinancing are highly dependent on the IESO's forecast of GA costs and actual interest rates.

The extent of fiscal pressures is also dependent on other factors (i.e., OAG could qualify Ontario's books or issue an adverse opinion). Due to the complexity and size of the proposal, the government has commissioned external opinions on the fiscal and accounting requirements, and external legal advice. IESO auditor, KPMG, has provided a final draft accounting opinion that the principles of the structure are sound, which will be updated after the legislation, regulations and commercial agreements are complete. KPMG advises that the variance account created by the proposed legislation meets the accounting criteria for the recognition of a "regulatory asset." This opinion can be released publicly if desired; however, given that the KPMG opinion is highly technical and contains information pertaining to the proposed legislation, the ministry is not recommending its immediate release and is considering alternative options to propose. In addition, the opinion may not change the likelihood of a contrary opinion by the OAG, but does provide a tool for government to point to in justifying its decisions.

There is also a risk that credit rating agencies and the market may take a view as to the size of the GA refinancing that is possible before becoming unconstitutional. If the fair adjustment and fair allocation amounts exceeds this outlook, it may increase the perceived risk of the investment asset and therefore its financeability/saleability, which would result in reduced market uptake and reduce the amount of near term rate reduction that would be achievable under this mechanism. This may require rate increases greater than the rate of CPI to maintain the integrity of the structure. This is why the increases in electricity rates between May 2018 and June 2021 are to be set by regulation as opposed to legislating that they increase by CPI.

It may not be possible to legally hold the rate reductions to increase by CPI, and if the government wanted to hold to this commitment, the difference would need to come out of the tax base, which has not been forecasted nor included in the fiscal plan. Each percentage point of reduction that the structure cannot provide would need to be addressed by an appropriate alternative mechanism and would result in an approximate $125-150M cost to the government annually.

Further, if IESO is not able to sell the regulatory asset (i.e., the OPG SPV/Trust is unable to get financing to purchase it), then IESO would require financing from an alternative source. IESO has requested a backstop credit facility from the OFA. This would be associated with a fiscal impact risk.

<u>Legislative Officers</u>

The Ontario Auditor General (OAG) has expressed views on rate regulated accounting, which will likely be raised again upon the implementation of this suite of initiatives. The OAG was provided copies of the Cabinet Submission seeking policy approval for

Ontario's Fair Hydro Plan and has been briefed by officials from the Ministry of Energy. The OAG will have opportunities to publicly state her views through the 2017 Public Accounts based on the IESO adoption of regulated accounting in its 2016 financial statements, as well as in the Public Accounts committee in the summer of 2018 and in her pre-election report.

Data and assumptions that underpin the GA refinancing proposal have been submitted to the Financial Accountability Officer (FAO). The FAO is expected to have an opinion on how this proposal may impact the state of the province's finances.

OPG Mechanism

There are several risks associated with the proposed OPG mechanism:

- Accountability:
    - Bill attempts to balance the independence of the OPG Trust/SPV with regulatory oversight and the market's need for certainty in recovering the GA financing;
    - As mentioned, no party will have the ability to remove OPG in its role as the investment asset owner. The mechanism could be criticised for not providing for an appropriate level of accountability to the government or the public, due to the limited amount of government control of the entity, and future rate increases. However, this is seen by the markets as an essential component for the structure to operate.
- New structure:
    - The structure is complex and involves: IESO as originator of the regulated asset and responsible for flow of funds; OEB as regulator of the new mechanism; OPG responsible for financing and managing the mechanism; and Ontario providing ongoing equity capital infusions to OPG and backstop.
    - The addition of financial agency to the current operational obligations of OPG is not the current expertise of OPG. However, OPG has experience managing large financial assets and liabilities through the jointly managed Ontario Nuclear Funds as well as its own pension fund. In addition, this new role could possibly dilute OPG's focus on current high priority responsibilities (i.e., electricity generation and nuclear refurbishment).
    - This financing structure would be unique to Canada – uniqueness reduces likelihood of all risks being known/mitigated. Highly specialized expertise required.
    - There is a risk that at the next opportunity to review the OPG compensation framework, they make the case that there is no national comparator for this aspect of their work and they should therefore receive further exemptions from the rules (OPG nuclear executives do not need to find national comparators for compensation determination).
    - It is unknown what the magnitude of transaction, administrative, and consultant costs that OPG would incur would be. OEB would review OPG's cost as the Financial Services Manager to ensure appropriateness.

- Debt:
  - Opportunity for significant shifting of the Ontario's electricity sector over the lifespan of the repayment (30 years). Through sector/policy/government position shifting, possibility of new entity/structure abandoning debt and Ontario having to take a write down.
  - Risk transfer / portion of debt that Ontario would be responsible for would be the higher risk portion.
  - Repayment plan and impact on rate payers highly dependent on interest rates
- The public could claim that the government is simply putting off a problem and making it worse for future generations. The complexity of the structure may be seen as government attempting to cover up its actions.

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change.

- Program design will require an evaluation of whether the existing programs are effective and achieving their outcomes (e.g. the OESP has a current uptake of 30% and program changes are proposed in advance of an increased effort to reach 100% uptake)
- The OESP matrix no longer follows the Low Income Measure (LIM) which creates inconsistencies between how programs are applied and may put pressure other provincial programs to increase funding amounts.

Connection to the Province's Next Long-Term Energy Plan

Ontario produces and publishes a Long-Term Energy Plan (LTEP) every three to four years, with the next LTEP scheduled for release in the summer of 2017. LTEP principles that will guide decision-making are affordability, reliability, clean energy, community and Indigenous engagement, and conservation. Through extensive consultation with the public, stakeholders and Indigenous partners through the fall of 2016, the ministry has identified key priorities, and, OFHP combined with new policy or program announcements in the LTEP, will provide the comprehensive future planning perspective for Ontario's energy sector. Note: The legislation associated with GA refinancing establishes a framework for the period after the ratepayer relief is set. By design, to achieve financing requirements there is limited control once the plan is set.

STAKEHOLDER AND PARTNER CONSIDERATIONS

General public (including residential and small businesses) – Likely support a proposal that is projected to provide 25% in average rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but likely to question the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and

recent changes will heavily depend on government communications. There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral on the rest of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to cap and trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. Funding electricity support programs through government funding rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generators as part of the clean energy costs.

Solar PV sector – May react negatively to price relief as it can be seen to undercut the economics of net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

DELIVERY

If passed, the legislation will enable the price mitigation measures to begin to take effect on July 1, 2017. The 2017 LTEP will be released to the public in the summer 2017 and would reinforce/integrate with Ontario's Fair Hydro Plan. Regulations are required under the major components of the legislation in order to fully implement the initiative and clarify program details.

1. Partial Refinancing of the Global Adjustment:

The ratepayer benefit of the OFHP will be in place as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the coming into force of the enabling legislation. The IESO has requested a credit facility from the OFA to provide an interim source of financing.

The bill includes a transition provision in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

2. Enhancing Electricity Supports and Shifting Costs to Government Funding:

OESP Enhancements

Changes to regulation will be required to establish and define the parameters for the proposed changes. The financial flow-through mechanism would likely be modeled after processes used for the ORECA (8% rebate). The amendments made in this bill allow for a transition period where the program continues to draw on the existing IESO variance account. IESO is required to notify the Ministry of Energy when it expects the variance account to be depleted (likely sometime in the fall).

The OEB and utilities implemented the 50% credit increase and added the additional eligibility so that more households could qualify for the program as of May 1, 2017.

RRRP Enhancement

Regulations would be required to establish the details of the program. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the prescribed effective date. In this case, the regulation will dictate the eligibility of July 1st and give until October 1, 2017 for LDCs to get their systems in place. The LDCs would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting.

On-Reserve First Nations Delivery Credit

The ministry is consulting with affected LDCs, the OEB, the IESO and Chiefs of Ontario (COO) to help develop a plan to identify eligible on-reserve consumers, as well as identify any potential implementation issues.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the prescribed effective date (planned: July 1, 2017). The bill includes transitional provisions that would ensure customers remain eligible for the delivery credit from the prescribed date. Once available, the rebate would appear on the eligible customer's electricity bills as a credit for their delivery line.

There is a risk that either non-status Indigenous communities without reserves or Metis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based

program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

LINKAGES

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer 2017. These plans identify needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The *Ontario Rebate for Electricity for Electricity Consumers Act, 2016*, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) – Was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB program ended on December 31, 2015.

Debt Retirement Charge – On January 1, 2016, the government ended the electricity DRC on residential users earlier than planned. For all other consumers the DRC will be removed by April 2018.

Industrial Conservation Initiative (ICI) – Implemented in January 2011 to help large industrial consumers reduce electricity costs by reducing consumption in peak periods. As part of OFHP, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – Approved as part of OFHP, and under development, the Affordability Fund is intended to provide energy efficiency measures to Ontarians who are not eligible for low income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the

two recent expansions to the ICI provides for significant potential savings. Funding electricity support programs through government funds rather than the rate base will also provide saving to Class A and B consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON) - is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and,
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed that the government consult on and develop options to mitigate the impact of carbon pricing and resulting increased utility costs on residential tenants. The mitigation is proposed because tenants do not usually have the opportunity to make changes to their building envelope (e.g. windows, insulation) or major appliances that would allow them to address utility costs themselves. On April 24, 2017, the government introduced the *Rental Fairness Act, 2017* which, if passed, would remove above-guideline rent increases for utilities, to protect tenants from carbon costs and encourage landlords to make their buildings more energy efficient.

Proposed Cabinet Minute

Approval of draft bill for introduction

Cabinet approved version 1-TP of this draft legislation for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.

2. ENERGY report back, pending Royal Assent, with regulation and associated regulatory amendments for approval.

3. ENERGY work with Cabinet Office and Premier's office to develop a communications plan.

From:	John Kim
To:	Gavin He
Subject:	RE: MO Bi-weekly Agenda
Date:	Thursday, June 08, 2017 8:49:36 PM
Attachments:	Annotated Agenda MO June 12 2017_CEFDv1.docx

Thanks….take a look and if OK, pls. send it on.

From: Gavin He
Sent: June-08-17 5:58 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: MO Bi-weekly Agenda

Hi John,

Please review and let me know if you are good with this.

Thanks,
Gavin He

From: John Kim
Sent: Thursday, June 08, 2017 4:57 PM
To: Gavin He <Gavin.He@ofina.on.ca>
Subject: RE: MO Bi-weekly Agenda

Do you mind taking a crack at it focusing on the indemnity?

From: Gavin He
Sent: Thursday, June 08, 2017 4:56 PM
To: Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Mara Bakic <Mara.Bakic@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: MO Bi-weekly Agenda

Hi all,

Just a friendly reminder to send me your agenda today.

Thanks,
Gavin He

From: Gavin He
Sent: Tuesday, June 06, 2017 4:54 PM

To: Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Mara Bakic <Mara.Bakic@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>
Subject: MO Bi-weekly Agenda

Hi all,

The next MO bi-weekly meeting will be on Monday, June 12th, 2017. To prepare for the meeting, could you please provide me with your annotated agenda by **EOD Thursday, June 8th, 2017** for Ron to review?

I have attached the previous agenda for your reference.

Please let me know if you have any questions.

Thanks,
Gavin He

ANNOTATED AGENDA
MO UPDATE: June 12, 2017

1. IESO Credit Facility – FHP Requirements

- IESO raised the ~~potential~~ requirements for financing the Fair Hydro forecast variances.
  - A letter requesting incremental credit facility room of $1.5 Bn in potential borrowing requirements is requested, composed of a new FHP-purpose facility of $2 bn~~,~~ and a reduction of the existing $975 million facility to $475 million.
- Staff are preparing a draft Minister's Directive to the OFA to provide the new and revised facilities to the IESO.
- To allow for this, an Order-in-Council (OIC) will be required for the OFA to borrow money from the Province. ~~CEFD staff is currently working on the OIC~~The approval package has been provided to the Minister for signature and it's tracking towards the June 27th LRC date, together with Energy's LRC submission.

2. Section 28 Approval for Indemnities

- The Minist~~e~~ry of Energy staff are~~is~~ putting together an ~~requesting~~ approvals ~~from~~package for the Minister of Finance, pursuant to Section 28 of the Financial Administration Act, to enter into Indemnity Agreements in favour of OPG, including ~~and~~ its subsidiaries, and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.
  - The indemnities are expected to provide coverage for both organizations and their respective Board members and employees involved in implementing the plan.
  - IESO and OPG have stated that these indemnities are required for their participation in the implementation of the OFHP Act.
  - In order for the OFHP Act to be successful, the draft materials, under review by MOF Legal and CEFD staff, indicate that it is recommended by the Minister of Energy that the Minister of Finance approve this request.
- As currently proposed, t~~T~~he Minister ~~is~~will be~~ing~~ ~~asked~~requested to consider and sign the section 28 approval forms and the transmittal letter to Minister Thibeault.
  - Draft materials from ~~Ministry of~~ Energy state~~s~~ that the likelihood of this indemnity being called upon is low and that the fiscal exposure is unquantifiable at this time.
  - Energy has confirmed in its draft request letter that it bears responsibility for funding, within its approved allocation, for payments associated with the indemnities provided under the Agreements.
- CEFD staff is working on a note and analysis on the request with MOF Legal and ~~EIGS~~TBS staff, including OPCD members.
  - A set of questions on the draft materials have been provided to Energy Legal and relevant policy sections of the ministry.

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~~2.~~3. MNO Solar Inc. ALGP Application

- The Ministry of Finance is continuing negotiations with MNO related to broadening the ownership of Hydro One to MNO. While the current position is to offer $15M in seed capital for an MNO investment vehicle, that offer was declined by MNO. MNO has asked for assistance related to its ALGP application.
- The MNO Solar Inc. project is a portfolio of 50 small solar projects with an aggregate name-plate capacity of about 13 MW. All sites have reached commercial operation.
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- The Applicant and its project partner continue to consider whether they wish to pursue a guarantee well below the amount of the application (approximately 50%) with a provision for a subsequent follow on amount until a proven snow clearing plan can be demonstrated.
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- Staff are continuing to work on ALGP applications for three wind electricity generating projects (the 300 MW Henvey Inlet Wind project which is requesting a

late September close of the guarantee, the 100 MW Belle River Wind project where due diligence is under way, and the 100 MW North Kent Wind project which is understood to mirror the Belle River project in most respects – the latter two were awarded power purchase agreements under the Green Energy Investment Agreement as), and the Wataynikaneyap transmission project.

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- In order to facilitate a curtailment agreement between the Independent Electricity System Operator (IESO) and Northland Power for its Iroquois Falls NUG facility, Northland has requested that OEFC agree to suspend rather than terminate its Power Purchase Agreement (PPA) with Iroquois Falls for the remainder of the PPA term. The Iroquois Falls PPA expires at the end of 2021.
- Northland does not want to terminate the PPA as they believe a termination could make it difficult for Iroquois Falls to make a claim against OEFC if it disagrees with OEFC's calculation of the escalation and indexation used in the Iroquois Falls PPA, which is also proposed to be used in a curtailment agreement with IESO.
- In late May, staff sent a proposed termination agreement to Northland that provides assurance to Northland of OEFC's continued calculations of the indices on the basis of the original PPA. As Northland was unwilling to accept that termination agreement, staff sent a further draft which also provides further assurance that OEFC will calculate the indices on the basis of the judge's decision in the Global Adjustment lawsuit.
- Staff are awaiting a response from Northland.

~~6.~~7. Recovery of Standstill NUG payments

- On April 19, 2017 the Minister of Energy sent a letter to the Minister of Finance requesting that the Minister direct OEFC to recover retroactive payments to standstill NUGs through the Independent Electricity System Operator's (IESO) settlement process over a six month period to ensure greater consistency with the smoothed cost recovery for Regulated Price Plan electricity consumers.
- A response letter has been drafted for the Minister of Finance's signature that will serve as both a response to Minister of Energy and as an authorization for OEFC to recover payments over 6 months.
- The OEFC has begun recovery of the first of these six payments from the IESO settlement process, based on agreement from Minister's staff, and are awaiting the Minister's signed response letter.

~~7.~~8. Fair Hydro Plan – NUG Impact

- The Fair Hydro Plan (FHP) will reduce the amounts charged to electricity consumers. Rates under some NUG contracts escalate on the basis of indices which reflect amounts charged to electricity consumers.

- As such, under current legal advice, OEFC will have to exclude deferred GA costs under the calculations and would require direction from the Minister, supported by a request from the Minister of Energy in order to change the way the indices are calculated and include deferred GA costs as these costs are incurred rather than when they are ultimately recovered from ratepayers.

- While deferred costs will eventually be recovered from ratepayers and reflected in the indices, some NUG have PPAs that will expire before the repayment phase of the FHP and would be negatively impacted by the cost deferral under the plan.
- Staff are currently initiating discussions with Energy on this matter to request whether the Minister of Energy would provide policy support for revising the calculation of the PPA price indices and also to ensure that the information necessary to calculate the affected indices will be made available.

~~8.~~9. Constance Lake Meeting Request

- ENERGY has recently reached an agreement with Constance Lake First Nation (CLFN) that will provide the First Nation with a Hydrology Adjustment Adder in respect of generation from the Nagagami facility (holder of a NUG contract).
  - In order to facilitate further economic benefit to CLFN, ENERGY has requested to the Minister of Finance that discussions take place between CLFN, Brookfield and OEFC regarding refinancing of Generator Debt that Nagagami owes to OEFC. CLFN has also sent a request to the Minister of Finance to initiate these discussions and to enter into a similar framework agreement the way it did with MIRR and ENERGY.
- OEFC cannot enter into a framework agreement without a direction from the Minister of Finance. Independently taking such an action would be outside of OEFC's mandate.
  - OEFC is mandated with managing NUG contracts until their conclusion. OEFC cannot enter into new agreements outside the PPAs.
- Based on the request in the letter, staff can set up a meeting with CLFN, Brookfield and staff for OEFC to provide Brookfield and CLFN an opportunity to provide any relevant information and for staff for OEFC to request further information required to understand and assess Brookfield and CLFN's position.
  - OEFC does have a policy under which it can provide assistance to NUGs if they are able to make a claim of financial duress.
- In response to the letter from CLFN to the Minister, staff for OEFC will propose a response, copying the Minister of Energy.

OTHER ISSUES

~~9.~~10. Stelco Transaction

- Treasury Board approval of Stelco transaction will be sought by OGBESI on June 13, 2017. Transaction is expected to close on June 30, 2017.

- Minister of Finance approval will be required for three MoF loans, contingent liabilities contained in pension-related administrative contracts that will be assumed by FSCO, contractual release to Stelco and the land vehicle for certain legacy environmental liabilities, indemnification of directors and officers of US Steel and Stelco, and Indemnification of U.S. Steel and United States Steel and Carnegie Pension Fund in respect of third party claims, for all liabilities and claims related to Stelco's operations, including historical environmental and pension liabilities.

    - Formal request for s. 28 approvals will be forthcoming from OGBESI and MOECC.

~~10.~~11. College Class Exemption Regulation

- MAESD Minister will be sending shortly a request to Minister of Finance for limited college class exemption regulation under based on materiality thresholds.
- For the time being it is assumed that colleges are not going to be exempted entirely at this time (pending a review of regulations under the revised legislation – including business cases on potential sectors to prescribe or not), and MAESD will be proceeding with the request for a more limited class exemption under the existing FAA s.28 provisions.

~~11.~~12. Immigrant Investor Program – Notice of Termination

- The Ministry of Citizenship and Immigration is seeking the Minister of Finance's immediate approval to suspend the receipt of funds from the Federal Immigrant Investor Program (IIP) to the Ontario Immigrant Investor Corporation (OIIC), for the purposes of enabling the OIIC to meet its planned wind down date, which is expected to be in fiscal 2021-22.
- The Province can trigger a suspension if the Minister of Finance were to send a termination notice to the federal Minister of Immigration, Refugees and Citizenship advising that the Province would no longer guarantee the repayment of any future provincial allocations transferred to the OIIC after a specific date.
    - The termination notice should be delivered before the next allocation of federal monies. Otherwise the wind down of the OIIC could be pushed back to 2022-23.
- OIIC will continue to manage prudently the existing funds under its administration to ensure that the outstanding obligations to immigrant investors will be met in their entirety.

- Metrolinx Fuel Hedging – with DMO, they may/may not require a briefing
  - Metrolinx is keen to begin hedging between 20 and 30% of their annual fuel costs. Given the fall of fuel prices over the past two years they have benefited from waiting, but now their advisors are telling them they need to begin hedging to achieve budgetary price certainty.
  - Minister's approval required for the by-laws and the contingent liabilities in the ISDA agreements.

From:	Gavin He
To:	John Kim
Subject:	RE: MO Bi-weekly Agenda
Date:	Thursday, June 08, 2017 5:57:54 PM
Attachments:	Annotated Agenda MO June 12 2017_CEFD.docx

Hi John,

Please review and let me know if you are good with this.

Thanks,
Gavin He

From: John Kim
Sent: Thursday, June 08, 2017 4:57 PM
To: Gavin He <Gavin.He@ofina.on.ca>
Subject: RE: MO Bi-weekly Agenda

Do you mind taking a crack at it focusing on the indemnity?

From: Gavin He
Sent: Thursday, June 08, 2017 4:56 PM
To: Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Mara Bakic <Mara.Bakic@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: MO Bi-weekly Agenda

Hi all,

Just a friendly reminder to send me your agenda today.

Thanks,
Gavin He

From: Gavin He
Sent: Tuesday, June 06, 2017 4:54 PM
To: Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Mara Bakic <Mara.Bakic@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>
Subject: MO Bi-weekly Agenda

Hi all,

The next MO bi-weekly meeting will be on Monday, June 12th, 2017. To prepare for the meeting,

could you please provide me with your annotated agenda by **EOD Thursday, June 8th, 2017** for Ron to review?

I have attached the previous agenda for your reference.

Please let me know if you have any questions.

Thanks,
Gavin He

ANNOTATED AGENDA
MO UPDATE: June 12, 2017

1. IESO Credit Facility – FHP Requirements

- IESO raised the potential requirements for financing the Fair Hydro forecast variances.
  - o A letter requesting incremental credit facility room of $1.5 Bn in potential borrowing requirements is requested, composed of a new FHP-purpose facility of $2 bn, and a reduction of the existing $975 million facility to $475 million.
- Staff are preparing a draft Minister's Directive to the OFA to provide the new and revised facilities to the IESO.
- To allow for this, an Order-in-Council (OIC) will be required to borrow money from the Province. ~~CEFD staff is currently working on the OIC~~The approval package has been provided to the Minister for signature and it's tracking towards the June 27th LRC date, together with Energy's LRC submission.

2. Section 28 Approval for Indemnities

- The Minister of Energy is requesting approval from the Minister of Finance, pursuant to Section 28 of the Financial Administration Act to enter into Indemnity Agreements in favour of OPG, and its subsidiaries and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.
  - o IESO and OPG have stated that these indemnities are required for their participation in the implementation of the OFHP Act.
  - o In order for the OFHP Act to be successful, it is recommended by the Minister of Energy that the Minister of Finance approve this request.
- The Minister is being asked to sign the section 28 approval forms and the transmittal letter to Minister Thibeault.
  - o Ministry of Energy states that the likelihood of this indemnity being called upon is low and that the fiscal exposure is unquantifiable at this time.
  - o Energy has confirmed in its draft request letter that it bears responsibility for funding, within its approved allocation, for payments associated with the indemnities provided under the Agreements.
- CEFD staff is working on a note and analysis on the request with MOF Legal and EIGS.

~~2.~~3. MNO Solar Inc. ALGP Application

- The Ministry of Finance is continuing negotiations with MNO related to broadening the ownership of Hydro One to MNO. While the current position is to offer $15M in seed capital for an MNO investment vehicle, that offer was declined by MNO. MNO has asked for assistance related to its ALGP application.

- The MNO Solar Inc. project is a portfolio of 50 small solar projects with an aggregate name-plate capacity of about 13 MW. All sites have reached commercial operation.
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  - Minister's approval required for the by-laws and the contingent liabilities in the ISDA agreements.

From: John Kim
To: Deena Padamadan
Subject: RE: MO Bi-weekly Agenda
Date: Friday, May 12, 2017 1:52:25 PM
Attachments: Annotated Agenda MO May 15 2017_EFB.docx

There you go.

John

From: Deena Padamadan
Sent: Friday, May 12, 2017 9:59 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: MO Bi-weekly Agenda

Hi John,

Just wanted to check on EFB's updates for the MO bi-weekly agenda?

Thanks,
Deena

From: Deena Padamadan
Sent: Wednesday, May 10, 2017 10:09 AM
To: Emily Kerr <Emily.Kerr@ofina.on.ca>; Mara Bakic <Mara.Bakic@ofina.on.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: MO Bi-weekly Agenda

Hello all,

The next MO bi-weekly meeting will be on Monday, May 15th, 2017. To prepare for the meeting, could you please provide me with your annotated agenda by **EOD Thursday, May 12th, 2017** for Ron to review?

I have attached the previous agenda for your reference.

Please let me know if you have any questions.

Thank you,
Deena

ANNOTATED AGENDA
MO UPDATE: May 15~~2~~, 2017

ELECTRICITY & ASSET OPTIMISATION RELATED ISSUES

1. Ontario Fair Hydro Plan – Equity Injection

Staff from CEFD, OFA capital markets, Ministry of Finance, and OPG continue to discuss the mechanics behind an equity injection between the Province and OPG to support the Ontario Fair Hydro Plan.

- The CEFD and EIGS staff are working to establish clarity and steps required on the Provincial approvals for the equity injection, with common equity structure [with a new class of shares] looking to be the mechanism.

2. IESO Credit Facility – ~~$975M for Market~~FHP Requirements

- IESO raised the potential requirements for financing the Fair Hydro forecast variances.
  - Draft letter requesting the incremental or a new facility indicates a requirement for $1.5 Bn in potential borrowing requirements. OFA is of the view that a new, separate facility to better track the amounts related to the FHP is ideal and have communicated back to the IESO.
  - As indicated in the previous meeting, t~~T~~he possibility was raised of the IESO relying on the existing $975M credit facility provided by the OFA to provide short term financing until the OPG SPV purchases the IESO regulatory asset.
  - ~~It was also discussed to have a new, separate facility to better track the amounts related to the FHP.~~
  - One of the main uses of the current $975M credit facility is to provide liquidity into the electricity market to support various initiatives including the Regulated Price Plan (RPP), the Rural or Remote Electricity Rate Protection (RRRP), the new Ontario Electricity Support Program (OESP), the various conservation programs and overall market liquidity.
  - The $975M facility was not intended to provide long-term financing.
  - IESO indicates that it would require a term of 7 to 95 days in its draft memo.
- In the Minister's Directive signed November 28, 2016, facilitates the lending agreement between the OFA and IESO until the end of 2019 and has the term restriction of 28 to 95 days, essentially providing short-term liquidity for the IESO.

3. Cochrane Solar Project Issue

- The Cochrane Solar Project (CSP) submitted its application to the Aboriginal Loan Guarantee Program (ALGP) early in 2015.

- The Applicant purchased its equity interest in October 2015.
- The Applicant is owned by two First Nations, one was the recent beneficiary of an ALGP guarantee for its ownership interest in the Peter Sutherland Sr. Generating Station.
- The other First Nation has shown frustration at the lack of progress on the ALGP application for the CSP.

- In early 2017 ALGP staff became aware that the CSP is only performing at 75% of forecast for the nineteen months ended January 2017. The underperformance is attributable to snow accumulation on the panels. Winters to date actually witnessed higher temperatures and lower accumulation of snowfall compared to averages for the area.
  - The CSP has also experienced significant cost overruns due to foundation issues. The increased capital costs (~25%) were borne by Northland Power Inc. (the Applicant's Partner "NPI").
- For this application staff have considered an outright decline to the application or alternatively propose to size the guarantee based upon, e.g., accepting actual output to date as reflective of the longer term average.
  - Generally, the ALGP would size the loan based upon a statistically conservative analysis compared to forecast as opposed to having actual output data.
  - Even based on actual data to date, the loan supportable would be an estimated about half the amount applied for to be guaranteed – TBD, subject to further due diligence.
- If the partner can develop an effective and successfully evidenced snow clearing plan, a guarantee may be increased at a later date. It should be noted that snow clearing is not well developed in the solar industry and that a guarantee at this time would reflect a more aggressive view to output than the ALGP would normally employ and as such the risk of a call under the guarantee would increase.
- Also noteworthy is that the partnership between the Applicant and NPI is not unwound in the event that a guarantee is not awarded. NPI would then be in a realization position of monies advanced to the Applicant with the possible outcome that the ownership interests of the Applicant are extinguished by NPI.

4. Recovery of Standstill NUG payments

- On April 19, 2017 the Minister of Energy sent a letter to the Minister of Finance requesting that the Minister direct OEFC to recover retroactive payments to standstill NUGs through the Independent Electricity System Operator's (IESO) settlement process over a six month period to ensure greater consistency with the smoothed cost recovery for Regulated Price Plan electricity consumers.
  - OEFC Legal has advised that aside from a direction an indication (via email or letter) from the Minister that it concurs with the Minister of Energy's request that

the recovery be done over six months would be sufficient for OEFC to initiate recovery over six months.

- In the past, for the recovery of retroactive payments to applicant NUGs (who were party to the lawsuit), the Deputy Minister of Energy sent a letter to the CEO of OEFC requesting that recovery of the retroactive payments occur over three months. While the Minister of Energy did not write the Minister of Finance, staff for OEFC did consult with the Minister's Office on this request.

~~**5. OPG 2017-19 Business Plan**~~

- ~~OPG submitted its 2017-19 Business Plan to the Ministry of Energy for concurrence, and the Plan will be submitted to Treasury Board for review in May.~~
- ~~The OPG BP submission pre-dates the proposed plan for OPG's role in the Fair Hydro Plan.~~
- ~~CEFD is currently reviewing the draft TB submission materials and will work with TBS on the assessment note.~~

From:	John Kim
To:	Gavin He
Cc:	Ronald Kwan
Subject:	RE: MO Bi-weekly Agenda
Date:	Friday, June 09, 2017 2:16:09 PM
Attachments:	Annotated Agenda MO June 12 2017_CEFDv1_Markup2.docx

Hi Gavin,

To be consolidated with other requests….

Thanks,

john

From: Ronald Kwan
Sent: Friday, June 09, 2017 1:57 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>
Subject: RE: MO Bi-weekly Agenda

Hi John,

It's just a heads up to MO. So far as I know, CMD does not have an MO Weekly meeting.

Ron

From: John Kim
Sent: June-09-17 1:56 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>
Subject: ;RE: MO Bi-weekly Agenda

Hi Ron,

With respect to your request on PG, we understood that CMD was leading on that item. We can add a bit of flavour on the PG discussion to the extent that there could be overlap with indemnities, etc. Is that okay with you?

Thanks,

John

From: Gavin He
Sent: Friday, June 09, 2017 12:34 PM
To: John Kim <John.Kim@ofina.on.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>;

Emily Kerr <Emily.Kerr@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: FW: MO Bi-weekly Agenda

Hi all,

Please find attached the edits and requests from Ron for the bi-weekly agenda. Could you please send the updated version to Deena before EOD today?

Thanks,
Gavin He

From: Ronald Kwan
Sent: Friday, June 09, 2017 12:31 PM
To: Gavin He <Gavin.He@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: MO Bi-weekly Agenda

Hi Gavin,

A few suggestions and requests.

Thanks,
Ron

From: Gavin He
Sent: June-08-17 10:31 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: Re: MO Bi-weekly Agenda

Hi Ron,

Please find attached the draft annotated agenda for your review. Please note that SIFB has no items to report for this bi-weekly.

Regards,
Gavin He

From: Gavin He
Sent: Tuesday, June 6, 2017 4:53 PM

To: Francisco Chinchon; John Kim; Mara Bakic; Emily Kerr
Subject: MO Bi-weekly Agenda

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Thanks,
Gavin He

ANNOTATED AGENDA
MO UPDATE: June 12, 2017

Commented [RK1]: Should there also be a brief update on the Provincial Guarantee status for the FHP?

And maybe an ONFA-related heads up on the upcoming OPG submission to the CNSC for its Financial Guarantee requirement.

And a very short, general reminder on upcoming Trillium Trust related items and estimated timelines (e.g., for Brampton, OPG head office properties, H1 secondary offering.

1. IESO Credit Facility – FHP Requirements

- IESO raised the requirements for financing the Fair Hydro forecast variances.
  - A letter requesting incremental credit facility room of $1.5 Bn in potential borrowing requirements is requested, composed of a new FHP-purpose facility of $2 bn and a reduction of the existing $975 million facility to $475 million.
- Staff are preparing a draft Minister's Directive to the OFA to provide the new and revised facilities to the IESO.
- To allow for this, an Order-in-Council (OIC) will be required for the OFA to borrow money from the Province. The approval package has been provided to the Minister for signature and it's tracking towards the June 27th LRC date, together with Energy's LRC submission.

2. Section 28 Approval for Indemnities

- ~~The~~ Ministry of Energy staff are putting together a~~n~~ s.28 approvals package for submission to the Minister of Finance~~, pursuant to Section 28 of the Financial Administration Act,~~ for the Minister of Energy, on behalf of the Crown, to enter into Indemnity Agreements in favour of OPG, including its subsidiaries, and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.
  - The indemnities are expected to provide coverage for both organizations and their respective Board members, officers and employees involved in implementing the plan.
  - IESO and OPG have stated that these indemnities are required for their participation in the implementation of the OFHP Act.
  - In order for the OFHP Act to be successful, the draft materials, under review by MOF Legal and CEFD staff, indicate that it is recommended by the Minister of Energy that the Minister of Finance approve this request.
- As currently proposed, the Minister will be requested to consider and sign the section 28 approval forms and the transmittal letter to Minister Thibeault.
  - Draft materials from Energy state that the likelihood of this indemnity being called upon is low and that the fiscal exposure is unquantifiable at this time.
  - Energy has confirmed in its draft request letter that it bears responsibility for funding, within its approved allocation, for payments associated with the indemnities provided under the Agreements.
- CEFD staff is working on a note and analysis on the request with MOF Legal and TBS staff, including OPCD members.
  - A set of questions on the draft materials have been provided to Energy Legal and relevant policy sections of the ministry.

3. Provincial Support Agreement or Provincial Guarantee Agreement

- As part of the OFHP and in order to provide support to those with claims against the Financing Entity (i.e. currently the OPG Trust) and with the ultimate objective of providing the highest possible credit ratings (and corresponding low interest costs to the ratepayers), the Province has been asked to provide both a Service Guarantee and a Performance Guarantee to support obligations of the IESO and the debt instruments issued by the Financing Entity.
- There are potential overlaps in the support provided through the Provincial Support Agreement being drafted and the Section 28 support being contemplated with involvement from MOF Legal, Energy Legal (and their clients) and TBS staff, including OPCD staff.
- As mentioned above, CEFD staff working with MOF Legal are conducting due diligence on the Section 28 request and looking at potential duplication of support which may be redundant.
- While led by OFA's CMD staff, CEFD staff are continuing to provide support and input.

4. NUG Curtailment

- In order to facilitate a curtailment agreement between the Independent Electricity System Operator (IESO) and Northland Power for its Iroquois Falls NUG facility, Northland has requested that OEFC agree to suspend rather than terminate its Power Purchase Agreement (PPA) with Iroquois Falls for the remainder of the PPA term. The Iroquois Falls PPA expires at the end of 2021.
- Northland does not want to terminate the PPA as ~~they~~it believes a termination could make it difficult for Iroquois Falls to make a claim against OEFC if it disagrees with OEFC's calculation of the escalation and indexation used in the Iroquois Falls PPA, which is also proposed to be used in a curtailment agreement with IESO.
- ~~In late May, s~~Staff sent a proposed termination agreement to Northland that ~~provides assurance to Northland of OEFC's continued calculations of the indices on the basis of the original PPA. As Northland was unwilling to accept that termination agreement, staff sent a further draft which also~~ provides further assurance that OEFC will calculate the indices on the basis of the judge's decision in the Global Adjustment lawsuit.

Staff are awaiting a response from Northland.

~~3. NUG Curtailment~~

~~• In order to facilitate a curtailment agreement between the Independent Electricity System Operator (IESO) and Northland Power for its Iroquois Falls NUG facility, Northland has requested that OEFC agree to suspend rather than terminate its Power Purchase Agreement~~

Commented [RK2]: update

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~~4.~~5. Fair Hydro Plan – NUG Impact

- The Fair Hydro Plan (FHP) will reduce the amounts charged to electricity consumers. Rates under some NUG contracts escalate on the basis of indices which reflect amounts charged to electricity consumers.
  - As such, under current legal advice, OEFC will have to exclude deferred GA costs under the calculations and would require direction from the Minister, supported by a request from the Minister of Energy in order to change the way the indices are currently calculated ~~and~~ to include the deferred GA costs ~~as~~when these costs are incurred (and exclude financing costs), rather than when they are ultimately recovered from ratepayers.
- While deferred costs will eventually be recovered from ratepayers and reflected in the indices, some NUG have PPAs that will expire before the repayment phase of the FHP and would be negatively impacted by the cost deferral under the plan.
  - For one PPA, indexation begins later, and would benefit from the deferred cost recovery, with financing cost included in the escalation.
  - For PPAs extending across most or all of the OFHP period, on a present value basis, they would likely prefer the indices calculation continue to include the portion of GA costs that is deferred.

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- Staff are currently initiating discussions with Energy on this matter to request whether the Minister of Energy would provide policy support for revising the calculation of the PPA price indices and also to ensure that the information necessary to calculate the affected indices will be made available.

~~5.~~6. Constance Lake Meeting Request

- ENERGY has recently reached an agreement with Constance Lake First Nation (CLFN) that will provide the First Nation with a Hydrology Adjustment Adder in respect of generation from the Nagagami facility (holder of a NUG contract).

- o In order to facilitate further economic benefit to CLFN, ENERGY has requested to the Minister of Finance that discussions take place between CLFN, Brookfield and OEFC regarding refinancing of Generator Debt that Nagagami owes to OEFC. Note that refinancing the generator debt would likely primarily benefit Brookfield, as CLFN is a minority partner in the Nagagami NUG, unless there were a side agreement between the partners.
- o CLFN has also sent a request to the Minister of Finance, which may suggest broader discussions than the generator debt, to initiate ~~these~~ discussions and to enter into a similar framework agreement the way it did with MIRR and ENERGY. [Could add a point on what was in the Framework Agreement.]

- OEFC cannot enter into a framework agreement without a direction from the Minister of Finance. Independently taking such an action would be outside of OEFC's mandate.
  - o OEFC is mandated with managing NUG contracts until their conclusion. OEFC cannot enter into new agreements outside the PPAs.
- Based on the request in the letter, staff can set up a meeting with CLFN, Brookfield and staff for OEFC to provide Brookfield and CLFN an opportunity to provide any relevant information and for staff for OEFC to request further information required to understand and assess Brookfield and CLFN's position.
  - o OEFC does have a longstanding policy under which it may~~can~~ provide assistance to NUGs if they are able to support~~make~~ a claim of financial duress.
- In response to the letter from CLFN to the Minister, staff for OEFC will propose a response, copying the Minister of Energy.

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~~6.~~7. MNO Solar Inc. ALGP Application

- ~~The Ministry of Finance is continuing negotiations with MNO related to broadening the ownership of Hydro One to MNO. While the current position is to offer $15M in seed capital for an MNO investment vehicle, that offer was declined by MNO. MNO has asked for assistance related to its ALGP application.~~
- The MNO Solar Inc. project is a portfolio of 50 small solar projects with an aggregate name-plate capacity of about 13 MW. All sites have reached commercial operation.
- In July 2016, MNO Solar Inc. received a conditional offer of a loan guarantee under the ALGP for approximately $6.5 million. MNO accepted the conditional offer in August 2016.
- At this point, there is no reason to believe that the guarantee agreement will not be successfully concluded within usual ALGP parameters.
- OFA comments on some key documentation, including the limited partnership agreement, and intercompany loan agreements, remain unaddressed. The process

of documentation negotiation between parties usually takes several months, though timing could be shorter or longer.

- Due to the passage of time, staff have considered basing the loan size on a 15 year term which is 75 per cent of the term of the FIT contract, as opposed to 75 per cent of the remaining FIT contract, so as to keep the amount of the guarantee at approximately $6.5 million rather than having to reduce it to approximately $6 million ~~given the sensitivities to the file~~.
    - The concept of using a shorter term for ALGP purposes than the FIT contract term is to leave a ~~25%~~ buffer (typically 5 years in th~~is~~e case of a full 20 year contract) to deal with any workout period if the loan repayment is in any difficulty. Using the original contract length and a 15 year ALGP term would result in a buffer of about 3 years instead; ~~,~~ however given that the MNO Solar Inc. projects are operational and operating at projected levels, any project construction risk that is applicable to preoperational projects is not applicable and a three year buffer could~~an~~ be ~~comfortably~~ supported when seeking final guarantee approval, which is anticipated to be sought in the coming weeks.

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~~7.~~8. Cochrane Solar Project Update

- The Applicant and its project partner continue to consider whether they wish to pursue a guarantee well below the amount of the application (approximately 50%) with a provision for a subsequent follow on amount until a proven snow clearing plan can be demonstrated.
- While the partner is interested in moving ahead on this basis, the advisor to the Applicant has advised that they believe this project may not be viable and are reconsidering the application altogether.
- Staff are waiting for confirmation whether they wish to drop the application.

~~8.~~9. Other Applicants to the ALGP

- Staff are continuing to work on ALGP applications for three wind electricity generating projects (the 300 MW Henvey Inlet Wind project which is requesting a late September close of the guarantee, the 100 MW Belle River Wind project where due diligence is under way, and the 100 MW North Kent Wind project which is understood to mirror the Belle River project in most respects – the latter two were awarded power purchase agreements under the Green Energy Investment Agreement as), and the Wataynikaneyap transmission project.

OTHER ISSUES

~~9.~~10. Stelco Transaction

- Treasury Board approval of Stelco transaction will be sought by OGBESI on June 13, 2017. Transaction is expected to close on June 30, 2017.

- Minister of Finance approval will be required for three MoF loans, contingent liabilities contained in pension-related administrative contracts that will be assumed by FSCO, contractual release to Stelco and the land vehicle for certain legacy environmental liabilities, indemnification of directors and officers of US Steel and Stelco, and Indemnification of U.S. Steel and United States Steel and Carnegie Pension Fund in respect of third party claims, for all liabilities and claims related to Stelco's operations, including historical environmental and pension liabilities.

    - Formal request for s. 28 approvals will be forthcoming from OGBESI and MOECC.

~~10.~~11. College Class Exemption Regulation

- MAESD Minister will be sending shortly a request to Minister of Finance for limited college class exemption regulation under based on materiality thresholds.
- For the time being it is assumed that colleges are not going to be exempted entirely at this time (pending a review of regulations under the revised legislation – including business cases on potential sectors to prescribe or not), and MAESD will be proceeding with the request for a more limited class exemption under the existing FAA s.28 provisions.

~~11.~~12. Immigrant Investor Program – Notice of Termination

- The Ministry of Citizenship and Immigration is seeking the Minister of Finance's immediate approval to suspend the receipt of funds from the Federal Immigrant Investor Program (IIP) to the Ontario Immigrant Investor Corporation (OIIC), for the purposes of enabling the OIIC to meet its planned wind down date, which is expected to be in fiscal 2021-22.
- The Province can trigger a suspension if the Minister of Finance were to send a termination notice to the federal Minister of Immigration, Refugees and Citizenship advising that the Province would no longer guarantee the repayment of any future provincial allocations transferred to the OIIC after a specific date.
    - The termination notice should be delivered before the next allocation of federal monies. Otherwise the wind down of the OIIC could be pushed back to 2022-23.
- OIIC will continue to manage prudently the existing funds under its administration to ensure that the outstanding obligations to immigrant investors will be met in their entirety.

From:	John Kim
To:	Shajee Kathirgamanathan; Bruno Amara; Adam Prokop
Subject:	RE: May 4th Meeting Material | | DM/MO Briefing | Rate Mitigation/OPG Business Plan/H1
Date:	Thursday, May 04, 2017 11:10:15 AM

It was explained as the rate of increase being reduced from the 4 down. Sorry, didn't mean to leave Salman out.

From: Shajee Kathirgamanathan
Sent: Thursday, May 04, 2017 9:50 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Adam Prokop <Adam.Prokop@ofina.on.ca>
Subject: RE: May 4th Meeting Material | | DM/MO Briefing | Rate Mitigation/OPG Business Plan/H1

Thanks.

It's interesting that peak debt on Slide 1 is 24B, not 28B.

Also minor typo on slide 2. 'Broadening of the Rural or Remote ***Rate*** Protection Program'.

Shajee

Shajee Kathirgamanathan
Office: 416-325-1402 | Mobile: 647-294-3359
shajee.kathirgamanathan@ofina.on.ca

From: John Kim
Sent: Wednesday, May 03, 2017 6:31 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Adam Prokop <Adam.Prokop@ofina.on.ca>
Subject: FW: May 4th Meeting Material | | DM/MO Briefing | Rate Mitigation/OPG Business Plan/H1

Fyi.

From: Ronald Kwan
Sent: Wednesday, May 03, 2017 6:29 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: May 4th Meeting Material | | DM/MO Briefing | Rate Mitigation/OPG Business Plan/H1

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-03-17 18:22
To: Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: May 4th Meeting Material | | DM/MO Briefing | Rate Mitigation/OPG Business Plan/H1

Fyi – Attached is the next iteration of the placemat and definitions page for tomorrow morning's briefing with DM / MO.

From: Salman Qadir
To: John Kim
Subject: RE: OFHP - Outstanding business issues
Date: Friday, June 02, 2017 10:29:35 AM

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http://www.thecarconnection.com/car-compare-results/honda_pilot_2017-vs-mazda_cx-9_2017?trims=40059163,40059483

Passenger Volume (ft³)
Pilot: 153.1
CX-9: 135.1

Third Head Room (in)
Pilot: 38.9
CX-9: 35.4

All measurements its smaller….

CX-9

- Third row is disappointing
- Real-world mpg doesn't match figures
- Fussy infotainment

From: John Kim
Sent: Friday, June 02, 2017 10:25 AM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Lol. It's deceptively big the CX-9.

From: Salman Qadir
Sent: Friday, June 02, 2017 10:24 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

It hasn't' changed much over last year… it's a nice car and its said Mazda is definitely improving their cars… but still a Mazda….

Pilot just has more room ☺

From: John Kim
Sent: Friday, June 02, 2017 10:22 AM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>

Subject: RE: OFHP - Outstanding business issues

On a different note, did you see the new Mazda CX-9? They look good.

From: Salman Qadir
Sent: Friday, June 02, 2017 10:21 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Sure. I can start one.

From: John Kim
Sent: Friday, June 02, 2017 10:17 AM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Calling in is fine but do you mind working on the list?

From: Salman Qadir
Sent: Friday, June 02, 2017 10:17 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Hi John,

I am working from home on Monday (have Enbridge coming by at some point during the day), but can call in - np.

Can also do it today?

Salman

From: John Kim
Sent: Friday, June 02, 2017 10:15 AM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Let's have a branch meeting on Monday….I will schedule one and get a list of things that we are working on.

John

From: Salman Qadir
Sent: Friday, June 02, 2017 10:01 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

It looks like it also confirms this (to which we had an understanding but no concrete confirmation), re: the IESO credit facility:

The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017

From: John Kim
Sent: Friday, June 02, 2017 9:58 AM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Yeah, I'm fine with it as they took ownership of the wording. And I am of the view that various areas would try to squeeze in everything for the June 27.

From: Bruno Amara
Sent: Friday, June 02, 2017 9:55 AM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: OFHP - Outstanding business issues

Hi John

Did you notice the wording change on the timing of the OIC regarding OPG indemnity. It now says June 27. Our wording was not committal to the June 27 date, but to . I don't think there is that urgency for this OIC. Per our teleconference earlier this week, there are still internal discussions to be had regarding the Province's position.

This was our wording

- Upcoming Cabinet date is June 27, 2017, for which documents are past due. Next possible LRC/Cabinet date is scheduled for July 26, 2017.

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Thursday, June 01, 2017 1:39 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Hi – just wanted to loop back and provide the final version which also incorporates edits from OPG.

From: Montgomery, Kaitlin (MOF)
Sent: May 31, 2017 10:42 AM
To: Kim, John (OFA); Bruno Amara; Yep, Carlos (OFA)
Subject: RE: OFHP - Outstanding business issues

Hi all – just checking in on comments. ENE DMO is looking for this by noon so if you're able to share any comments shortly I would greatly appreciate it.

This version just includes one more item based on the term sheet OPG shared yesterday but I was unsure about timing on that one.

Please let me know if you have any questions.
Kaitlin

From: Montgomery, Kaitlin (MOF)
Sent: May 30, 2017 11:28 AM
To: Kim, John (OFA); Bruno Amara; Yep, Carlos (OFA)
Subject: OFHP - Outstanding business issues

Hi all,

ENE MO asked for a quick note on 4 of the outstanding business issues that are being worked through and are hoping to see something tomorrow morning.

I've pulled together a high level explanation of each of the items and next steps/timing (to the extent I know).

Would greatly appreciate if you guys could take a look and provide any edits/comments today/early tomorrow if possible. I'm also not too involved in a few of these discussions so if there's others within OFA you think should review feel free to pass along.

Thanks in advance,
Kaitlin

From: Ronald Kwan
To: John Kim
Cc: Gavin He; Bruno Amara
Subject: RE: OFHP - Outstanding business issues
Date: Wednesday, May 31, 2017 1:28:22 PM

Hi,

You might want to adjust the PILs one.

Ron

From: John Kim
Sent: May-31-17 13:28
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Thanks Ron.

From: Ronald Kwan
Sent: Wednesday, May 31, 2017 1:13 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Hi John,

Some suggestions, queries.

Ron

From: John Kim
Sent: May-31-17 12:03
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: OFHP - Outstanding business issues

Hi Ron,

Pls. see attached. Not perfect but CMD staff added some sections as well.

John

From: John Kim
Sent: Wednesday, May 31, 2017 11:55 AM

To: 'Montgomery, Kaitlin (MOF)' <Kaitlin.Montgomery@ontario.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Hi Kaitlin,

On a second thought, I know that Scott asked Ron for comments. Given that, might be best it goes through that channel?

I can share the material with Ron shortly.

John

From: John Kim
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To: 'Montgomery, Kaitlin (MOF)' <Kaitlin.Montgomery@ontario.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
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To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
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Thanks in advance,
Kaitlin

From:	Ronald Kwan
To:	John Kim
Cc:	Gavin He; Bruno Amara
Subject:	RE: OFHP - Outstanding business issues
Date:	Wednesday, May 31, 2017 1:13:28 PM
Attachments:	2017 05 31 Outstanding Business Issues Ontario Fair Hydro Plan - v02_Markup3.docx

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Some suggestions, queries.

Ron

From: John Kim
Sent: May-31-17 12:03
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
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Kaitlin

Outstanding Business Issues – Ontario Fair Hydro Plan
Briefing Note

PURPOSE
Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Provincial Support Agreement Term Sheet (~~Service and~~ Performance and Payment Guarantees)**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA ~~and~~are working towards the development of a term sheet
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July.

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - The Province would like to minimize, to the extent possible~~,~~, the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers.
   - The Province is considering regulation changes to exempt from PILs the income arising [to the OPG financing vehicle(?)] as a consequence of the Fair Hydro Plan. ~~from PILs~~
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity.
   - **Next Steps:**
     - The Ministr~~ies~~ of Finance, OFA and OPG are working together to determine required regulation changes.
     - Timing: [Next steps for a decision / when is a decision required / when would these regulation changes occur]

3. **Fair Hydro Plan - Master Subscription Agreement Term Sheet (Equity Injection Process)**

Commented [RK1]: Have TPD staff also been consulted on this section?

Commented [RK2]: Is this an "approved" position? Potential alternative wording: "Provincial staff, with OPG's concurrence, recommend minimizing, to the extent possible,....

- OPG will require equity injections on a monthly basis, to match the timing of the purchase of the IESO regulatory asset, as applicable, in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province.
- The Ministry of Energy received appropriation for a fiscally-neutral operating asset expenditure of $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT.
- **Next Steps:**
    - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process, which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
    - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June.

4. **Management Fees**
    - OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
    - The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations, which are currently in development.
    - OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements.
    - **Next Steps:**
        - OPG and OEB will bring forward a recommended framework for developing management fees.
        - Timing: For incorporation into regulations being brought forward in June

5. **Subordinated Debt Loan Agreement**
    - OPG will lend the equity injection from the Province to the Fair Hydro Trust by way of subordinated debt
    - Based on monthly funding requirements of the GA asset, the Trust will use short term financing and take out bonds once short term funding reaches certain levels
    - OPG and OFA are working on a Debt Loan Arrangement ~~which~~that would establish the interest rates on the subordinated debt
    - **Next Steps:**
        - OPG and OFA will bring forward a recommended framework for determining interest rates
        - Timing: TBD

6. IESO – Increased OFA Credit Facilities

- THE OPG financing entity is not expected to be immediately operational, so the IESO will need to have transitional financing in place to manage the difference in the payments to generators and other service providers vs payments from loads / LDCs.
- There may also be on-going monthly cash flow timing differences that the IESO will need a credit facility for.
- In addition, ~~T~~the OPG financing entity has the right to purchase the regulatory asset from IESO but ~~does~~is not ~~have~~required~~mandated~~ to purchase it.
- IESO is working with the OFA to increase the credit facilities in the event that the OPG financing entity does not purchase the regulatory asset
- **Next Steps:**
    - OFA is drafting a new agreement for a $2 billion credit facility for the OFA to lend funds to IESO for FHP purposes. Concurrently, the OFA is seeking the Minister's approval for an LRC submission to approv~~al~~e an OIC for an ~~new~~additional $2 billion ~~OIC~~in borrowing capacity, as well as a Directive from the Minister of Finance, which are both necessary for the OFA to lend funds to IESO under the requested new Credit Facility. ~~.....~~
    - Timing: The OIC is scheduled ~~as item~~ for the June 27, 2017 LRC meeting. The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017~~.....~~

7. OPG Indemnity

- OPG (and IESO) are asking for the Province to indemnify the IESO, OPG (the entities) and their respective directors, officers and employee in order to allow them to carry out their roles in implementing the Ontario Fair Hydro Plan and primarily the Global Adjustment refinancing.
- Depending on the structure of the indemnity requested, indemnity would be provided either under section 22 or under section 28 of the *Financial Administration Act.* [CEFD staff are assessing the request.]
- Consideration will need to be given as to how providing an indemnity will be perceived given that the GA refinancing structure is meant to be independent of the Province.
- **Next Steps:**
    - Staff in Ministry of Finance and Treasury Board Secretariat have received initial documents and are currently reviewing.
    - If the Province is to provide the indemnity, section 22(1) of the FAA specifies that an OIC will be required to authorize the Minister of Finance.
    - Upcoming Cabinet date is June 27, 2017, for which documents are past due. Next possible LRC/Cabinet date is scheduled for July 26, 2017.

From:	Montgomery, Kaitlin (MOF)
To:	John Kim; Bruno Amara; Carlos Yep
Subject:	RE: OFHP - Outstanding business issues
Date:	Wednesday, May 31, 2017 10:43:17 AM
Attachments:	2017 05 31 Outstanding Business Issues Ontario Fair Hydro Plan - v02.docx

Hi all – just checking in on comments. ENE DMO is looking for this by noon so if you're able to share any comments shortly I would greatly appreciate it.

This version just includes one more item based on the term sheet OPG shared yesterday but I was unsure about timing on that one.

Please let me know if you have any questions.
Kaitlin

From: Montgomery, Kaitlin (MOF)
Sent: May 30, 2017 11:28 AM
To: Kim, John (OFA); Bruno Amara; Yep, Carlos (OFA)
Subject: OFHP - Outstanding business issues

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   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA and working towards the development of a term sheet
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - The Province would like to minimize to the extent possible , the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers
   - The Province is considering regulation changes to exempt the income arising as a consequence of the Fair Hydro Plan from PILs
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity
   - **Next Steps:**
     - The Ministries of Finance, OFA and OPG are working together to determine required regulation changes
     - Timing: [TBD]

3. **Equity Injection Process**
   - OPG will require equity injections on a monthly basis in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province

- The Ministry of Energy received appropriation for $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT
- **Next Steps:**
    - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
    - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June

4. Management Fees

- OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
- The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations which are currently in development
- OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements
- There are two components to the model proposed by OPG:
    - Cost recovery: the structure will also allow for recovery of costs, subject to OEB's prudence review. OEB and OPG are in discussions in order to develop a model that is consistent with OEB's processes.
    - Performance management fee: OPG has the ability to over-earn or lose depending on its cost of funds for sr. debt relative to a benchmark. Any savings / costs would be shared equally between ratepayers and OPG to +/-$1M. Above or below $1M, all savings / costs flow to ratepayers.
- **Next Steps:**
    - OPG and OEB will bring forward a recommended framework for developing management fees
    - Timing: For incorporation into regulations being brought forward in June

5. Subordinated Debt Loan Agreement

- OPG will lend the equity injection from the Province to the Fair Hydro Trust by way of subordinated debt
- Based on monthly funding requirements of the GA asset, the Trust will use short term financing and take out bonds once short term funding reaches certain levels
- OPG and OFA are working on a Debt Loan Arrangement which would establish the interest rates on the subordinated debt
- **Next Steps:**
    - OPG and OFA will bring forward a recommended framework for determining interest rates
    - Timing: TBD

From: Bruno Amara
To: John Kim
Subject: RE: OFHP - Outstanding business issues
Date: Tuesday, May 30, 2017 1:20:32 PM

I'll ask Salman to add a bullet for the s.28

-----Original Message-----
From: John Kim
Sent: Tuesday, May 30, 2017 1:10 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: OFHP - Outstanding business issues

On this.....wouldn't the s.28 for OPG Board be one of the pending items?

-----Original Message-----
From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Tuesday, May 30, 2017 11:28 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
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Thanks in advance,
Kaitlin

From:	Salman Qadir
To:	John Kim
Subject:	RE: OFHP - Outstanding business issues
Date:	Friday, June 02, 2017 10:23:58 AM

It hasn't' changed much over last year… it's a nice car and its said Mazda is definitely improving their cars… but still a Mazda….

Pilot just has more room ☺

From: John Kim
Sent: Friday, June 02, 2017 10:22 AM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

On a different note, did you see the new Mazda CX-9? They look good.

From: Salman Qadir
Sent: Friday, June 02, 2017 10:21 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Sure. I can start one.

From: John Kim
Sent: Friday, June 02, 2017 10:17 AM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Calling in is fine but do you mind working on the list?

From: Salman Qadir
Sent: Friday, June 02, 2017 10:17 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Hi John,

I am working from home on Monday (have Enbridge coming by at some point during the day), but can call in - np.

Can also do it today?

Salman

From: John Kim
Sent: Friday, June 02, 2017 10:15 AM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Let's have a branch meeting on Monday….I will schedule one and get a list of things that we are working on.

John

From: Salman Qadir
Sent: Friday, June 02, 2017 10:01 AM
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It looks like it also confirms this (to which we had an understanding but no concrete confirmation), re: the IESO credit facility:

The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017

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Hi – just wanted to loop back and provide the final version which also incorporates edits from OPG.

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Date:	Friday, June 02, 2017 10:21:09 AM

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Date:	Friday, June 02, 2017 10:01:12 AM

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This was our wording

- Upcoming Cabinet date is June 27, 2017, for which documents are past due. Next possible LRC/Cabinet date is scheduled for July 26, 2017.

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]

Sent: Thursday, June 01, 2017 1:39 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Hi – just wanted to loop back and provide the final version which also incorporates edits from OPG.

From: Montgomery, Kaitlin (MOF)
Sent: May 31, 2017 10:42 AM
To: Kim, John (OFA); Bruno Amara; Yep, Carlos (OFA)
Subject: RE: OFHP - Outstanding business issues

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This version just includes one more item based on the term sheet OPG shared yesterday but I was unsure about timing on that one.

Please let me know if you have any questions.
Kaitlin

From: Montgomery, Kaitlin (MOF)
Sent: May 30, 2017 11:28 AM
To: Kim, John (OFA); Bruno Amara; Yep, Carlos (OFA)
Subject: OFHP - Outstanding business issues

Hi all,

ENE MO asked for a quick note on 4 of the outstanding business issues that are being worked through and are hoping to see something tomorrow morning.

I've pulled together a high level explanation of each of the items and next steps/timing (to the extent I know).

Would greatly appreciate if you guys could take a look and provide any edits/comments today/early tomorrow if possible. I'm also not too involved in a few of these discussions so if there's others within OFA you think should review feel free to pass along.

Thanks in advance,
Kaitlin

From:	Montgomery, Kaitlin (MOF)
To:	John Kim; Bruno Amara; Carlos Yep
Subject:	RE: OFHP - Outstanding business issues
Date:	Thursday, June 01, 2017 1:39:13 PM
Attachments:	2017 05 31 Outstanding Business Issues Ontario Fair Hydro Plan - v03.docx

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Outstanding Business Issues – Ontario Fair Hydro Plan

Briefing Note

PURPOSE

Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Provincial Support Agreement Term Sheet (Performance and Payment Guarantees)**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA have discussed a draft term sheet and the OFA, MOF and Blakes will work together to provide comments
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July.

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - Provincial staff, with OPG's concurrence, recommends minimizing, to the extent possible, the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers.
   - The Province is considering regulation changes to exempt from PILs the income arising to the OPG financing vehicle / OPG as a consequence of the Fair Hydro Plan.
   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity.
   - **Next Steps:**
     - The MOF, OFA and OPG are working together to determine required regulation changes.
     - Torys prepared a memo on the item
     - Timing: MOF will be setting up a call with tax policy, OPG and Torys to discuss a memo Torys prepared on the item in the next few days

3. **Fair Hydro Plan - Master Subscription Agreement Term Sheet (Equity Injection Process)**
    - OPG will require equity injections on a monthly basis, to match the timing of the purchase of the IESO regulatory asset, as applicable, in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province.
    - The Ministry of Energy received appropriation for a fiscally-neutral operating asset expenditure of $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT.
    - **Next Steps:**
        - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process, which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
        - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June.

4. **Management Fees**
    - OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
    - The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations, which are currently in development.
    - OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements.
    - There are two components to the model proposed by OPG:
        - Base fee: the structure will allow OPG to earn a commercial fee, an accounting consolidation requirement, with periodic OEB review of the commercial basis of that fee. OEB and OPG are in discussions in order to develop a model that satisfies the accounting requirements and is consistent with OEB's processes.
        - Performance management fee: OPG has the ability to gain or lose depending on the actual financing cost relative to a benchmark, which would be shared equally between ratepayers and OPG. Gain/loss is capped at 1% of annual incremental issuance amount.
    - **Next Steps:**
        - OPG and OEB will bring forward a recommended framework for developing management fees.
        - Timing: TBD

5. **Subordinated Debt Loan Agreement**
    - OPG will lend the equity injection from the Province to the Fair Hydro Trust by way of subordinated debt

- Based on monthly funding requirements of the GA asset, the Trust will use short term financing and take out bonds once short term funding reaches certain levels
- OPG and OFA are working on a Debt Loan Arrangement that would establish the interest rates on the subordinated debt
- **Next Steps:**
    - OPG and OFA will bring forward a recommended framework for determining interest rates
    - Timing: TBD

6. IESO – Increased OFA Credit Facilities

- THE OPG financing entity is not expected to be immediately operational, so the IESO will need to have transitional financing in place to manage the difference in the payments to generators and other service providers vs payments from loads / LDCs.
- There may also be on-going monthly cash flow timing differences that the IESO will need a credit facility for.
- In addition, the OPG financing entity has the right to purchase the regulatory asset from IESO but is not required to purchase it.
- IESO is working with the OFA to increase the credit facilities in the event that the OPG financing entity does not purchase the regulatory asset
- **Next Steps:**
    - OFA is drafting a new agreement for a $2 billion credit facility for the OFA to lend funds to IESO for FHP purposes. Concurrently, the OFA is seeking the Minister's approval for an LRC submission to approve an OIC for an additional $2 billion in borrowing capacity, as well as a Directive from the Minister of Finance, which are both necessary for the OFA to lend funds to IESO under the requested new Credit Facility.
    - Timing: The OIC is scheduled for the June 27, 2017 LRC meeting. The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017

7. OPG Indemnity

- OPG (and IESO) are asking for the Province to indemnify the IESO, OPG (the entities) and their respective directors, officers and employee in order to allow them to carry out their roles in implementing the Ontario Fair Hydro Plan and primarily the Global Adjustment refinancing.
- Indemnification will need to ensure separation between the Province and OPG is maintained
- **Next Steps:**

- Staff in Ministry of Finance and Treasury Board Secretariat have received initial documents and are currently reviewing.
- Depending on the structure of the indemnity requested, an OIC may be required to provide authority to the Minister of Finance
- Timing: If an OIC is required this would be included in the June 27th, 2017 submission

From:	Ronald Kwan
To:	John Kim
Cc:	Gavin He; Bruno Amara
Subject:	RE: OFHP - Outstanding business issues
Date:	Wednesday, May 31, 2017 1:34:14 PM

Just-in-time delivery.

Ron

From: John Kim
Sent: May-31-17 13:32
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Looks good to me. I think you meant that TPD has seen it per Scott's email to you and Sriram.

John

From: Ronald Kwan
Sent: Wednesday, May 31, 2017 1:30 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

How about this?

Ron

From: Ronald Kwan
Sent: May-31-17 13:28
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Hi,

You might want to adjust the PILs one.

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Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>

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Thanks Ron.

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To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Hi John,

Some suggestions, queries.

Ron

From: John Kim
Sent: May-31-17 12:03
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: OFHP - Outstanding business issues

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Pls. see attached. Not perfect but CMD staff added some sections as well.

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From: John Kim
Sent: Wednesday, May 31, 2017 11:55 AM
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On a second thought, I know that Scott asked Ron for comments. Given that, might be best it goes through that channel?

I can share the material with Ron shortly.

John

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Subject: RE: OFHP - Outstanding business issues

Should be sending you shortly.

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 31, 2017 10:42 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
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From:	John Kim
To:	"Montgomery, Kaitlin (MOF)"
Cc:	Bruno Amara
Subject:	RE: OFHP - Outstanding business issues
Date:	Wednesday, May 31, 2017 1:32:01 PM
Attachments:	2017 05 31 Outstanding Business Issues Ontario Fair Hydro Plan - v02_Markup4.docx

---

Not sure if Ron sent it back but here it is.

John

-----Original Message-----
From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 31, 2017 12:03 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: Re: OFHP - Outstanding business issues

Sounds good

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: John Kim
Sent: Wednesday, May 31, 2017 11:54 AM
To: Montgomery, Kaitlin (MOF)
Cc: Bruno Amara
Subject: RE: OFHP - Outstanding business issues

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This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

Outstanding Business Issues – Ontario Fair Hydro Plan
Briefing Note

PURPOSE
Provide an overview of a few of the key remaining outstanding business issues that OPG and the Province are working through

BUSINESS ISSUES

1. **Provincial Support Agreement Term Sheet (~~Service and~~ Performance and Payment Guarantees)**
   - As part of the OFHP, the IESO will create and sell a regulatory asset to the OPG financing entity
   - In order to provide assurances to those with claims against the Financing Entity (eg. Holders of debt), and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of the IESO are carried out including obligations related to collecting and remitting clean energy adjustments.
   - **Next Steps:**
     - OPG and OFA ~~and~~are working towards the development of a term sheet
     - Timing: Guarantees are required to support rating agency review which is expected by the end of July.

2. **Payments in Lieu of Taxes (PILs) Exemption**
   - The Province would like to minimize, to the extent possible~~,~~, the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers.
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   - As part of the OFHP, the financing entity will raise debt and acquire "investment assets" from the IESO. Given the unique nature of the investment assets, there are no specific rules which govern the manner which investment assets should be treated for tax purposes, and further analysis is required to ensure the cost of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity.
   - **Next Steps:**
     - The Ministr~~ies~~y of Finance, OFA and OPG are working together to determine required regulation changes.
     - Timing: [Next steps for a decision / when is a decision required / when would these regulation changes occur]

3. **Fair Hydro Plan - Master Subscription Agreement Term Sheet (Equity Injection Process)**

Commented [RK1]: Is this an "approved" position? Potential alternative wording: "Provincial staff, with OPG's concurrence, recommend minimizing, to the extent possible,....

- OPG will require equity injections on a monthly basis, to match the timing of the purchase of the IESO regulatory asset, as applicable, in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province.
- The Ministry of Energy received appropriation for a fiscally-neutral operating asset expenditure of $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT.
- **Next Steps:**
    - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process, which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
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    - OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements.
    - **Next Steps:**
        - OPG and OEB will bring forward a recommended framework for developing management fees.
        - Timing: For incorporation into regulations being brought forward in June

5. **Subordinated Debt Loan Agreement**
    - OPG will lend the equity injection from the Province to the Fair Hydro Trust by way of subordinated debt
    - Based on monthly funding requirements of the GA asset, the Trust will use short term financing and take out bonds once short term funding reaches certain levels
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- **Next Steps:**
    - OFA is drafting a new agreement for a $2 billion credit facility for the OFA to lend funds to IESO for FHP purposes. Concurrently, the OFA is seeking the Minister's approval for an LRC submission to approv~~al~~e an OIC for an ~~new~~additional $2 billion ~~OIC~~in borrowing capacity, as well as a Directive from the Minister of Finance, which are both necessary for the OFA to lend funds to IESO under the requested new Credit Facility. ~~.....~~
    - Timing: The OIC is scheduled ~~as item~~ for the June 27, 2017 LRC meeting. The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017~~.....~~

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- OPG (and IESO) are asking for the Province to indemnify the IESO, OPG (the entities) and their respective directors, officers and employee in order to allow them to carry out their roles in implementing the Ontario Fair Hydro Plan and primarily the Global Adjustment refinancing.
- Depending on the structure of the indemnity requested, indemnity would be provided either under section 22 or under section 28 of the *Financial Administration Act.* [CEFD staff are assessing the request.]
- Consideration will need to be given as to how providing an indemnity will be perceived given that the GA refinancing structure is meant to be independent of the Province.
- **Next Steps:**
    - Staff in Ministry of Finance and Treasury Board Secretariat have received initial documents and are currently reviewing.
    - If the Province is to provide the indemnity, section 22(1) of the FAA specifies that an OIC will be required to authorize the Minister of Finance.
    - Upcoming Cabinet date is June 27, 2017, for which documents are past due. Next possible LRC/Cabinet date is scheduled for July 26, 2017.

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To:	John Kim
Cc:	Gavin He; Bruno Amara
Subject:	RE: OFHP - Outstanding business issues
Date:	Wednesday, May 31, 2017 1:29:37 PM
Attachments:	2017 05 31 Outstanding Business Issues Ontario Fair Hydro Plan - v02_Markup4.docx

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   - **Next Steps:**
     - The Ministr~~ies~~y of Finance, OFA and OPG are working together to determine required regulation changes.
     - Timing: [Next steps for a decision / when is a decision required / when would these regulation changes occur]

3. **Fair Hydro Plan - Master Subscription Agreement Term Sheet (Equity Injection Process)**

Commented [RK1]: Is this an "approved" position? Potential alternative wording: "Provincial staff, with OPG's concurrence, recommend minimizing, to the extent possible,....

- OPG will require equity injections on a monthly basis, to match the timing of the purchase of the IESO regulatory asset, as applicable, in order to maintain its capital structure, and will require flexibility in order to issue shares as needed by the Province.
- The Ministry of Energy received appropriation for a fiscally-neutral operating asset expenditure of $1.1B through PRRT to support equity injections for the 2017-18 period, and will continue to provide multi-year forecasts each year through PRRT.
- **Next Steps:**
    - The Ministry of Energy, OFA and OPG are working through the short term mechanics of this process, which will ultimately feed into a Master Subscription Agreement. A draft term sheet is underway.
    - Timing: OPG will require the ability to issue equity in July, so mechanics and agreements should be finalized in June.

4. **Management Fees**
    - OPG will be providing all required services to the Trust as part of the OFHP, including planning, strategy, financing, deal execution etc.
    - The legislation allows OPG to establish and charge a management fee for those services in accordance with the regulations, which are currently in development.
    - OPG and OEB are currently working together on a management fee structure that balances the interests of minimizing costs and satisfying accounting consolidation requirements.
    - **Next Steps:**
        - OPG and OEB will bring forward a recommended framework for developing management fees.
        - Timing: For incorporation into regulations being brought forward in June

5. **Subordinated Debt Loan Agreement**
    - OPG will lend the equity injection from the Province to the Fair Hydro Trust by way of subordinated debt
    - Based on monthly funding requirements of the GA asset, the Trust will use short term financing and take out bonds once short term funding reaches certain levels
    - OPG and OFA are working on a Debt Loan Arrangement ~~which~~that would establish the interest rates on the subordinated debt
    - **Next Steps:**
        - OPG and OFA will bring forward a recommended framework for determining interest rates
        - Timing: TBD

6. IESO – Increased OFA Credit Facilities

- THE OPG financing entity is not expected to be immediately operational, so the IESO will need to have transitional financing in place to manage the difference in the payments to generators and other service providers vs payments from loads / LDCs.
- There may also be on-going monthly cash flow timing differences that the IESO will need a credit facility for.
- In addition, ~~T~~the OPG financing entity has the right to purchase the regulatory asset from IESO but ~~does~~is not ~~have~~required~~mandated~~ to purchase it.
- IESO is working with the OFA to increase the credit facilities in the event that the OPG financing entity does not purchase the regulatory asset
- **Next Steps:**
    - OFA is drafting a new agreement for a $2 billion credit facility for the OFA to lend funds to IESO for FHP purposes. Concurrently, the OFA is seeking the Minister's approval for an LRC submission to approv~~al~~e an OIC for an ~~new~~additional $2 billion ~~OIC~~in borrowing capacity, as well as a Directive from the Minister of Finance, which are both necessary for the OFA to lend funds to IESO under the requested new Credit Facility. ~~.....~~
    - Timing: The OIC is scheduled ~~as item~~ for the June 27, 2017 LRC meeting. The Directive and Credit Facility Agreement are currently being drafted, to be in place by July 1st, 2017~~.....~~

7. OPG Indemnity

- OPG (and IESO) are asking for the Province to indemnify the IESO, OPG (the entities) and their respective directors, officers and employee in order to allow them to carry out their roles in implementing the Ontario Fair Hydro Plan and primarily the Global Adjustment refinancing.
- Depending on the structure of the indemnity requested, indemnity would be provided either under section 22 or under section 28 of the *Financial Administration Act.* [CEFD staff are assessing the request.]
- Consideration will need to be given as to how providing an indemnity will be perceived given that the GA refinancing structure is meant to be independent of the Province.
- **Next Steps:**
    - Staff in Ministry of Finance and Treasury Board Secretariat have received initial documents and are currently reviewing.
    - If the Province is to provide the indemnity, section 22(1) of the FAA specifies that an OIC will be required to authorize the Minister of Finance.
    - Upcoming Cabinet date is June 27, 2017, for which documents are past due. Next possible LRC/Cabinet date is scheduled for July 26, 2017.

From:	Bruno Amara
To:	John Kim
Cc:	Gavin He; Shajee Kathirgamanathan; Salman Qadir
Subject:	RE: OFHP - Outstanding business issues
Date:	Friday, June 02, 2017 10:30:06 AM

OK, If you're OK I'm OK ☺ I'm mainly concerned about due dates, but we'll proceed.

From: John Kim
Sent: Friday, June 02, 2017 9:58 AM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Yeah, I'm fine with it as they took ownership of the wording. And I am of the view that various areas would try to squeeze in everything for the June 27.

From: Bruno Amara
Sent: Friday, June 02, 2017 9:55 AM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: OFHP - Outstanding business issues

Hi John

Did you notice the wording change on the timing of the OIC regarding OPG indemnity. It now says June 27. Our wording was not committal to the June 27 date, but to . I don't think there is that urgency for this OIC. Per our teleconference earlier this week, there are still internal discussions to be had regarding the Province's position.

This was our wording

- Upcoming Cabinet date is June 27, 2017, for which documents are past due. Next possible LRC/Cabinet date is scheduled for July 26, 2017.

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Thursday, June 01, 2017 1:39 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
Subject: RE: OFHP - Outstanding business issues

Hi – just wanted to loop back and provide the final version which also incorporates edits from OPG.

From: Montgomery, Kaitlin (MOF)
Sent: May 31, 2017 10:42 AM
To: Kim, John (OFA); Bruno Amara; Yep, Carlos (OFA)
Subject: RE: OFHP - Outstanding business issues

Hi all – just checking in on comments. ENE DMO is looking for this by noon so if you're able to share any comments shortly I would greatly appreciate it.

This version just includes one more item based on the term sheet OPG shared yesterday but I was unsure about timing on that one.

Please let me know if you have any questions.
Kaitlin

From: Montgomery, Kaitlin (MOF)
Sent: May 30, 2017 11:28 AM
To: Kim, John (OFA); Bruno Amara; Yep, Carlos (OFA)
Subject: OFHP - Outstanding business issues

Hi all,

ENE MO asked for a quick note on 4 of the outstanding business issues that are being worked through and are hoping to see something tomorrow morning.

I've pulled together a high level explanation of each of the items and next steps/timing (to the extent I know).

Would greatly appreciate if you guys could take a look and provide any edits/comments today/early tomorrow if possible. I'm also not too involved in a few of these discussions so if there's others within OFA you think should review feel free to pass along.

Thanks in advance,
Kaitlin

From:	Montgomery, Kaitlin (MOF)
To:	John Kim
Subject:	RE: OFHP Placemat/definitions
Date:	Wednesday, May 03, 2017 12:50:45 PM
Attachments:	2017 05 03 OFHP Summary v05.pptx

Here's the revised version with Rons edits…not sure if you'll get a chance to review or not this afternoon but if you do, just wanted to make sure you had the latest.

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 3, 2017 11:24 AM
To: Montgomery, Kaitlin (MOF)
Subject: RE: OFHP Placemat/definitions

That's the 8% equal to the provincial portion of the HST…

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 03, 2017 11:20 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP Placemat/definitions

Thanks john - No worries – but what does the acronym OREC stand for?

From: John Kim [mailto:John.Kim@ofina.on.ca]
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To: Montgomery, Kaitlin (MOF)
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Sent: May 3, 2017 2:38 AM
To: Nelms, Scott (MOF); Kennedy, Nancy (MOF); Mayman, Gadi (OFA)

Cc: Skoberne, Vivienne (MOF); Montgomery, Kaitlin (MOF)
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Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
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Hi Nancy, Ron, Gadi,

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Thanks,

Scott

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Ontario's Fair Hydro Plan

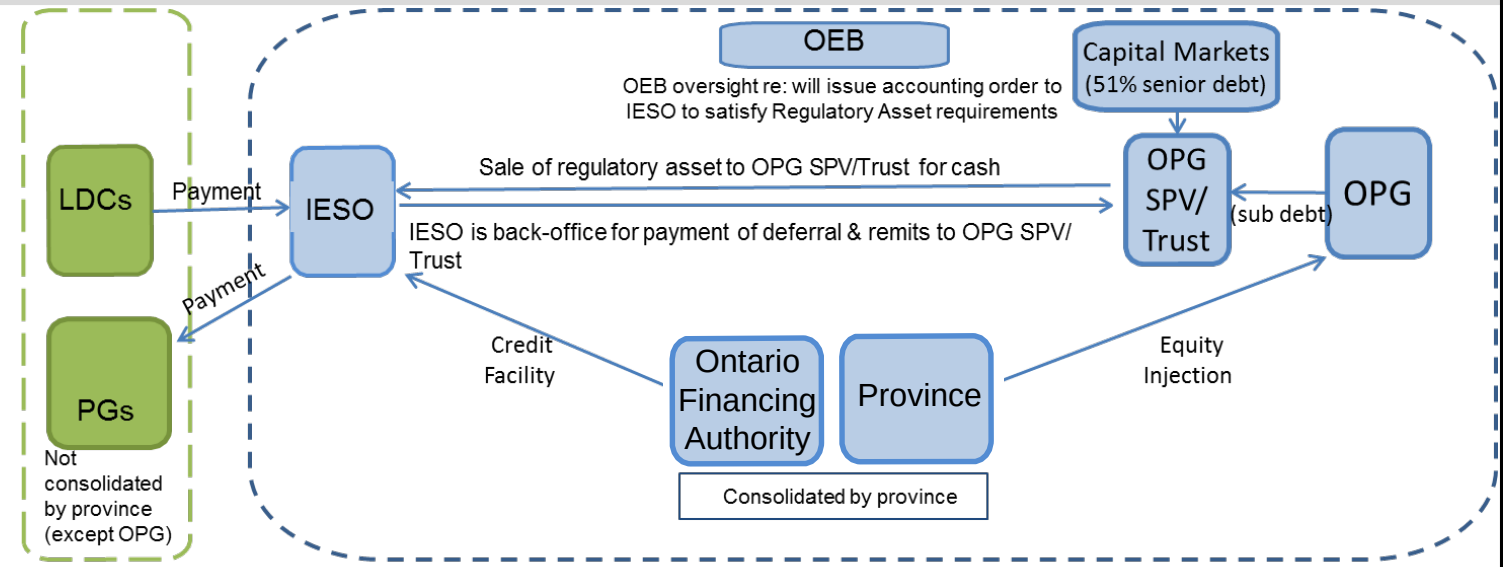
Context

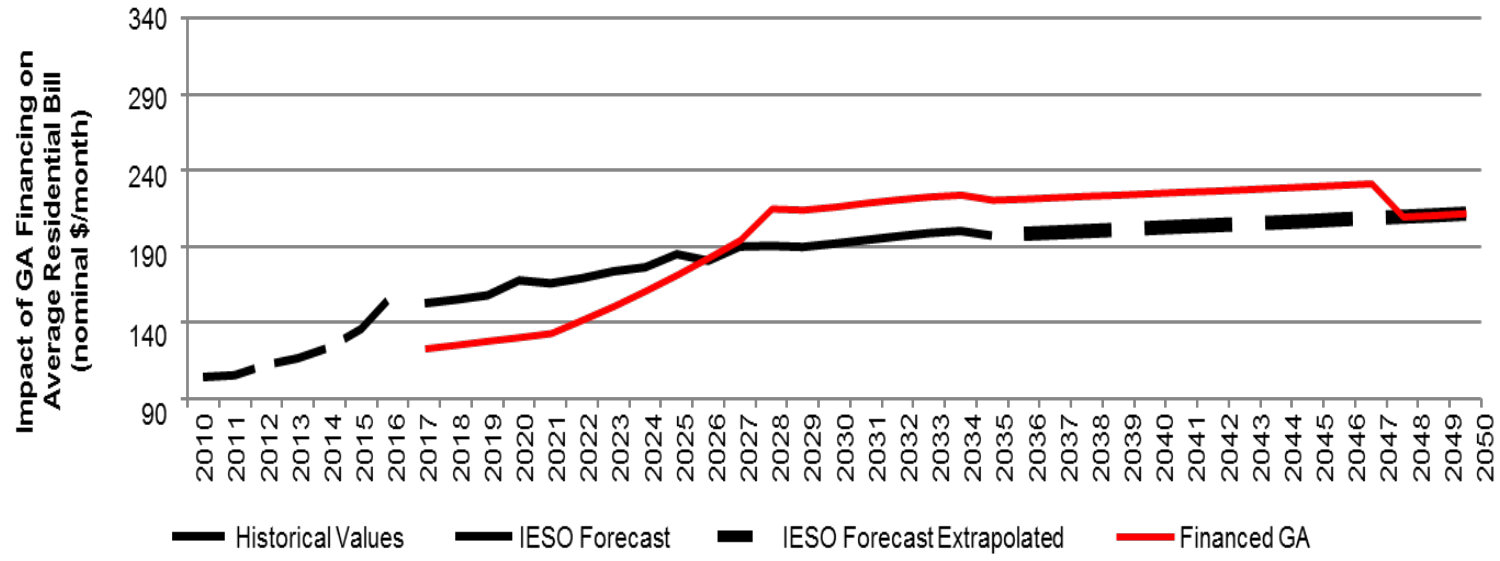
- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. Up to 500,000 small businesses and farms would also benefit.
- Any rate increases for typical residential consumers over the next four years would be held to inflation
- To implement the OFHP, ENERGY has prepared legislation (Ontario Fair Hydro Plan Act) in close collaboration with the OEB, Independent Electricity System Operator (IESO), Ontario Power Generation (OPG), partner ministries (TBS, MOF and MAG), external advisors.

OFHP Act Overview

- The Legislation balances ratepayer interests, accounting objectives, market expectations and legal considerations
- Built around core principle that costs incurred to move to a clean, reliable system creates benefits across generations, and costs that should be spread more fairly. Pre-defined terms (see definitions) form the building blocks for this structure
- Roles and responsibilities are established in legislation:
  - Minister of Energy: sets Fair Allocation Amounts for all periods, at the beginning of the plan
  - OPG: Financial Services Manager, sets the Financing Plan, establishes financing entities, purchases assets from IESO, and will drive invoice amounts to customers
  - IESO: creates funding shortfall / regulatory asset, sells to OPG, acts as agent to collect from ratepayers and fund initial interest costs
  - OEB: sets customer rates, establishes regulatory asset for IESO, reviews OPG's admin. costs
- Large part of legislation designed to ensure the financeability of the program
- Key considerations
  - Legislation sets the first Fair Allocation Adjustment and end date of 2047; amounts for intervening years set in regulation
  - Several Provincial guarantees to be negotiated to enable financing without imposing undue cost / risk on Province
  - Province's role constrained once the program underway (e.g. cannot remove OPG as financial services manager)
  - Modelling underway to ensure principle of cost / benefit alignment underlying the program is justifiable
  - Energy has received approval to provide monthly equity injections to OPG to fund sub-debt (see diagram)
  - OFA working with IESO to provide an additional credit facility (see diagram)

GA Financing Overview





	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly residential bill w GA financing impact and tax *($/month)*	104	105	112	116	124	136	158	123	126	128	131	133	142	151	161	172	183	195	215	214	216	219	221	223	224	221	222	222	223	224	225	226	227	228	229	230	230	231	210
Year-over-year change in bill *(%)*	-	1.0	6.7	3.9	6.1	9.8	16.7	-22.1	2.0	2.0	2.0	2.0	6.5	6.5	6.5	6.5	6.5	6.5	10.5	-0.4	0.9	1.2	1.0	0.8	0.6	-1.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-9.3
Impact of GA financing pre-tax *($/month)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-26.1	-26.1	-26.2	-32.8	-28.7	-23.9	-19.9	-13.5	-11.8	2.0	4.2	21.8	21.8	21.7	21.7	21.5	21.4	21.3	21.0	20.9	20.8	20.7	20.6	20.5	20.4	20.4	20.3	20.2	20.1	20.0	19.9	0.0
Total Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	5.1	7.9	11.4	14.6	17.8	20.8	23.2	25.6	26.7	27.7	26.8	26.0	25.1	24.1	23.1	22.0	20.9	19.7	18.5	17.2	15.9	14.4	12.9	11.3	9.7	7.9	6.1	4.2	2.1	0.0	0.0
Total Change in Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.6	2.8	3.5	3.2	3.2	2.9	2.4	2.4	1.1	0.9	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Ontario's Fair Hydro Plan (cont'd)

Electricity Support to Help the Most Vulnerable

Rural / Remote Electricity Rate Protection	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	344	472	484	497
Overview	Expand the existing program and harmonize distribution rates for customers in the top 1/8 of distribution rate classes, and shifting costs to the tax base				
Updates	Amend S. 79 of OEBA to provide through regulation classes of customer costs to be shifted to tax base, and create distribution rate protection program to complement RRRP				
Next Steps	Amend regulation to prescribe H1's R2 customers as receiving RRRP & prescribe by regulation program details/customers eligible for broadened distribution rate protection				

Ontario Electricity Support Program	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	140	261	325	375
Overview	Improve the existing program to enhance benefits and increase uptake through streamlined applications and expanded eligibility to include additional households				
Updates	Shift program funding to tax base and authority to allow data sharing between OEB/MCSS to support participation of Ontario Works/Ontario Disability and Support Program clients				
Next Steps	Move to tax base once variance account depleted (exp. fall 2017), with legislation to be proclaimed via OIC at that time to ensure OEB authorities while ratepayer funding is used				

On-Reserve First Nations Delivery Credit	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	15	20	20	20
Overview	Establish a credit to remove delivery charges for 21,500 on-reserve First Nations residential customers				
Updates	Establish authority to create delivery credit and provide for tax-based funding				
Next Steps	Regulatory amendments with details - class of customers eligible, determine what is considered on-reserve and determine the method of calculating the delivery credit				

Affordability Fund	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	100		Up to 100 additional		
Overview	Fund has been established through local distribution companies to help consumers in need to make energy efficiency improvements				
Updates	Advisory committee established and has recommended reps. from Hydro One, Alectra and Thunder Bay Hydro to act as trustees; 2 social services trustees to be selected soon				
Next Steps	Report back to TB/MBC in June 2017 with final program details and a performance management framework; LDCs begin to apply to the Trust for funds in summer 2017				

Other Elements / Considerations

- *Revised cost forecast for 8% rebate:* Key measures announced in OFHP are expected to reduce the cost of the 8% rebate for the Province as the total cost of electricity paid by eligible customers, upon which the rebate is based, will be reduced. The revisions are as follows compared with estimates in August 26, 2016*:

	2017-2018	2018-2019	2019-2020	2020-2021
ENERGY Estimate (August 26, 2016) ($ million)	1,006	1,004	944	n/a
ENERGY Revised Estimate (March 15, 2017) ($ million)	939	882	882	895
Change: March 15, 2017 vs August 26, 2016	*-7%*	*-12%*	*-7%*	*n/a*

***NOTE:** The estimates are subject to variances as result of uncertainties in demand, natural gas prices and other factors. These uncertainties also impact the variance account for the Regulated Price Plan (RPP).

- *Industrial Conservation Initiative:* Program expanded to include greenhouses. Energy working with CME and OCC on outreach campaigns on benefits of ICI and other conservation initiatives
- *Bill Presentment:* Targeting a re-design of the bill for Fall 2017. For the interim period the Ministry plans to include bill inserts describing the program
- *Auditor General (AG) / Financial Accountability Officer (FAO):* The Ministry has met with both offices and is circulating information in response to follow up requests. The AG also engaged with IESO through its IT value-for-money audit

From:	Montgomery, Kaitlin (MOF)
To:	John Kim
Subject:	RE: OFHP Placemat/definitions
Date:	Wednesday, May 03, 2017 11:25:04 AM

Ohh…ok.thx

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Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Subject: OFHP Placemat/definitions

Hi Nancy, Ron, Gadi,

Attached is an early cut at products we thought may be helpful as guides for the Fair Hydro plan. We have developed a two page overview placemat that follows Brandon's format. We also have a 1-pager with definitions that help to decode language in the OFHP legislation.

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Thanks,
Scott

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From:	Ronald Kwan
To:	John Kim; Emily Kerr; Bruno Amara
Cc:	Deena Padamadan
Subject:	RE: OFHP Placemat/definitions
Date:	Wednesday, May 03, 2017 10:33:59 AM

Hi John,

Let's track that down. If an OIC is needed, we may want to get that into the Energy report back and Minute.

Ron

From: John Kim
Sent: May-03-17 10:33
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
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Along the line of your second comment, we're still looking into it but Salman had pointed out that the $975M facility to IESO is done in the name of OFA with OIC, etc. So your comment on separating the OFA and the Province bubble is a good one. I don't fully know the details but my understanding is that the OIC loans have limits. In a spreadsheet I saw, it has approved amounts and drawn or used portions to each. The key distinction, I understand, being that sometimes lending is done by the OFA and sometimes by the Province.

Bruno also had comments and minor edits earlier this morning.

John

From: Ronald Kwan
Sent: Wednesday, May 03, 2017 9:48 AM
To: John Kim <John.Kim@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: FW: OFHP Placemat/definitions

Hi,

FYI.

Further comments to Scott?

Ron

From: Ronald Kwan
Sent: May-03-17 02:38
To: Scott Nelms (ENERGY) <Scott.Nelms@ontario.ca>; Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
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From:	John Kim
To:	Ronald Kwan; Emily Kerr; Bruno Amara
Cc:	Deena Padamadan
Subject:	RE: OFHP Placemat/definitions
Date:	Wednesday, May 03, 2017 10:32:32 AM
Attachments:	2017 05 02 OFHP Summary v03 1.pptx.msg

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Scott

From: Bruno Amara []
To: John Kim [John.Kim@ofina.on.ca]
Subject: 2017 05 02 OFHP Summary v03 1.pptx
Date: Wednesday, May 03, 2017 09:07:01
Attachment 1: 2017 05 02 OFHP Summary v03 1.pptx

Minor suggested edits in attached

And w.r.t. to the chart and label for arrows going to and from Trust and IESO. Wondering if it's simplifying too much if these were just labelled "cash" (top arrow) and "regulatory asset" (bottom arrow)

Or

top arrow one could change wording around to match the arrow

"OPG SPV/Trust cash purchase of regulatory asset from IESO" rather than "Sale of regulatory asset to OPG SPV/Trust for cash"

bottom arrow

Is wording on arrow below explaining too much?. I.e., is it also explaining the payment from IESO to PGs.

Or

Just leave as is

Ontario's Fair Hydro Plan

Context

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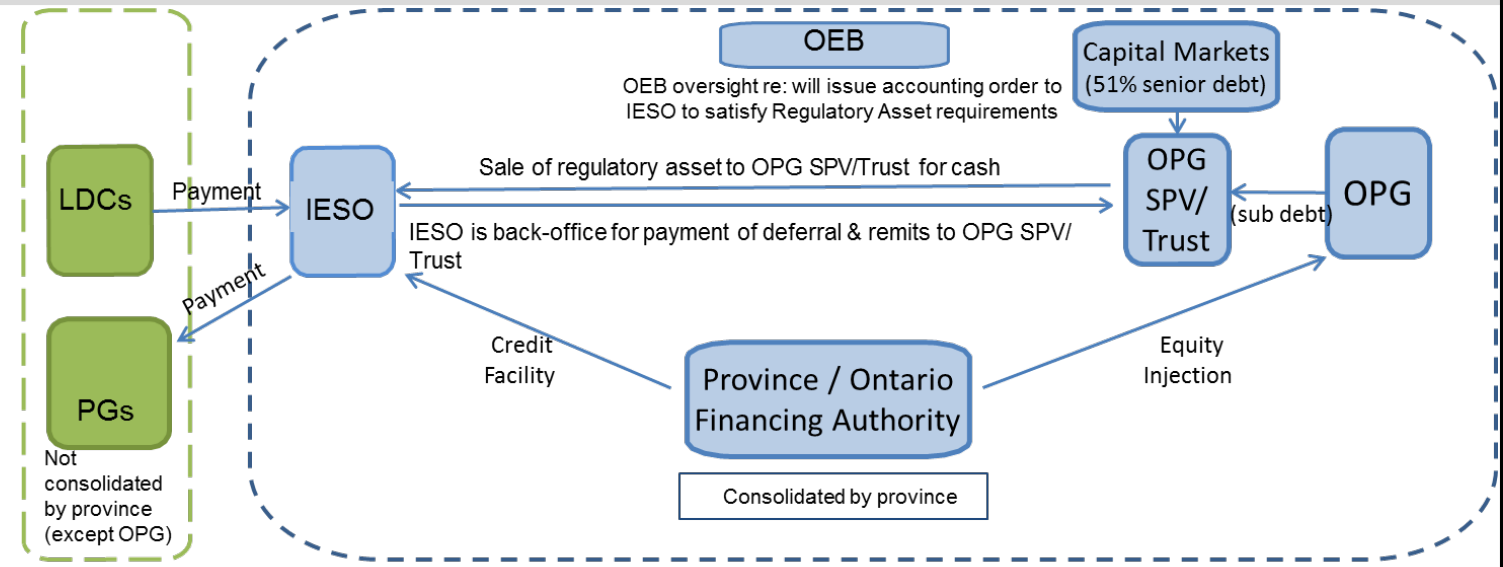

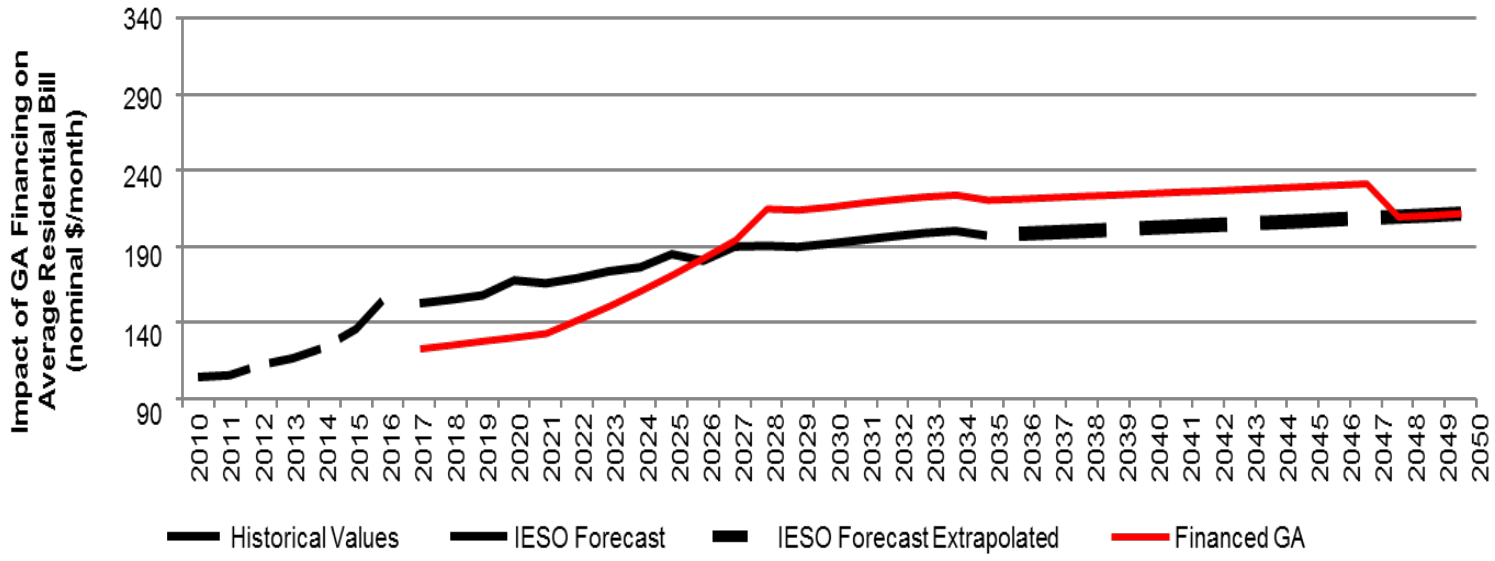

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly residential bill w GA financing impact and tax *($/month)*	104	105	112	116	124	136	158	123	126	128	131	133	142	151	161	172	183	195	215	214	216	219	221	223	224	221	222	222	223	224	225	226	227	228	229	230	230	231	210
Year-over-year change in bill *(%)*	-	1.0	6.7	3.9	6.1	9.8	16.7	-22.1	2.0	2.0	2.0	2.0	6.5	6.5	6.5	6.5	6.5	6.5	10.5	-0.4	0.9	1.2	1.0	0.8	0.6	-1.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-9.3
Impact of GA financing pre-tax *($/month)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-26.1	-26.1	-26.2	-32.8	-28.7	-23.9	-19.9	-13.5	-11.8	2.0	4.2	21.8	21.8	21.7	21.7	21.5	21.4	21.3	21.0	20.9	20.8	20.7	20.6	20.5	20.4	20.4	20.3	20.2	20.1	20.0	19.9	0.0
Total Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	5.1	7.9	11.4	14.6	17.8	20.8	23.2	25.6	26.7	27.7	26.8	26.0	25.1	24.1	23.1	22.0	20.9	19.7	18.5	17.2	15.9	14.4	12.9	11.3	9.7	7.9	6.1	4.2	2.1	0.0	0.0
Total Change in Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.6	2.8	3.5	3.2	3.2	2.9	2.4	2.4	1.1	0.9	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Ontario's Fair Hydro Plan (cont'd)

Electricity Support to Help the Most Vulnerable

Rural / Remote Electricity Rate Protection	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	0	454	450	446
Overview	Expand the existing program and harmonize distribution rates for customers in the top 1/8 of distribution rate classes, and shifting costs to the tax base			
Updates	Amend S. 79 of OEBA to provide through regulation classes of customer costs to be shifted to tax base, and create distribution rate protection program to complement RRRP			
Next Steps	Amend regulation to prescribe H1's R2 customers as receiving RRRP & prescribe by regulation program details/customers eligible for broadened distribution rate protection			

Ontario Electricity Support Program	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	0	178	239	290
Overview	Improve the existing program to enhance benefits and increase uptake through streamlined applications and expanded eligibility to include additional households			
Updates	Shift program funding to tax base and authority to allow data sharing between OEB/MCSS to support participation of Ontario Works/Ontario Disability and Support Program clients			
Next Steps	Move to tax base once variance account depleted (exp. fall 2017), with legislation to be proclaimed via OIC at that time to ensure OEB authorities while ratepayer funding is used			

On-Reserve First Nations Delivery Credit	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	0	20	20	20
Overview	Establish a credit to remove delivery charges for 21,500 on-reserve First Nations residential customers			
Updates	Establish authority to create delivery credit and provide for tax-based funding			
Next Steps	Regulatory amendments with details - class of customers eligible, determine what is considered on-reserve and determine the method of calculating the delivery credit			

Affordability Fund	2016-17	2017-18	2018-19	2019-20
Fiscal Impact ($ Millions)	100	Up to 100 additional		
Overview	Fund has been established through local distribution companies to help consumers in need to make energy efficiency improvements			
Updates	Advisory committee established and has recommended reps. from Hydro One, Alectra and Thunder Bay Hydro to act as trustees; 2 social services trustees to be selected soon			
Next Steps	Report back to TB/MBC in June 2017 with final program details and a performance management framework; LDCs begin to apply to the Trust for funds in summer 2017			

Other Elements / Considerations

- Industrial Conservation Initiative: Program expanded to include greenhouses. Energy working with CME and OCC on outreach campaigns on benefits of ICI and other conservation initiatives
- Bill Presentment: Targeting a re-design of the bill for Fall 2017. For the interim period the Ministry plans to include bill inserts describing the program
- Auditor General (AG) / Financial Accountability Officer (FAO): The Ministry has met with both offices and is circulating information in response to follow up requests. The AG also engaged with IESO through its IT value-for-money audit

From:	Ronald Kwan
To:	John Kim
Cc:	Deena Padamadan; Bruno Amara
Subject:	RE: OFHP Placemat/definitions
Date:	Wednesday, May 03, 2017 5:20:48 PM
Attachments:	2017 05 03 OFHP Summary v05_Markup.pptx

Hi John,

A few suggestions.

Ron

From: John Kim
Sent: May-03-17 16:56
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: OFHP Placemat/definitions

Sorry, I thought you had it as it….

John

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 03, 2017 12:50 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP Placemat/definitions

Here's the revised version with Rons edits…not sure if you'll get a chance to review or not this afternoon but if you do, just wanted to make sure you had the latest.

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 3, 2017 11:24 AM
To: Montgomery, Kaitlin (MOF)
Subject: RE: OFHP Placemat/definitions

That's the 8% equal to the provincial portion of the HST…

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 03, 2017 11:20 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: OFHP Placemat/definitions

Thanks john - No worries – but what does the acronym OREC stand for?

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 3, 2017 11:19 AM
To: Montgomery, Kaitlin (MOF)
Subject: RE: OFHP Placemat/definitions

Hi Kaitlin,

I've been so swamped so haven't gone through Ron's comments yet but I think he's referring to OREC estimates coming down due to FHP-related prorams.

Let me know if more is needed but I will be taking a look this afternoon…

John

From: Montgomery, Kaitlin (MOF) [mailto:Kaitlin.Montgomery@ontario.ca]
Sent: Wednesday, May 03, 2017 11:01 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: OFHP Placemat/definitions

Hoping you can help me with something…any idea what Ron is referring to highlighted below? What is OREC?

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: May 3, 2017 2:38 AM
To: Nelms, Scott (MOF); Kennedy, Nancy (MOF); Mayman, Gadi (OFA)
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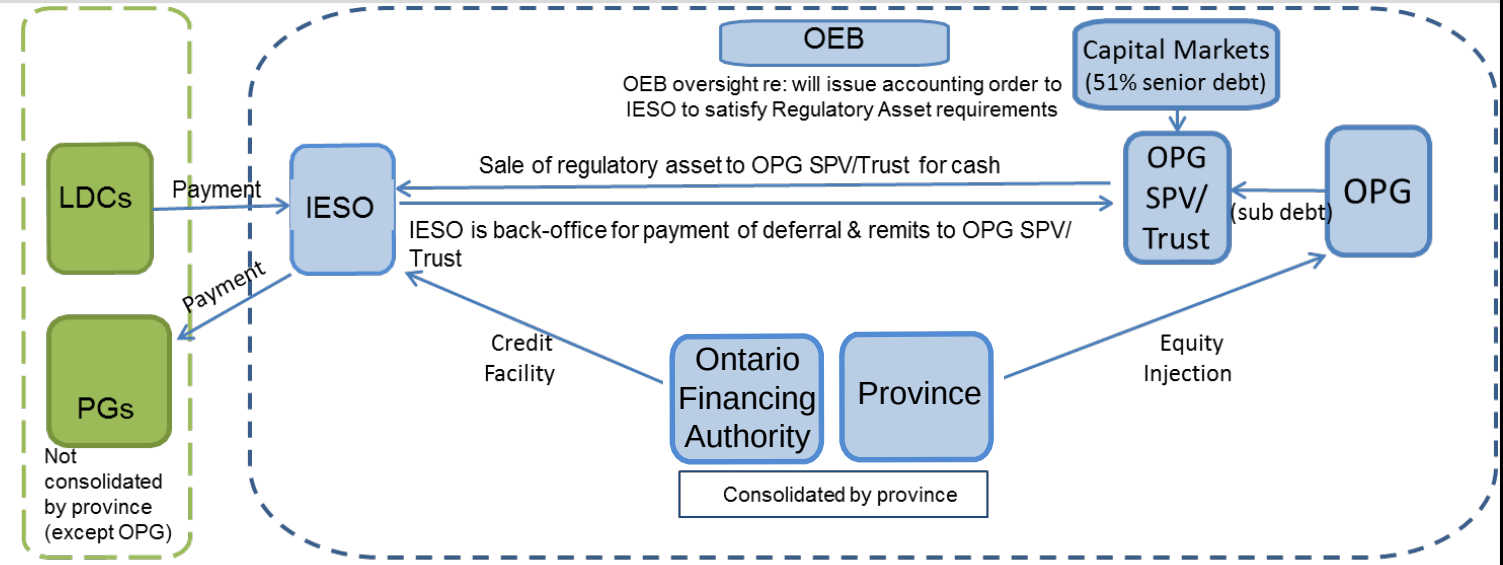

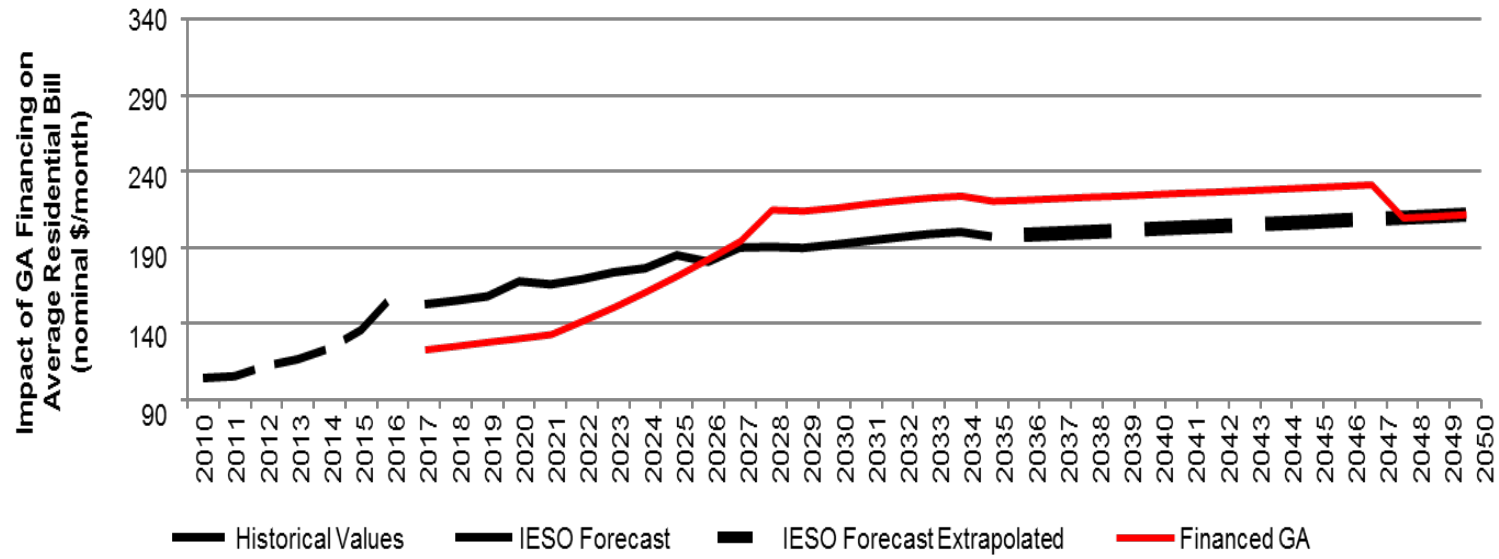

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average monthly residential bill w GA financing impact and tax *($/month)*	104	105	112	116	124	136	158	123	126	128	131	133	142	151	161	172	183	195	215	214	216	219	221	223	224	221	222	222	223	224	225	226	227	228	229	230	230	231	210
Year-over-year change in bill *(%)*	-	1.0	6.7	3.9	6.1	9.8	16.7	-22.1	2.0	2.0	2.0	2.0	6.5	6.5	6.5	6.5	6.5	6.5	10.5	-0.4	0.9	1.2	1.0	0.8	0.6	-1.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-9.3
Impact of GA financing pre-tax *($/month)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-26.1	-26.1	-26.2	-32.8	-28.7	-23.9	-19.9	-13.5	-11.8	2.0	4.2	21.8	21.8	21.7	21.7	21.5	21.4	21.3	21.0	20.9	20.8	20.7	20.6	20.5	20.4	20.4	20.3	20.2	20.1	20.0	19.9	0.0
Total Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	5.1	7.9	11.4	14.6	17.8	20.8	23.2	25.6	26.7	27.7	26.8	26.0	25.1	24.1	23.1	22.0	20.9	19.7	18.5	17.2	15.9	14.4	12.9	11.3	9.7	7.9	6.1	4.2	2.1	0.0	0.0
Total Change in Accumulated Debt *($ billion)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.6	2.8	3.5	3.2	3.2	2.9	2.4	2.4	1.1	0.9	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.8	-1.9	-2.0	-2.1	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at around 10% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

Actual financing cost may differ from illustrative 5% assumed, which would affect annual interest cost and accumulated debt each year and over time

Ontario's Fair Hydro Plan (cont'd)

Electricity Support to Help the Most Vulnerable

Rural / Remote Electricity Rate Protection	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	344	472	484	497
Overview	Expand the existing program and harmonize distribution rates for customers in the top 1/8 of distribution rate classes, and shifting costs to the tax base				
Updates	Amend S. 79 of OEBA to provide through regulation classes of customer costs to be shifted to tax base, and create distribution rate protection program to complement RRRP				
Next Steps	Amend regulation to prescribe H1's R2 customers as receiving RRRP & prescribe by regulation program details/customers eligible for broadened distribution rate protection				

Ontario Electricity Support Program	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	140	261	325	375
Overview	Improve the existing program to enhance benefits and increase uptake through streamlined applications and expanded eligibility to include additional households				
Updates	Shift program funding to tax base and authority to allow data sharing between OEB/MCSS to support participation of Ontario Works/Ontario Disability and Support Program clients				
Next Steps	Move to tax base once variance account depleted (exp. fall 2017), with legislation to be proclaimed via OIC at that time to ensure OEB authorities while ratepayer funding is used				

On-Reserve First Nations Delivery Credit	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	0	15	20	20	20
Overview	Establish a credit to remove delivery charges for 21,500 on-reserve First Nations residential customers				
Updates	Establish authority to create delivery credit and provide for tax-based funding				
Next Steps	Regulatory amendments with details - class of customers eligible, determine what is considered on-reserve and determine the method of calculating the delivery credit				

Affordability Fund	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal Impact ($ Millions)	100		Up to 100 additional		
Overview	Fund has been established through local distribution companies to help consumers in need to make energy efficiency improvements				
Updates	Advisory committee established and has recommended reps. from Hydro One, Alectra and Thunder Bay Hydro to act as trustees; 2 social services trustees to be selected soon				
Next Steps	Report back to TB/MBC in June 2017 with final program details and a performance management framework; LDCs begin to apply to the Trust for funds in summer 2017				

Other Elements / Considerations

- *Revised cost forecast for "Ontario Rebate for Electricity Consumers" for amount equivalent to 8% provincial portion of HST:* Key measures announced in OFHP are expected to reduce the cost of the rebate for the Province as the total cost of electricity paid by eligible customers, upon which the rebate is based, will be reduced. The revisions are as follows compared with estimates in September 8, 2016*:

	2017-2018	2018-2019	2019-2020	2020-2021
ENERGY Estimate (Sept 8, 2016) ($ million)	1,119	1,086	1,171	n/a
ENERGY Revised Estimate (March 15, 2017) ($ million)	939	882	882	895
Change: March 15, 2017 vs Sept 8, 2016	*-16%*	*-19%*	*-25%*	*n/a*

***NOTE:** The estimates are subject to variances as result of uncertainties in demand, natural gas prices and other factors. These uncertainties also impact the variance account for the Regulated Price Plan (RPP).

- *Industrial Conservation Initiative:* Under the FHP, the program was expanded for manufacturing sectors, plus greenhouses, to a lower threshold, down to 500 kilowatts (vs 1 MW for other consumers). Energy working with CME and OCC on outreach campaigns on benefits of ICI and other conservation initiatives
- *Bill Presentment:* Targeting a re-design of the bill for Fall 2017. For the interim period the Ministry plans to include bill inserts describing the program
- *Auditor General (AG) / Financial Accountability Officer (FAO):* The Ministry has met with both offices and is circulating information in response to follow up requests. The AG also engaged with IESO through its IT value-for-money audit

From:	Ronald Kwan
To:	Gavin He
Cc:	John Kim; Bruno Amara; Shajee Kathirgamanathan; Salman Qadir
Subject:	RE: OIC s22 CIPA - OFA-IESO - LRC package
Date:	Tuesday, May 30, 2017 4:40:36 PM
Attachments:	1 - CIPA - OIC s22 - OFA_FHP - LRC_MinistryApprovalForm v6_Markup_RK.doc 4 - CIPA OIC s.22 May 2017 (v.2) - ENG and FRE_Markup.docx

Hi,

I started a markup.

Ron

From: Gavin He
Sent: May-30-17 11:19
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: OIC s22 CIPA - OFA-IESO - LRC package

Hi Ron,

Please find attached the LRC package for an OIC authorizing the Minister of Finance to lend to the OFA. In order for the OFA to lend to the IESO as part of the proposed Fair Hydro Plan Act, the OFA borrows from the Province (Minister of Finance). The OIC is being obtained under section 22 of the Capital Investment Plan Act.

The package is getting sign-off from MOF legal at the moment, and it's aiming to get yours and Gadi's sign off today in order to get this to DMO to make sure this will be on June 27th LRC date. MOF legal has already reviewed the package, so I do not expect any further changes from them. I will provide you the hard copy of the package once Legal signed off on that.

The documents are also saved here:
Z:\Users\CEF\Hydro 2017\IESO\Financing\IESO-OFA - FHP Line of Credit\LRC Draft Package

Thanks,
Gavin He

LEGISLATION AND REGULATIONS COMMITTEE:
MINISTRY APPROVAL FORM

LRC Tracking #: OICNA-13188
EVista Tracking #: SUB-NAOIC-2017-01004

Ministry of Finance

Capital Investment Plan Act

Order in Council

Profile at a Glance

Priority: Consequential to Commitment
Public Interest: Low
Key Stakeholder Interest: Very high
New Costs/Burdens: Yes for Government
New Savings/Opportunities: Yes for Government

Proposed Items for Review

1. Approval of Order in Council ("OIC") under section 22 of the *Capital Investment Plan Act, 1993 ("CIPA"),* authorizing the Minister of Finance to make a loan to the Ontario Financing Authority ("OFA").

Approvals required prior to LRC

	Committee and date	Cabinet Date
Policy		
TB/MBC	LRC, June 27, 2017	June 27, 2017

Deputy Minister _____ Date _____

Minister _____ Date _____

s. 1 Proposal and Context

- Approval is being sought for an OIC under section 22 of *Capital Investment Plan Act, 1993* ("CIPA"), which will authorize the Minister of Finance to provide loan(s) to the Ontario Financing Authority ("OFA") in an amount of up to $3.5 billion. Under the proposed OIC, loan(s) could be advanced during the period between the effective date of the OIC and June 30, 2053.

- Subsection 22(1) of CIPA authorizes the Minister of Finance to make loans to the OFA in the amounts, times and on the terms and conditions authorized by Lieutenant Governor in Council ("LGIC"). Subsection 22(2) provides a statutory appropriation for loans made by the Minister to the OFA under subsection 22(1).

- Existing OICs authorize the Minister of Finance to provide loans to the OFA of up to $x, under which the OFA has provided loans and credit facilities to …

- This proposed OIC is required to expand the overall Minister of Finance lending authority to the OFA to allow the OFA to provide loans ["including"?] under credit facilities requested by the Independent Electricity System Operator (~~to the~~ ("IESO"). This ~~and~~ will help the IESO to fulfil the commitments under the proposed Fair Hydro Act, 2017, under anticipated and potential timing differences in the implementation of the proposed Fair Hydro Plan. The timing of this OIC is critical to ensure borrowing authority for the OFA is available ~~as it will be required~~ to provide the IESO its requested financing arrangements upon the enactment of the proposed *Ontario Fair Hydro Plan Act, 2017.*

Commented [RK1]: Why this amount? Unless we can provide a reason beyond the FHP, I'd rather not go so high.

Commented [RK2]: Why this date? Tied to what?

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Commented [RK3]: Include IESO in the list.

s. 2 Approach and Intended Outcomes

- Under CIPA, the OFA provides financing to public bodies as directed by the Minister of Finance. The OFA obtains the funds it needs for its lending program by borrowing from the Province. This OIC would authorize the Minister of Finance under section 22 of CIPA to provide additional loans to the OFA.

- As per subsection 3(1) of CIPA, the Minister of Finance is responsible for the administration of CIPA with respect to the OFA.

- This proposed OIC is required to assist in fulfilling the commitments under the proposed *Ontario Fair Hydro Plan Act, 2017.*

- It is expected that as part of the implementation of the proposed arrangements, the Minister of Finance will direct the OFA to provide a revolving credit facility for short term financing related to the on-going *Ontario Fair Hydro Plan Act, 2017*. In particular, the OFA would be directed to provide a credit facility~~will be lending~~ to the Independent Electricity System Operator ("IESO"). The IESO is a public body for the purposes of CIPA.

- Under the proposed *Ontario Fair Hydro Plan Act, 2017,* the IESO would incur a monthly funding shortfall in the early years of the plan, as a portion of the Global Adjustment charge to ratepayers will be deferred to the future. Global Adjustment amounts initially collected will, therefore, be insufficient to fund the IESO's contractual obligations to electricity producers and service providers.
- The proposed *Ontario Fair Hydro Plan Act, 2017* allows the IESO ~~to sell~~ the right to recover those deferred amounts from specified consumers in the future (the "regulatory asset") and the ability~~.~~ to sell that asset.
    - It is anticipated that the regulatory asset would be purchased by the financing entity to be established by OPG ("OPG SPV", an OPG special purpose vehicle or trust).
    - The cash received would be used by the IESO to fund the current Global Adjustment shortfall.
- However, there is expected to be initial and potential timing differences. The OPG SPV is not anticipated to be established and able to borrow to finance the purchase of the regulatory asset from the IESO until later in 2017. Even once the SPV is set up to borrow, there may be timing differences between the IESO's monthly settlement process when it has to pay generators and when the SPV purchases the asset from IESO. Also, under ~~T~~the proposed legislation, ~~however, does not require the~~ OPG's SPV is not required to purchase any portion of the regulatory asset.
- As a result, IESO requires short-term financing to be in place for initial and potential monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. ~~This short-term financing may also be required before the OPG SPV is operating and before it has its own financing in place to purchase the regulatory asset.~~

- IESO has requested that the OFA provide a revolving credit facility of up to $2 billion to support its role in the implementation of the *Ontario Fair Hydro Plan Act, 2017*. The $2 billion request from IESO is based on current data and assumptions which could change.

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- ~~, therefore, i~~It is proposed that the OIC authorization be $3.5 billion [to ensure that there is sufficient ~~contingency~~borrowing authority in place for the OFA to meet the IESO and other requirements ~~once the implementation begins~~].

- For the OFA to accommodate this request, the OFA requires additional borrowing authority from the Minister of Finance to ensure that it has sufficient funds to lend, hence the current request for an OIC.

- If approved, t~~T~~he Minister of Finance will subsequently ~~be required to~~ provide a Directive to the OFA to direct it to provide credit facilities ~~make loans~~ to the IESO in an amount not to exceed $~~3~~2.5 billion.
  - The OFA currently provides a credit facility to the IESO of $975 million.
  - The IESO has requested that the existing credit facility be reduced to $475 million, and a new credit facility be provided of $2 billion, for a total amount of $2.475 million.

Commented [RK4]: $2bn, unless there is an identifiable other reason OFA needs more borrowing authority.

Commented [RK5]: Add in only if this is justifiable.

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s. 3 Direction and Urgency

- As announced on March 2, 2017, and highlighted as a commitment in Budget 2017, the Province intends to implement the *Ontario Fair Hydro Plan Act, 2017*, which would reduce electricity bills by 25 per cent on average for eligible households.
- The ability for the OFA to have the requisite borrowing and lending capacity is instrumental in supporting implementation~~ing~~ of the proposed *Ontario Fair Hydro Plan Act, 2017*.
- Ministry of Energy proposed ~~R~~regulations under the proposed *Ontario Fair Hydro Plan Act, 2017* are expected to track for Cabinet approval by end of June 2017. It is expected that this OIC also be submitted for approval~~ed~~ concurrently as it ~~is~~supports a crucial component of the successfully implementation~~ing~~ of the Fair Hydro Plan.
- A related Cabinet Minute from the Ministry of Energy is tracking for June 27, 2017 date.

s. 4 Impact Assessment and Costs

- With this OIC, the Minister of Finance will be authorized to lend an additional amount of $x billion to the OFA. Subject to the terms and conditions of a

Directive from the Minister of Finance, loans from the Minister of Finance to the OFA are expected to be at the Province's cost of funds.

- Loans advanced will result in increased borrowing in the debt markets by the Province.
- Loans are expected to be repaid and, therefore, no fiscal impact is expected.

s. 5 Implementation

- If the OIC is approved and signed, the Minister of Finance will have authorization to provide a loan to the OFA. A Directive from the Minister will be required that will provide direction to the OFA on how ~~the OFA~~it can use the proceeds of the loan.

s. 6 Delivery and Results Tracking

- As described in section 2 above, the requirement for this OIC is a result of the Province's proposed *Ontario Fair Hydro Plan Act, 2017* and is required to ensure the timely implementation and support for the success of the Fair Hydro Plan.

s.7 Stakeholder Consultations

- As described in section 2 above, the requirement for this OIC is a result of the Province's proposed Fair Hydro Plan. The related Cabinet note for the initiative should be referred to.

s.8 Other Jurisdictions and Harmonization

- N/A

s. 9 Communications

- N/A

s. 10 Contacts and Appendices

Contacts

	Name	Phone Number
Ministry Policy/Program	Bruno Amara Snr Manager, Electricity Finance Branch Ontario Financing Authority	(416) 325-1489
Ministry Legal	Patrick Rundans Legal Counsel, Legal Services Branch Ministry of Finance	416-212-4538
Ministry Communications	N/A	N/A
Assistant or Deputy Minister's Office	Jonathan Tekle Policy Advisor Deputy Minister's Office	416-325-8736
Cabinet Office Policy	[name] [title] Cabinet Office	

Appendices

Appendix A: The Proposed OIC

Document Version/Version du document: document: MOF.2017.OFA[EFB]v.2

Authority Verified/Compétence vérifiée: _____

Please print name/Nom en lettres moulées s.v.p.: _____

Telephone/Téléphone: _____

Recommended by the Treasury Board/Management Board of Cabinet on:
Recommandé par le Conseil du Trésor / Conseil de gestion du gouvernement le: _____

Secretary/Secrétaire: _____

Executive Council of Ontario/Conseil exécutif de l'Ontario **[Bilingual]**

[Bilingue]

Ontario

Order in Council
Décret

On the recommendation of the undersigned, the Lieutenant Governor of Ontario, by and with the advice and concurrence of the Executive Council of Ontario, orders that:

Sur la recommandation de la personne soussignée, la lieutenante-gouverneure de l'Ontario, sur l'avis et avec le consentement du Conseil exécutif de l'Ontario, décrète ce qui suit :

WHEREAS pursuant to subsection 22(1) of the *Capital Investment Plan Act, 1993* (the "Act"), the Minister of Finance may purchase securities of or make loans to corporations established under subsection 2(1) of the Act in such amounts, at such times and on such terms and conditions as the Lieutenant Governor in Council considers expedient;

AND WHEREAS the Ontario Financing Authority (the "OFA") is a corporation established under subsection 2(1) of the Act;

AND WHEREAS pursuant to subsection 6(3) of the Act, the power of a corporation established under subsection 2(1) of the Act to borrow and issue securities, among other things, may only be exercised under the authority of a by-law that has been approved by the Minister of Finance;

AND WHEREAS the OFA wishes to borrow up to Three Billion Five Hundred Million Dollars in lawful money of Canada from the Minister of Finance and has been authorized to do so by a borrowing by-law approved in accordance with the Act;

Commented [RK1]: Why this amount? Unless we can provide a reason beyond the FHP, I'd rather not go so high.

THEREFORE:

Pursuant to subsection 22 (1) of the Act, the Minister of Finance is authorized to lend a maximum of Three Billion Five Hundred Million Dollars in lawful money of Canada to the OFA on the following terms and conditions:

(a) the loan may be advanced in such amounts and at such time or times as required by the OFA;

(b) repayment of advances made under the loan plus accrued interest may be made in whole or in part at any time provided that the loan plus any accrued interest shall be fully repaid by June 30, 2053;

(c) each advance (an “Advance”) made under the loan hereby authorized shall bear interest at a rate which is determined as follows:

(i) from the date of the Advance to (but excluding) the date of repayment the Advance shall bear interest at a per annum rate equivalent to the yield earned on ninety day Province of Ontario treasury bills on the date before the Advance Date as determined by the Province, provided that if an Advance is outstanding for longer than ninety days, the interest rate shall be reset on the last day of each ninety day period (the “Reset Date”) to the yield earned on ninety day Province of Ontario treasury bills immediately preceding the Reset Date for such ninety day period as determined by the Province;

(ii) in the event that moneys included in an Advance are used by the OFA for the purpose of funding loans to third parties (a “Third Party Loan”), the rate of interest payable by the OFA to the Province on the portion of the Advance so used shall be adjusted effective as of the date that the portion of the Advance is used to fund the Third Party Loan so that the per annum rate of interest payable by the OFA on such moneys is equivalent to the per annum rate of interest payable to the OFA under the Third Party Loan less an amount as may be determined by the Minister of Finance in respect of such Third Party Loan or a class of such Third Party Loans, until but excluding the date on which the Third Party Loan is repaid, at which time the interest rate set out in subparagraph (i) shall again be applicable to that portion of the Advance; and

(iii) in the event that moneys described in subparagraph (ii), once repaid, are subsequently used to fund loans to third parties, subparagraph (ii) shall again be applicable in determining the interest rate payable to the Province on that portion of the Advance used to fund such loan, and so on, until the Advance shall be repaid to the Province in full;

(iv) despite subparagraphs (ii) and (iii), in the event that no interest is payable to the OFA under a Third Party Loan, no interest shall be payable by the OFA on the portion of the Advance so used and to the extent that the terms of a Third Party Loan provide for the deferral of the payment of accrued interest for a period, the interest payment terms of an Advance or portion thereof shall also be deferred for a similar period.

(d) interest for any period of less than one year shall be payable for the actual number of days included in such period, computed on the basis of a 365-day year;

(e) despite paragraph (b) of this Order, interest on any portion of an Advance made to the OFA under the loan that is used by the OFA to fund a Third Party Loan shall accrue on the basis stated above but shall become payable only to the extent the OFA receives payment of interest under the relevant Third Party Loan;

(f) despite paragraph (b) of this Order, any portion of the principal of an Advance made to the OFA under the loan that is used by the OFA to fund a Third Party Loan shall become payable only to the extent the OFA receives repayment of principal under the relevant Third Party Loan; and

(g) the loan hereby authorized shall be evidenced by a promissory note.

ATTENDU QUE le ministre des Finances peut, en vertu du paragraphe 22 (1) de la *Loi de 1993 sur le plan d'investissement* (la « Loi »), acheter des valeurs mobilières des personnes morales créées en vertu du paragraphe 2 (1) de la Loi ou leur consentir des prêts selon les montants, aux moments et aux conditions que le lieutenant-gouverneur en conseil estime opportuns;

ATTENDU QUE l'Office ontarien de financement (l'« OOF ») est une personne morale créée en vertu du paragraphe 2 (1) de la Loi;

ATTENDU QUE, conformément au paragraphe 6 (3) de la Loi, le pouvoir qu'ont les personnes morales créées en vertu du paragraphe 2 (1) de la Loi de contracter des emprunts et d'émettre des valeurs mobilières, entre autres, ne peut être exercé qu'aux termes d'un règlement administratif approuvé par le ministre des Finances;

ATTENDU QUE l'OOF souhaite emprunter jusqu'à concurrence de trois milliards cinq cent millions de dollars en monnaie légale du Canada du ministre des Finances et qu'il a été autorisé à le faire par un règlement administratif d'emprunt approuvé conformément à la Loi;

PAR CONSÉQUENT :

en vertu du paragraphe 22 (1) de la Loi, le ministre des Finances est autorisé à prêter un montant maximal de trois milliards cinq cent millions de dollars en monnaie légale du Canada à l'OOF, aux conditions suivantes :

a) le prêt peut être consenti selon les montants et aux moments qui conviennent à l'OOF;

b) le remboursement des avances consenties au titre du prêt, plus les intérêts courus, peut à tout moment être effectué en totalité ou en partie, pourvu que le prêt et les intérêts courus soient entièrement remboursés au plus tard le 30 juin 2053;

c) chaque avance (« avance ») faite au titre du prêt autorisé par les présentes portera intérêt au taux est fixé comme suit :

(i) de la date où elle a été faite jusqu'à la date (non comprise) de son remboursement, l'avance portera intérêt à un taux annuel équivalant au rendement gagné sur des bons du Trésor de la province de l'Ontario de quatre-vingt-dix jours à la date précédant la date de l'avance fixée par la province, pourvu que ce taux d'intérêt soit rajusté le dernier jour de chaque période de quatre-vingt-dix jours (« date de rajustement ») selon le rendement gagné sur de tels bons du Trésor immédiatement avant la date de rajustement pour une période de quatre-vingt-dix jours décidée par la province, si l'avance est impayée pendant plus de quatre-vingt-dix jours;

(ii) dans l'éventualité où l'OOF se servirait de sommes comprises dans une avance pour financer des prêts à des tiers, le taux d'intérêt à payer par l'OOF à la province sur la partie de l'avance ainsi utilisée sera rajusté à la date à laquelle la partie de l'avance sera utilisée pour le financement du prêt à un tiers de façon que le taux d'intérêt annuel à payer par l'OOF sur de telles sommes soit équivalent à ce

dernier taux moins un montant que pourra fixer le ministre des Finances à l'égard d'un tel prêt ou d'une telle catégorie de prêt, jusqu'à la date (non comprise) à laquelle le prêt à un tiers sera remboursé, date à laquelle le taux d'intérêt établi au sous-alinéa (i) s'appliquera de nouveau à cette partie de l'avance;

(iii) dans l'éventualité où les sommes décrites au sous-alinéa (ii), une fois remboursées, seraient ultérieurement utilisées pour le financement de prêts à des tiers, le sous-alinéa (ii) s'appliquera de nouveau dans l'établissement du taux d'intérêt à payer à la province sur la partie de l'avance utilisée à cette fin, et ainsi de suite, jusqu'à ce que l'avance ait été remboursée intégralement à la province;

(iv) malgré les sous-alinéas (ii) et (iii), dans l'éventualité où aucun intérêt ne serait payable à l'OOF au titre d'un prêt à un tiers, aucun intérêt ne sera à payer par l'OOF sur la partie de l'avance ainsi utilisée et dans la mesure où les conditions du prêt à un tiers prévoient le report du paiement d'intérêts courus pour une période, le paiement d'intérêts au titre d'une avance ou d'une partie d'une avance sera également reporté pour une période d'égale durée;

d) l'intérêt payable relativement à toute période de moins d'un an sera calculé en fonction du nombre de jours réellement compris dans cette période, par rapport à une année comptant 365 jours;

e) par dérogation à l'alinéa a) ci-dessus, l'intérêt sur toute partie d'une avance consentie à l'OOF dans le cadre du prêt que cette dernière utilise pour financer un prêt à un tiers est calculé comme il est indiqué ci-dessus, mais cet intérêt devient payable uniquement dans la mesure où l'OOF reçoit un paiement d'intérêts au titre du prêt à un tiers;

f) par dérogation à l'alinéa b) ci-dessus, toute partie du capital d'une avance consentie à l'OOF dans le cadre du prêt que cette dernière utilise pour financer un prêt à un tiers devient payable uniquement dans la mesure où l'OOF reçoit un remboursement du capital au titre du prêt à un tiers

g) le prêt autorisé en vertu des présentes sera attesté par un billet à ordre.

_____

Recommended: Minister of Finance
Recommandé par : Le ministre des Finances

_____

Concurred: Chair of Cabinet
Appuyé par : Le président/la présidente du Conseil des ministres

Approved and Ordered:
Approuvé et décrété le :

_____

Lieutenant Governor
La lieutenante-gouverneure

From:	John Kim
To:	Bruno Amara
Subject:	RE: OPG Business Plan BN - Review and Input Needed
Date:	Tuesday, May 02, 2017 8:20:27 AM
Attachments:	5 2017-05-09 RAN OPG Business Plan v2_Markup2.doc

Did add a square bracket….take a look.

From: John Kim
Sent: Tuesday, May 02, 2017 7:44 AM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: OPG Business Plan BN - Review and Input Needed

Hi Bruno,

Could you review and send back to James?

Trying to get ready for the board meeting this morning.

John

From: Ronald Kwan
Sent: Tuesday, May 02, 2017 4:40 AM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: OPG Business Plan BN - Review and Input Needed

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Some suggestions.

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From: John Kim
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Subject: FW: OPG Business Plan BN - Review and Input Needed

Hi Ron,

Pls. see attached. They are requesting the updated info by tomorrow.

Thanks,

John

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Monday, May 01, 2017 4:24 PM
To: John Kim <John.Kim@ofina.on.ca>; Judy George-Harris (MGS) <Judy.George-Harris@ontario.ca>
Cc: Chris Skubel (MGS) <Chris.Skubel@ontario.ca>; Laurie Morin (MGS) <Laurie.Morin@ontario.ca>
Subject: OPG Business Plan BN - Review and Input Needed

John,

Attached is the note for the OPG Business Plan item going to TB/MBC same time as OFHP May 9, 2017. Please review and provide comments, and clarification regarding what's in the OPG #s in the 2017 Budget numbers (There are references in the note and the tables on the last two pages need updating to be complete).

Sec Briefing is tomorrow afternoon, would it be possible to get the updated tables in the morning tomorrow? Fair Hydro Plan is also scheduled, but not sure if it or both will be bumped to a separate briefing cycle in advance of May 9, 2017.

Laurie (for Judy) – I've included a description of the international travel aspect (around slide 11, deck in the attached email) and a placeholder for a minute (Judy was aware of the item).

James

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

Prepared based on draft submission

I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence. The concurrence letter from the Minister to the company will note key elements of the business plan,

how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its 2017-2019 Business Plan (Board-approved?) to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO.~~,~~ It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets. ~~financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending~~ (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)
  - Provincial borrowing would be offset by an increase in an investment asset in OPG.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged (Check is OFA)

Financial figures from the OPG Business Plan are included and supplemented with forecast changes ~~for~~ from the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.

Commented [RK1]: "from"?

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province may make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 201~~7~~8.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - The figures in the OPG Board approved 2017-2019 Business Plan~~, along with OFA forecast updates for OFHP (TBC),~~ show a decrease in earnings before tax of $~~84M~~ 299M in 201~~6~~-1~~7~~ ~~-18~~ and $~~89M~~ 556M in 2017-18 [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by increases of $~~59M~~ 12M in 2018-19 and $~~120M~~ 182M in 2019-20 over the estimates in the 2016 Budget.~~-~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $436M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington

Commented [JK2]: Added to address Ron's comment.

Commented [RK3]: I'd say separate out the differences related to the business plan from the Provincial consolidation adjustment for IFRS.

Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

Net income in 2018 and 2019 is planned to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
- The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
- Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

  OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

  OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB

for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.

- OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.

- On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
- On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year

- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.

Accounting risks: A~~ny~~ change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected~~could~~ to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

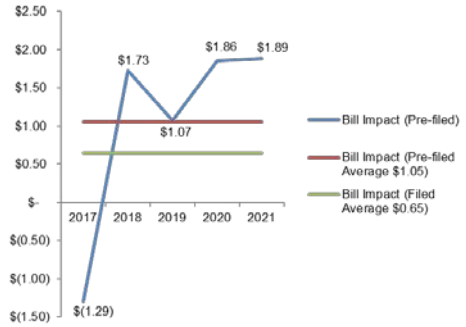
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

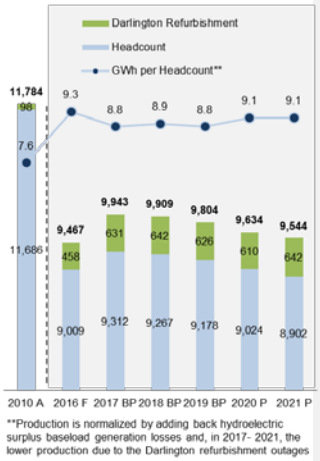
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



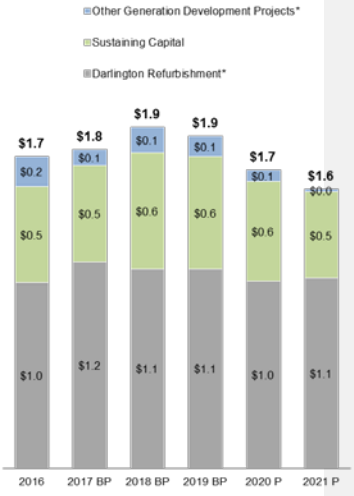
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	~~111~~96	~~184~~166	~~154~~135	~~189~~170
2017 Ontario Budget				
Ontario Power Generation				
Net Income (before IFRS Risk)	379	480	678	726
~~ONFA-related~~ IFRS ~~Risk~~Consolidation Adjustment	(75)	(400)		?
GA – OPG Trust ~~Interest Revenue~~Net Income Impact (assumed, to offset IOD)	17	54	99	153
OPG Head Office*		222		
Net Income	~~387~~304	~~497~~97	732	825
Income Tax	?92	?92	?135	?170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	~~(84)~~(167)	~~(89)~~(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?(132)	?(67)	?(47)	?6
TOTAL OF OPG CHANGES	?(299)	?(556)	?212	?182

- Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

Commented [RK4]: I thought a small amount (100?) was ultimately included here too -- CHECK

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Table below to be updated – OFA

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2017~~6~~-1~~9~~8 OPG Business Plan				
Combined Other PILs & Other GRC[2]	~~353~~329	350~~8~~	363~~6~~	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218~~5~~	232~~20~~	243~~20~~	241
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	~~135~~110	118~~40~~	124~~0~~	121
~~OPG Monthly Update (August 2016)~~				
Net Income (including OPG Head Office sale)	~~361~~379	702~~-~~	678~~-~~	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	-75	-400	-	-
Income Tax PILs to OEFC	~~98~~92	166~~-~~	135~~-~~	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017~~1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.~~

~~2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.~~

~~3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)~~

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From:	Ronald Kwan
To:	John Kim
Cc:	Deena Padamadan; Bruno Amara
Subject:	RE: OPG Business Plan BN - Review and Input Needed
Date:	Tuesday, May 02, 2017 7:00:04 AM
Attachments:	5 2017-05-09 RAN OPG Business Plan v2_Markup.doc

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Sec Briefing is tomorrow afternoon, would it be possible to get the updated tables in the morning tomorrow? Fair Hydro Plan is also scheduled, but not sure if it or both will be bumped to a separate briefing cycle in advance of May 9, 2017.

Laurie (for Judy) – I’ve included a description of the international travel aspect (around slide 11, deck in the attached email) and a placeholder for a minute (Judy was aware of the item).

James

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

SUBMISSION TITLE:	2017-2019 Business Plan for Ontario Power Generation

Prepared based on draft submission

I. DECISION BEFORE THE BOARD

- Receive Ontario Power Generation's (OPG) 2017-2019 Business Plan

II. RECOMMENDATIONS:

• Receive the 2016-2018 business plan for Ontario Power Generation	*Receive*
• Note Minister of Energy will provide concurrence with OPG's Business Plan	*Note*
• Approval giving special status to OPG under Section 5.3 of the MBC Travel, Meal and Hospitality Expenses Directive, giving it the authority to approve international travel for its employees.	*tbd*

III. FINANCIAL SUMMARY

$ Millions	**2014-15**	**2015-16**	**2016-17**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

As stipulated as part of the 2013-14 Results-based Planning process, the Ministry of Energy is submitting OPG's annual business plans for review by Treasury Board to facilitate incorporating implications into the Province's fiscal plan.

It is under the responsibility of the Minister of Energy on whether or not to provide the Minister's concurrence of OPG's annual multi-year business plan. The Treasury Board submission provides the Minister of Energy with an opportunity to highlight why concurrence is being given and any conditions placed on it. Appendix C provides more information on the concurrence process and the 2013-14 minute.

Under the memorandum of agreement (MOA, July 2015) between the Province (as sole shareholder and the Ministry of Energy as representative of the shareholder) and OPG, the company is required to annually submit its board-approved multi-year business plan to the Minister of Energy for concurrence. The concurrence letter from the Minister to the company will note key elements of the business plan,

how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company including indicating any elements of the business plan the government does not concur.

In November 2016, OPG submitted its 2017-2019 Business Plan (Board-approved?) to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO.~~,~~ It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets. ~~financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending~~ (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)
  - Provincial borrowing would be offset by an increase in an investment asset in OPG.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged (Check is OFA)

Financial figures from the OPG Business Plan are included and supplemented with forecast changes for the Ontario Financing Authority, MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget. The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.

Commented [RK1]: "from"?

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province may make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 201~~7~~8.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - The figures in the OPG Board approved 2017-2019 Business Plan~~, along with OFA forecast updates for OFHP (TBC),~~ show a decrease in earnings before tax of $~~84M~~ 299M in 201~~6~~-1~~7~~ ~~-18~~ and $~~89M~~ 556M in 2017-18, primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by increases of $~~59M~~ 12M in 2018-19 and $~~120M~~ 182M in 2019-20 over the estimates in the 2016 Budget.~~.~~

    OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $436M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

Commented [RK2]: I'd say separate out the differences related to the business plan from the Provincial consolidation adjustment for IFRS.

Net income in 2018 and 2019 is planned to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
- The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
- Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

  OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

  OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering (e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).
- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.

        - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
    - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
    - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
    - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
        - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
        - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
        - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
        - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.

Accounting risks: A~~ny~~ change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected~~could~~ to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

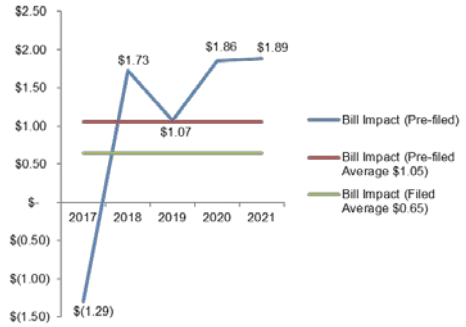
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

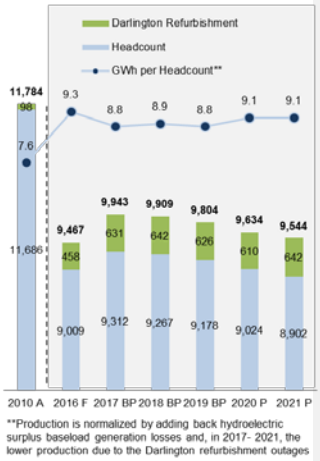
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



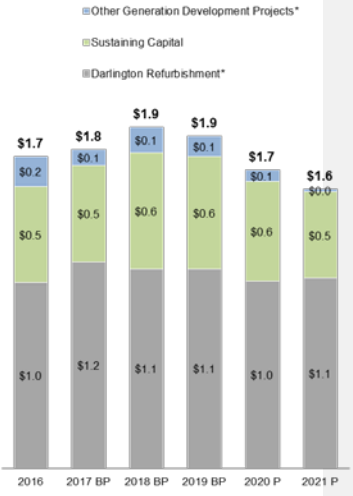
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	705
Income Tax	224	159	182	108
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	~~111~~96	~~184~~166	~~154~~135	~~189~~170
2017 Ontario Budget				
Ontario Power Generation				
Net Income (before IFRS Risk)	379	480	678	726
~~ONFA-related~~ IFRS ~~Risk~~Consolidation Adjustment	(75)	(400)		?
GA – OPG Trust ~~Interest Revenue~~Net Income Impact (assumed, to offset IOD)	17	54	99	153
OPG Head Office*		222		
Net Income	~~387~~304	~~497~~97	732	825
Income Tax	?92	?92	?135	?170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	~~(84)~~(167)	~~(89)~~(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?(132)	?(67)	?(47)	?6
TOTAL OF OPG CHANGES	?(299)	?(556)	?12	?182

- Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

Commented [RK3]: I thought a small amount (100?) was ultimately included here too -- CHECK

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Table below to be updated – OFA

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2017~~6~~-1~~9~~8 OPG Business Plan				
Combined Other PILs & Other GRC[2]	~~353~~329	350~~8~~	363~~6~~	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218~~5~~	232~~20~~	243~~20~~	241
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	~~135~~110	118~~40~~	124~~0~~	121
~~OPG Monthly Update (August 2016)~~				
Net Income (including OPG Head Office sale)	~~361~~379	702~~-~~	678~~-~~	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	-75	-400	-	-
Income Tax PILs to OEFC	~~98~~92	166~~-~~	135~~-~~	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017~~1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.~~

~~2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.~~

~~3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)~~

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From:	John Kim
To:	James Strang (MOF); Judy George-Harris (MGS)
Cc:	Chris Skubel (MGS); Laurie Morin (MGS); Bruno Amara
Subject:	RE: OPG Business Plan BN - Review and Input Needed
Date:	Tuesday, May 02, 2017 12:29:06 PM
Attachments:	5 2017-05-09 RAN OPG Business Plan v2_Markup3.doc

Hi James,

Sorry about the delay. The tables are staff level product.

See attached.

John

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Monday, May 01, 2017 4:24 PM
To: John Kim <John.Kim@ofina.on.ca>; Judy George-Harris (MGS) <Judy.George-Harris@ontario.ca>
Cc: Chris Skubel (MGS) <Chris.Skubel@ontario.ca>; Laurie Morin (MGS) <Laurie.Morin@ontario.ca>
Subject: OPG Business Plan BN - Review and Input Needed

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REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	May 9, 2017
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC March 24, 2015	**Tracking to: Fast Track** Cabinet (May 10, 2017)

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In November 2016, OPG submitted its 2017-2019 Business Plan (Board-approved?) to the Ministry.

Ontario's Fair Hydro Plan (OFHP) is not reflected in OPG's latest Business Plan. The Ministry notes the following OFHP implications for OPG:

- As part of supporting the financing and administration of the global adjustment smoothing mechanism, OPG would develop a Special Purpose Vehicle (OPG Trust) which would use 100 per cent debt financing to purchase the right to future cash flows from IESO.~~,~~ It is proposed that the OPG Trust would raise 51% of required funding directly from capital markets while OPG would provide 49% of the financing requirements. The latter would include 44% debt or equity financing from the Province (Estimates provides for a Ministry of Energy operating asset to make an equity injection) with OPG raising the remaining 5% from capital markets. ~~financed by capital infusions from the Province (Equity injection via an operating asset, raised from higher debt, with additional shares to the Province as sole shareholder), and by third-party lending~~ (check with OFA – currently 256.3M common shares increasing to….needed? Perhaps explain why there are shares given province is sole shareholder, linked to value of OPG assets/equity)
  - Provincial borrowing would be offset by an increase in an investment asset in OPG.
  - These changes are expected to be fiscally neutral as they would result in an increase in Provincial interest on debt, offset by increases in OPG net income
  - In addition, the Province's net debt position should remain unchanged (Check is OFA)

Financial figures from the OPG Business Plan are included and supplemented with forecast adjustments~~changes~~ ~~for~~ from the Ontario Financing Authority and~~,~~ MOF for OFHP implications as part of Province's finalized fiscal plan for the 2017 Budget and for risks related to the Auditor General recommendation that Ontario include Hydro One and OPG financial information in the consolidated financial statements using the IFRS reporting framework as required by PSAB standards.~~.~~ The Ministry of Energy indicates it is generally supportive of the fiscal, financial and operational strategies laid out in the business plan.

Commented [RK1]: "from"?

Commented [BA2]: Also added MoF changes for IFRS risk

The earnings before tax (net income and income tax payments in lieu – PILs) of OPG are consolidated on the Province's financial statements and have a one-for-one impact on the Province's surplus/deficit position, excluding adjustments that the Province may make upon consolidation of OPG's financials (e.g., unrealized gains or losses in the nuclear funds). OPG is expected to submit its next multi-year business plan later this year for the period starting January 1, 201~~7~~8.

Overview of Current Business Plan

OPG's 2017-19 Business Plan details key company undertakings such as business transformation and nuclear refurbishment that will have a substantial electricity system benefit, ratepayer and shareholder impacts. These items were flagged in the previous year's multi-year business plan as well.

- Key Income Statement Forecasts:
  - The figures in the OPG Board approved 2017-2019 Business Plan~~, along with OFA forecast updates for OFHP (TBC),~~ show a decrease in earnings before tax of $~~84M~~ 29~~49~~M in 201~~6~~-17~~-18~~ and $~~89M~~ 556M in 2017-18 [with $75M and $400M of the declines in 2016-17 and 2017-18 due to IFRS-related consolidation risks], primarily due to estimated impact of Ontario Nuclear Funds Agreement-related IFRS risks, followed by an increase~~s~~ of $~~59M~~ 112M in 2018-19 and a decrease of $14~~120M~~ 62M in 2019-20 versus ~~over~~ the estimates in the 2016 Budget. The 2019-20 decrease largely reflects an IFRS-

Commented [JK3]: Added to address Ron's comment.

Commented [BA4R3]: Check figures

related consolidation risk of $200M) as described above.~~,~~

OPG is forecasting net income attributable to the Shareholder to reach $1B in 2021, from $4~~63~~6M in 2016. Net income in 2017 is forecast to increase as a result of new regulated rates, a gain on sale of OPG's head office, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations

Net income in 2018 and 2019, (before OFA and MoF adjustments) is projected~~lanned~~ to increase, primarily due to higher production, and earnings from oncoming stations including Nanticoke solar in 2019. Return-on-equity (ROE) is estimated to increase from 4.2% in 2016 to 7.3% by 2021.

In early January 2017, subsequent to the OPG Board's approval of the 2017-2019 Business Plan, OPG reached an agreement with KingSett Canadian Real Estate Income Fund LP for the purchase of OPG's head office property. The net gain is estimated to be $285M and will be distributed to the Trillium Trust.

These estimates are highly dependent on electricity and financial market conditions, regulatory decisions by the Ontario Energy Board (OEB), potential changes to accounting standards or the basis of consolidation in Public Accounts, operational performance, and/or government policy, which can change materially. The first table in Appendix G shows the changes to Province's fiscal plan.

- Annual Operations, Maintenance & Administration (OM&A) expenses from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year.
- The cost of OPG generated electricity to customers is projected to remain ~40% below the average non-OPG cost of electricity to 2018, and over ~30% by 2021. Note: OPG provides predominantly, lower-cost baseload generating capability, rather than more expensive peaking generating capability.
- Headcount Efficiencies – Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.

  OPG continues ramping up recruitment in 2017 to fill key vacancies in certain areas (particularly in the nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020. OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021.

  OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015. OPG intends to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations.

- Key Projects:
  - The plan assumes ongoing operations at Pickering for about four years beyond 2020, and as approved by Cabinet, the execution of the Darlington refurbishment consistent with approved budget of $12.8 billion (including escalation and interest), is now under way. First unit refurbishment began in October 2016, Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, assuming necessary concurrence from the Province is obtained.
  - Sustaining capital expenditures average $570M per year include nuclear expenditures unrelated to Darlington refurbishment and costs for continued operation of Pickering

Commented [RK5]: I'd say separate out the differences related to the business plan from the Provincial consolidation adjustment for IFRS.

Commented [BA6]: Edit 463

(e.g., Upgrades at Sir Adam Beck and upgrades to DeCewII, and investments in current and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility).

- Rate Application to the OEB:
  - OPG's 2017-19 Business Plan is dependent on the outcome of its rate filing with the OEB for the five-year period from 2017-2021. Oral hearings began February 2017, decision expected in Q3 2017.
    - OPG 2017-2019 BP assumes new rates effective January 1, 2017. The OEB setting a later effective date would negatively impact OPG's 2017-18 fiscal year net income by ~$50-60M per month of delay.
  - On March 2, 2017 the Province filed an amendment to O.Reg.53/05, which enables OPG to smooth its rates based on OPG's total bill impact, rather than on the basis of nuclear rates only.
  - On March 8, 2017 OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year
- OPG Request – Special Stats for OPG to Approve International Travel (Appendix F provides more information):
  - OPG has placed a request with the Ministry for authority to approve international travel for its employees. OPG has asked that this application be included with its BP submission to TB/MBC.
    - Section 5.3 of the Management Board of Cabinet's Travel, Meal and Hospitality Expenses Directive allows agencies/organizations, for which international travel may be integral to their business, to seek TB/MBC approval for special status to ensure that the approval process does not have an undue negative effect on its ability to conduct business.
    - OPG cites the importance of enabling its engagement with the international community (in particular in regards to nuclear safety), procurement activities, and investment and due diligence processes for its pension fund and nuclear funds.
    - OPG requires a high level of international business travel at approximately 90-100 trips annually, while Darlington accounts for 45% and is expected see increases.
    - OPG indicated that the approval process, which took 23 days on average in 2016, delays flight bookings which results in higher costs as airlines raise fares closer to the travel date.

Other Key Fiscal Risks:

Regulatory risks: OPG's multi-year rate application to the Ontario Energy Board for the period starting January 1, 2017, is currently in process. Potential OEB decisions providing for lower rates, including disallowance of recovery of OPG's operating costs, current or future deferral and variance account balances (including for the proposed nuclear rate smoothing), future treatment of pension costs.

Accounting risks: A~~ny~~ change in the basis of accounting used for consolidation of OPG results from U.S. GAAP to International Financial Reporting Standards (IFRS) on the Province's financial statements is expected~~could~~ to result in potentially significant fiscal impacts.

Financing Costs: Higher cost public capital market borrowing (vs the Province's borrowing cost for OEFC to lend to OPG) would have a negative fiscal impact.

Name of analyst:	James Strang	**Phone number:**	7-2071
Date:	May 1, 2017	**Log number:**	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE (UNDER DEVELOPMENT)

Note receipt of a Business Plan for Ontario Power Generation.

In this regard,

i.) Note the Minister of Energy will provide Ontario Power Generation (OPG) with a concurrence letter for its Business Plan.

ii.) …..request for special status…international travel

iii.) Direct the Ministry, in consultation with the Ministry of Finance / Ontario Financing Authority, to report back to the Board in early January each year with the approved or latest draft business plans for Ontario Power Generation for fiscal planning purposes.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2014-15**	**2015-16**	**2016-17**	**2014-15**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: CONCURRENCE OVERVIEW

Under agreements between the Province (as sole shareholder) and OPG, the company is required to annually submit its multi-year business plan to the Minister of Energy for concurrence. Review of the business plan by Treasury Board prior to concurrence was stipulated as part of the 2013-14 Results-based Planning process (see below).

Concurrence is typically provided to OPG via a letter from the Minister of Energy. The letter will note key elements of the business plan, how these elements relate to the policy direction and priorities of the Province, and the government's expectation for the performance of the company. The letter may also indicate any elements of the business plan of which the government does not concur and/or provide additional guidance on expectations going forward.

The current submission looks at the multi-year business plan for OPG covering 2016-2018. Concurrence with the plan is still pending.

Below is the 2013-14 Results-based Plan Minute:

Directed the Ministry of Energy and its agencies, Ontario Power Generation Inc. and Hydro One Inc., in consultation with the Ontario Financing Authority, to report back:

- Annually each autumn with the respective multi-year business plans of the agencies as approved by the Boards of the companies, for review by Treasury Board/Management Board of Cabinet.
  - In this regard, the report should include the following, on a calendar and government fiscal year basis:
  - Multi-year financial and operational targets, including net income and earnings-before-tax.
  - Projected revenues and cash flows to the Province, including the Ontario Electricity Financial Corporation.
  - Planned financings from the Ontario Electricity Financial Corporation.
- Quarterly with financial projection updates and progress reports on the agencies' respective business plan targets and any other new developments, initiatives or risks that may have a material fiscal impact on the Province including variance analysis of last quarter and year-to-date against the annual business plan reviewed by Treasury Board/Management Board of Cabinet.

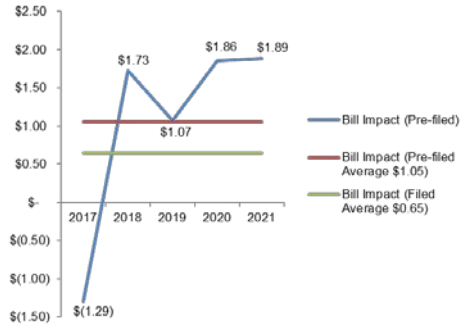
APPENDIX D: SUMMARY OF KEY HIGHLIGHTS FROM OPG BUSINESS PLAN

The Ministry indicates OPG financial and ratepayer forecasts show some changes from last year's business plan projections, as reviewed by Treasury Board in September 2016.

This is in part because 2017 net income is forecast to increase as a result of new regulated rates, higher capitalized interest for the Darlington Refurbishment expenditures partially offset by reduced production as a result of planned outages at Sir Adam Beck I and DeCew II hydro stations.

Also, actions taken by the Province and OPG in early 2017 to enable OPG to smooth its rates based on OPG's weighted average hydroelectric and nuclear all-in rates (which approximates total bill impact), rather than on the basis of nuclear base rates only. OPG filed a revised rate smoothing proposal with the OEB, which is expected to decrease the average year-over-year annual impact on the monthly customer bill for an average consumption of 750 KWh/month from about $1.05 to 65 cents per month per year.

Comparison of Annual Bill Impact ($/Month per year)



Production and Total Cost of Generation

OPG's production is expected to fall to 69.8 TWh by 2021 from 77.6 TWh in 2016. This reflects a declining trend in the Darlington production due to refurbishment outages starting in October 2016 and overlaps between unit refurbishments, as well as, the Pickering Vacuum Building Outage (VBO) in 2021 requiring the shutdown of all units for the duration of the outage.

Total generating cost shows an increasing trend over the planning period relative to 2016, reflecting Lower nuclear production due to Darlington refurbishment outages, increased sustaining capital spending on two large hydroelectric projects (The Lower Mattagami dam safety upgrade and the Sir Adam Beck I GS power canal liner rehabilitation).

Operations, Maintenance and Administration (OM&A) Expenses

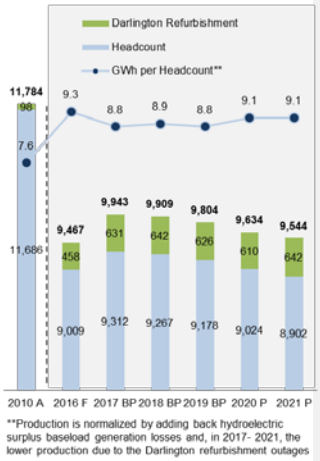
Annual OM&A expenses (excluding Darlington refurbishment OM&A) from ongoing operations are expected to stay consistent over the plan period, averaging $2.9B per year. Increases related to changes in nuclear outage scope at Darlington and planned hiring to fill staffing gaps, and enabling Pickering continued operations, offset by declining pension related costs, due to projected pension asset returns, increases employee contributions, and new method for dermining interest components of pension costs.

Business Transformation and Labour Costs

As part of a company-wide business transformation, OPG saved over $1B in costs from January 2011 to December 2016:

- Headcount has fallen from 11,686 in 2010 to a forecasted 9,009 in 2016 while GWh per headcount has increased from 7.6 to 9.3.
- OPG continues recruitment in 2017 to fill key vacancies in certain areas (particularly in the Nuclear business unit) due to high levels of attrition, as well as continued Pickering operations beyond 2020
  - OPG is forecasting regular headcount to show a net increase of ~300 by the end of 2017 before gradually decreasing to 4% lower than 2017 levels in 2021
  - To date in 2017, OPG has hired ~95 Term employees, a new category of non-regular staff negotiated with the Power Workers' Union (PWU) through collective bargaining in 2015
    - Intention is to add fewer regular staff in circumstances where they are likely to be laid off as a result of the end of Pickering commercial operations, per the terms of the collective agreement

Ongoing Operations Regular Headcount and Productivity



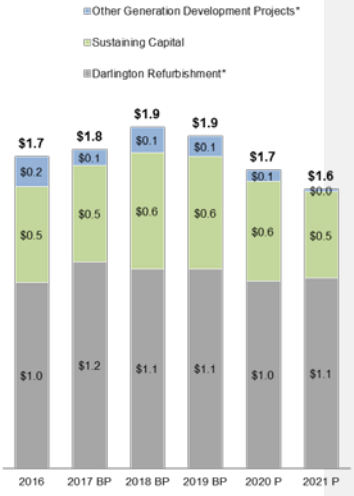
**Production is normalized by adding back hydroelectric surplus baseload generation losses and, in 2017- 2021, the lower production due to the Darlington refurbishment outages

Projects and Capital Expenditures

OPG continues delivery of major projects over the plan period, including:

- Darlington Refurbishment – Unit 2 is assumed to be returned to service in February 2020 with the second unit refurbishment commencing immediately thereafter and the third unit refurbishment starting in July 2021, requiring concurrence from the Province prior to commencement
- Sustaining Capital – Expenditures average $570M, including:
  - Nuclear expenditures unrelated to refurbishment at Darlington and costs for continued operation of Pickering
  - Regulated hydro expenditures including upgrades at Sir Adam Beck and upgrades to DeCew ll
  - Lower Mattagami upgrades in 2018 and 2019
- Other Generation Development Projects – Investments in current (e.g., hydroelectric) and emerging generation technologies including solar and energy storage including construction and operation of the Nanticoke solar facility by 2019

Capital Expenditure Estimates ($B)



*Includes expenditures budgeted by Support Services

Sales

The following table summarizes sales recently completed and currently underway (as of April 2017). The fiscal plan implications of the completed OPG Head Office sale is reflected in the 2017 Budget. (TBC).

	OPG Head Office	R.L. Hearn Site	Lakeview Site
Current Status	Completed	Agreement Reached	OPG and Infrastructure Ontario are preparing for marketing
Site Description	700 University Ave. and parking garage at 40 Murray St. in Toronto	~33 acres at the R.L. Hearn site in Toronto	~67 acres to be transferred by the purchaser to the City of Mississauga (Municipal Park Lands) and ~110 acres to be developed for mixed uses (Uplands)
Buyer	KingSett Canadian Real Estate Income Fund LP	Studios of America Limited Partner	TBD
Value	Estimated up-front 2017-18 fiscal impact of ~$375M (includes after-tax gain as well as PILs to OEFC)	TBD	TBD
Other Considerations	N/A	N/A	Negotiations with the City have been lengthy and costs to remediate/prepare site may be significant due to concerns regarding site condition
Timing	The sale closed in April 2017	Anticipated to close in Q3 2017	Marketing is planned to start in April 2017, pending negotiations with the City, with an anticipated closing in 2017

APPENDIX E: PROVINCIAL FISCAL PLAN IMPLICATIONS OF BUSINESS PLANS PROCEEDING – (UNDER DEVELOPMENT)

Ontario Power Generation is a Government Business Enterprises (GBE), and consolidated to the Province's financials on a modified equity basis. The Province's Fiscal Plan reflects the entity as Income from Business Enterprises and Electricity Payments-in-Lieu of Taxes (PILs) (As Revenue only).

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Ontario Power Generation				
Net Income	471	586	673	~~705~~
Income Tax	224	159	182	~~108~~
2017-2019 OPG Business Plan				
Ontario Power Generation				
Net Income	349	702	678	726
Income Tax	~~111~~96	~~184~~166	~~154~~135	~~189~~170
2017 Ontario Budget				
Ontario Power Generation				
Net Income (before IFRS Risk)	379	480	678	726
~~ONFA-related~~ IFRS ~~Risk~~Consolidation Adjustment	(75)	(400)		(200)?
GA – OPG Trust ~~Interest Revenue~~Net Income Impact (assumed, to offset IOD)	17	54	99	153
OPG Head Office*		222		
Net Income	~~387~~304	~~497~~97	732	825
Income Tax	?92	?92	?135	?170
OPG Head Office*		74		
Change in GBE Net Income (Between Budgets)				
Ontario Power Generation	~~(84)~~(167)	~~(89)~~(489)	59	120
Change in GBE Income Tax PILs +/(-)				
Ontario Power Generation	?(132)	?(67)	?(47)	?6
TOTAL OF OPG CHANGES	?(299)	?(556)	?212	?182

- Net Income and PILs contributions from OPG Head Office are included in Sales and Rental under Other Non-Tax Revenue in the 2017 Budget.

Commented [RK7]: I thought a small amount (100?) was ultimately included here too -- CHECK

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OPG's fiscal results are also impacted by Other PILs to the Ontario Electricity Financial Corporation (OEFC) and the Province. The following table reflects these others impacts in addition to the latest net income and income tax PILs from OPG's August update.

Table below to be updated – OFA

Revenue ($millions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
2016 Ontario Budget				
Combined Other PILs & Other GRC	342	351	359	
Other PILs (GRC to OEFC, Proxy Property Tax)	213	223	232	
Other GRC (to MOF & Niagara Parks Commission)[1]	129	128	137	
2017~~6~~-1~~9~~8 OPG Business Plan				
Combined Other PILs & Other GRC[2]	~~353~~329	350~~8~~	363~~6~~	362
Other PILs (GRC to OEFC, Proxy Property Tax)[3]	218~~5~~	232~~20~~	243~~20~~	241
Other PILs (GRC to MOF & Niagara Parks Commission)[3]	~~135~~110	118~~40~~	124~~0~~	121
~~OPG Monthly Update (August 2016)~~				
Net Income (including OPG Head Office sale)	~~361~~379	702~~-~~	678~~-~~	726
2017 Budget Adjustments				
ONFA adjustment	8			
OPG Trust Interest Revenue		17	54	99
OPG IFRS consolidation risk reflected in fiscal plan	-75	-400	-	~~-~~-200
Income Tax PILs to OEFC	~~98~~92	166~~-~~	135~~-~~	170

Source: OPG 2017-2019 Business Plan and further details provided by OPG March 14, 2017~~1. The GRC to MOF & Niagara Parks Commission (NPC) is provided to enable comparison to the 2016-18 Business Plan.~~

~~2. Include GRC to OEFC, GRC to MOF and NPC and Proxy Property Tax, provided to TBS by Energy on September 14, 2016.~~

~~3. Preliminary 2016-19 Business Plan forecast provided by Energy, January 29, 2016. (Do not add to the Combined Other PILs & Other GRC row, likely due to rounding.)~~

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From: John Kim
To: Ronald Kwan
Subject: RE: OPG Performance fees
Date: Monday, May 15, 2017 10:22:55 AM

Hi Ron,

Some early comments. OPG has been coming up with these ideas, we had one earlier that seems to have changed to the 1M one. If the idea is to meet accounting requirements and the impact is fairly small, it looks OK to me.

Might be a good idea to not get all fussed over some of these ideas as could end up looking like over-reacting and I'm not even sure at what level of OPG these ideas are being originated.

I take power and profit to mean OPG having the ability to make commercial decisions and profit to mean for conducting business for commercial/profit-making reasons.

John

From: Ronald Kwan
Sent: Monday, May 15, 2017 9:41 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: OPG Performance fees

Hi John,

Comments?

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-15-17 09:17
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: OPG Performance fees

I talked to OPG on this. Here are some other considerations:

- Risk / reward goes both ways. Unlike most management fee structures where the performance fee provides an at risk upside to the manager, but no downside, the distribution of potential benefits and losses is symmetric between ratepayers and OPG.
- OPG's current thinking is that it would work with OFA to set a benchmark for borrowing costs at the start of the year based on GOC yields + a premium. If OPG over-performs (under-performs) the benefit (downside) would be shared between the company and

ratepayers 50/50 up to +/- $1M. Above or below $1M, all of the benefit (downside) would flow to ratepayers.

- OPG does not particularly like this symmetry but this is apparently required to meet accounting requirements.
- From my perspective, $1M is a small number, so I am not too concerned about overall impacts on ratepayers.

Thanks,
Scott

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: May 13, 2017 7:32 PM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Manning, Mike (OFA); Yep, Carlos (OFA); Veinot, Cindy (TBS)
Subject: RE: OPG Performance fees

Hi Scott

Yes the MOF does like OPG to make money since on a PSAB basis it benefits the Province's fiscal position. In this instance however, the marginal increase to the fiscal bottom line comes at the expense of the ratepayers in terms of additional debt, hence our push back.

Pls see below my responses on the two issues that you have raised. I am cc'ing Cindy as well since she may have her own thoughts and a discussion maybe value added in terms of arriving at a common understanding.

Thanks

Ken K

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: Friday, May 12, 2017 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
Subject: RE: OPG Performance fees

MoF asking OPG to make less money! This feels so backward!

I will chat with OPG to dig in to the rationale. I take your point that OPG will benefit from the loans to the trust. However, I see two weaknesses with the argument:

1) Lenders don't typically consolidate borrowers, so it takes more than interest revenues to meet this test. Not sure if you are referring to the "Power" or "profit" principle. If the former the Province lends to IO for all its needs and yet exercises power since IO is

consolidated with the Province in much the same way the Trust and OPG will be consolidated. Note that OPG benefits from the interest income on the 44% relating to the equity injection even if the Trust is not consolidated.

2) Earning interest income on equity is going to take down the company's ROE (one of the key metrics that we are tracking on overall company performance). Therefore I wouldn't see this as a particularly compelling allocation of funds from a commercial perspective. This is a good point however, OPG considers the 44% it lends to the Trust as sub-debt most likely priced higher than the debt borrowed by the Trust from the markets. In the event the interest on the 44% is less than OPG's current ROE of the company, your point holds however, if the interest is higher it actually adds to OPG's ROE.

Scott

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: May 12, 2017 11:24 AM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Manning, Mike (OFA); Yep, Carlos (OFA)
Subject: OPG Performance fees

Hi Scott

This issue has come up a couple of times and after discussing with Gadi we felt that you may be able to raise it either directly with OPG or via Energy. As the Financial Services Manager, OPG is proposing a performance fee for itself based beating a benchmark for borrowing costs the Trust incurs in presumably the 51% it seeks to borrow from the capital markets.

OPG argues that the latter of the two fundamental principles, "Power" and "Profit" allowing the Trust to be consolidated with OPG requires the implementation of a performance fee structure. The counter argument is that OPG already has access to profit, by virtue of its position as the funding entity for 44% of the debt incurred by the Trust. OPG uses the funds it receives from the Province's equity injection, for which it pays no interest, for this purpose.

Upon consolidation with the Trust, OPG's interest income will therefore increase by the amount of the interest the Trust receives on 44% of its overall debt, a relatively risk free profit source, at least over the duration of the Fair Hydro Plan. While the use of a benchmark is appropriate and contributes to an efficient borrowing program, any performance fees arising from beating the benchmark will effectively be funded by the ratepayers, by increasing the investment asset and the associated debt to be repaid by ratepayers.

Mike and I will be happy to provide any further technical assistance that you may require as you raise this issue.

Thanks

Ken k

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From: Salman Qadir
To: John Kim
Cc: Bruno Amara; Shajee Kathirgamanathan; Gavin He
Subject: RE: OPG Performance fees
Date: Monday, May 15, 2017 10:55:03 AM

Hi John/all,

Some initial thoughts:

1. This refers to the profit OPG is able to make, unrelated to its own contribution (including Province) to the Trust.
    - Since the Trust is financing its requirements from capital markets and OPG, what rate is OPG going to be lending to the Trust at (which it has financed through 5% capital markets and 44% province equity)? Because OPG's contribution is financed through Provincial equity with (at the moment) no preset rate of return, can't OPG simply price its own debt to the Trust lower? What rules/mechanism are in place for it to determine the rate it offers the Trust for its debt?
    - Notwithstanding point #2 below, what exactly is OPG being rewarded or penalized on? How is the "+premium" going to be determined?

2. Can the argument be made that any reward OPG earns is going to effectively reduce OPG future costs and result in better rates through their rate applications etc? Can we say the loss would result in similar consequences?
    - Its pretty much the same as not having any sharing mechanism in place, except it may be required for OPG to have some "profit" to keep the Trust separate.

Regards,
Salman

From: John Kim
Sent: Monday, May 15, 2017 9:59 AM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: OPG Performance fees

Salman,

Could you take a look and figure the discussion points out?

John

From: Ronald Kwan
Sent: Monday, May 15, 2017 9:41 AM
To: John Kim <John.Kim@ofina.on.ca>

Subject: FW: OPG Performance fees

Hi John,

Comments?

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: May-15-17 09:17
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Subject: RE: OPG Performance fees

I talked to OPG on this. Here are some other considerations:

- Risk / reward goes both ways. Unlike most management fee structures where the performance fee provides an at risk upside to the manager, but no downside, the distribution of potential benefits and losses is symmetric between ratepayers and OPG.
- OPG's current thinking is that it would work with OFA to set a benchmark for borrowing costs at the start of the year based on GOC yields + a premium. If OPG over-performs (under-performs) the benefit (downside) would be shared between the company and ratepayers 50/50 up to +/- $1M. Above or below $1M, all of the benefit (downside) would flow to ratepayers.
- OPG does not particularly like this symmetry but this is apparently required to meet accounting requirements.
- From my perspective, $1M is a small number, so I am not too concerned about overall impacts on ratepayers.

Thanks,
Scott

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: May 13, 2017 7:32 PM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Manning, Mike (OFA); Yep, Carlos (OFA); Veinot, Cindy (TBS)
Subject: RE: OPG Performance fees

Hi Scott

Yes the MOF does like OPG to make money since on a PSAB basis it benefits the Province's fiscal position. In this instance however, the marginal increase to the fiscal bottom line comes at the expense of the ratepayers in terms of additional debt, hence our push back.

Pls see below my responses on the two issues that you have raised. I am cc'ing Cindy as well since she may have her own thoughts and a discussion maybe value added in terms of arriving at a common understanding.

Thanks

Ken K

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: Friday, May 12, 2017 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Carlos Yep <Carlos.Yep@ofina.on.ca>
Subject: RE: OPG Performance fees

MoF asking OPG to make less money! This feels so backward!

I will chat with OPG to dig in to the rationale. I take your point that OPG will benefit from the loans to the trust. However, I see two weaknesses with the argument:

1) Lenders don't typically consolidate borrowers, so it takes more than interest revenues to meet this test. Not sure if you are referring to the "Power" or "profit" principle. If the former the Province lends to IO for all its needs and yet exercises power since IO is consolidated with the Province in much the same way the Trust and OPG will be consolidated. Note that OPG benefits from the interest income on the 44% relating to the equity injection even if the Trust is not consolidated.
2) Earning interest income on equity is going to take down the company's ROE (one of the key metrics that we are tracking on overall company performance). Therefore I wouldn't see this as a particularly compelling allocation of funds from a commercial perspective. This is a good point however, OPG considers the 44% it lends to the Trust as sub-debt most likely priced higher than the debt borrowed by the Trust from the markets. In the event the interest on the 44% is less than OPG's current ROE of the company, your point holds however, if the interest is higher it actually adds to OPG's ROE.

Scott

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: May 12, 2017 11:24 AM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Manning, Mike (OFA); Yep, Carlos (OFA)
Subject: OPG Performance fees

Hi Scott

This issue has come up a couple of times and after discussing with Gadi we felt that you may be able

to raise it either directly with OPG or via Energy. As the Financial Services Manager, OPG is proposing a performance fee for itself based beating a benchmark for borrowing costs the Trust incurs in presumably the 51% it seeks to borrow from the capital markets.

OPG argues that the latter of the two fundamental principles, "Power" and "Profit" allowing the Trust to be consolidated with OPG requires the implementation of a performance fee structure. The counter argument is that OPG already has access to profit, by virtue of its position as the funding entity for 44% of the debt incurred by the Trust. OPG uses the funds it receives from the Province's equity injection, for which it pays no interest, for this purpose.

Upon consolidation with the Trust, OPG's interest income will therefore increase by the amount of the interest the Trust receives on 44% of its overall debt, a relatively risk free profit source, at least over the duration of the Fair Hydro Plan. While the use of a benchmark is appropriate and contributes to an efficient borrowing program, any performance fees arising from beating the benchmark will effectively be funded by the ratepayers, by increasing the investment asset and the associated debt to be repaid by ratepayers.

Mike and I will be happy to provide any further technical assistance that you may require as you raise this issue.

Thanks

Ken k

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From: John Kim
To: Ronald Kwan
Cc: Bruno Amara
Subject: RE: OPG
Date: Monday, June 12, 2017 8:57:47 PM

Sure, will draft something and aim for tomorrow as it would involve others.

-----Original Message-----
From: Ronald Kwan
Sent: June-12-17 6:11 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: OPG

Hi John,

Do you think you could draft something high-level, consulting with CMD and Legal?

Thanks,
Ron

-----Original Message-----
From: Subrahmanyan, Sriram (MOF) [mailto:Sriram.Subrahmanyan@ontario.ca]
Sent: June-12-17 18:10
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>
Subject: RE: OPG

Thanks. Can you provide some language on this to Rob and Daniela? We're writing a summary of our position for the MO in case OPG approaches them.

From: Ronald Kwan <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
Date: Monday, Jun 12, 2017, 5:25 PM
To: Subrahmanyan, Sriram (MOF)
<Sriram.Subrahmanyan@ontario.ca<mailto:Sriram.Subrahmanyan@ontario.ca>>
Cc: Lewis, Robin (MOF) <Robin.Lewis@ontario.ca<mailto:Robin.Lewis@ontario.ca>>
Subject: RE: OPG

Hi Sriram,

A Provincial support agreement (or agreements) is being worked on, and there are services or performance guarantee portions discussed but a tax or PILs component does not sound familiar to me. I'll enquire.

It's more about a Provincial payment guarantee to bondholders of the financing entity under certain circumstances.

Ron

From: Subrahmanyan, Sriram (MOF) [mailto:Sriram.Subrahmanyan@ontario.ca]
Sent: June-12-17 12:58
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>

Subject: OPG

Ron, no sure if you were on the call this morning. OPG mentioned a provincial guarantee to negate tax or (I think) other liabilities, and that they're working on the wording. Do you have a copy of this, or any detail?

thanks

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From:	Ronald Kwan
To:	Sriram Subrahmanyan (MOF)
Cc:	Robin Lewis (MOF); Ann Langleben (MOF); Patel, Lesley (MOF); Daniela Klassen (MOF); Scott Nelms (ENERGY); John Kim
Subject:	RE: OPG
Date:	Monday, June 12, 2017 7:11:25 PM

Hi Sriram,

Perhaps I missed the reference on the call, as I was drawn away for part.

I think the potential impact on the proposed provincial support agreement is arguably tenuous.

The payment guarantee (drafting is on-going) could be potentially triggered under certain circumstances (basically if there is an impact on bondholder) such as the Act is repealed; or if it is amended, or a regulation is amended, in a way that adversely impacts the ability of a Financing Entity to fully pay all funding obligations.

Given that the financing entity can recover, under the Act, taxes or PILs, if payable, from ratepayers (as I understand it), should mean that there should be no such impact on the financing entity's ability to pay bondholders -- there would just be a ratepayer impact if PILs or taxes are paid, which is why the PILs exemption is being asked for.

That said, if OPG is making such an argument, I'd want to hear the strength of their case too, of course, but it seems a stretch.

Perhaps Scott or John would have more to add on this.

Ron

-----Original Message-----
From: Subrahmanyan, Sriram (MOF) [mailto:Sriram.Subrahmanyan@ontario.ca]
Sent: June-12-17 18:41
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: RE: OPG

OPG is claiming it includes PILs or taxes. It would be useful to clarify. Thanks

From: Ronald Kwan <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
Date: Monday, Jun 12, 2017, 6:21 PM
To: Subrahmanyan, Sriram (MOF)
<Sriram.Subrahmanyan@ontario.ca<mailto:Sriram.Subrahmanyan@ontario.ca>>
Cc: Lewis, Robin (MOF) <Robin.Lewis@ontario.ca<mailto:Robin.Lewis@ontario.ca>>, Langleben, Ann (MOF) <Ann.Langleben@ontario.ca<mailto:Ann.Langleben@ontario.ca>>, Patel, Lesley (MOF) <Lesley.Patel@ontario.ca<mailto:Lesley.Patel@ontario.ca>>, Klassen, Daniela (MOF) <Daniela.Klassen@ontario.ca<mailto:Daniela.Klassen@ontario.ca>>, Kim, John (OFA) <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
Subject: RE: OPG

Hi Sriram,

I believe the MO is aware of the proposal for a provincial support agreement / guarantees.

We can try drafting a short summary on what that is about. Not sure how it would fit into a tax-related note. Perhaps John could discuss with Ann and Rob.

Ron

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Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>
Subject: RE: OPG

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Date: Monday, Jun 12, 2017, 5:25 PM
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Hi Sriram,

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From: Subrahmanyan, Sriram (MOF) [mailto:Sriram.Subrahmanyan@ontario.ca]
Sent: June-12-17 12:58
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>
Subject: OPG

Ron, no sure if you were on the call this morning. OPG mentioned a provincial guarantee to negate tax or (I think) other liabilities, and that they're working on the wording. Do you have a copy of this, or any detail?

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From: Subrahmanyan, Sriram (MOF)
To: Ronald Kwan
Cc: Robin Lewis (MOF); Ann Langleben (MOF); Patel, Lesley (MOF); Daniela Klassen (MOF); John Kim
Subject: RE: OPG
Date: Monday, June 12, 2017 6:40:45 PM

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Cc: Lewis, Robin (MOF) <Robin.Lewis@ontario.ca<mailto:Robin.Lewis@ontario.ca>>, Langleben, Ann (MOF)
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<Lesley.Patel@ontario.ca<mailto:Lesley.Patel@ontario.ca>>, Klassen, Daniela (MOF)
<Daniela.Klassen@ontario.ca<mailto:Daniela.Klassen@ontario.ca>>, Kim, John (OFA)
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From: Ronald Kwan
To: Sriram Subrahmanyan (MOF)
Cc: Robin Lewis (MOF); Ann Langleben (MOF); Patel, Lesley (MOF); Daniela Klassen (MOF); John Kim
Subject: RE: OPG
Date: Monday, June 12, 2017 6:21:48 PM

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We can try drafting a short summary on what that is about. Not sure how it would fit into a tax-related note. Perhaps John could discuss with Ann and Rob.

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From: Ronald Kwan
To: John Kim
Subject: RE: OPG
Date: Monday, June 12, 2017 10:58:40 PM

Thanks John.

Ron

-----Original Message-----
From: John Kim
Sent: June-12-17 8:58 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: OPG

Sure, will draft something and aim for tomorrow as it would involve others.

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From: Ronald Kwan
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From:	Salman Qadir
To:	Bruno Amara; John Kim
Subject:	RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx
Date:	Tuesday, May 30, 2017 3:50:49 PM

Sure.

From: Bruno Amara
Sent: Tuesday, May 30, 2017 3:43 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx

OK

From: John Kim
Sent: Tuesday, May 30, 2017 3:43 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx

Could we have a quick chat at 4pm? Ron was just here about the OIC.

From: Bruno Amara
Sent: Tuesday, May 30, 2017 3:29 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx

I just read through s.22 and s.28 and that didn't help me. I'll see if we can get some definitive explanation, otherwise per your suggestion.

From: John Kim
Sent: Tuesday, May 30, 2017 3:14 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx

Thanks….looks good. One thing though, could we leave both s22 and s28 as options? I'm of the bias that s28 is the way to go. Happy to be persuaded otherwise though. It has to do with my understanding that s28 won't require OIC? And wouldn't it be cleaner for the government to

provide indemnities to the organizations (OPG and IESO) and have them extend the indemnities to relevant parties? I understood Bruce Lease indemnity was done this way?

From: Bruno Amara
Sent: Tuesday, May 30, 2017 3:09 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx

Hi John

Salman added a bullet with respect to the indemnity request. S.22. We can discuss the S.22 vs. S.28. I note that James Strang's BN on this changed it to s.22 although his Qs and As still refer to S.28.

Bruno

From:	Bruno Amara
To:	John Kim
Cc:	Salman Qadir
Subject:	RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx
Date:	Tuesday, May 30, 2017 3:43:16 PM

OK

From: John Kim
Sent: Tuesday, May 30, 2017 3:43 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx

Could we have a quick chat at 4pm? Ron was just here about the OIC.

From: Bruno Amara
Sent: Tuesday, May 30, 2017 3:29 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx

I just read through s.22 and s.28 and that didn't help me. I'll see if we can get some definitive explanation, otherwise per your suggestion.

From: John Kim
Sent: Tuesday, May 30, 2017 3:14 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx

Thanks….looks good. One thing though, could we leave both s22 and s28 as options? I'm of the bias that s28 is the way to go. Happy to be persuaded otherwise though. It has to do with my understanding that s28 won't require OIC? And wouldn't it be cleaner for the government to provide indemnities to the organizations (OPG and IESO) and have them extend the indemnities to relevant parties? I understood Bruce Lease indemnity was done this way?

From: Bruno Amara
Sent: Tuesday, May 30, 2017 3:09 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx

Hi John

Salman added a bullet with respect to the indemnity request. S.22. We can discuss the S.22 vs. S.28. I note that James Strang's BN on this changed it to s.22 although his Qs and As still refer to S.28.

Bruno

From: Bruno Amara
To: John Kim
Cc: Salman Qadir
Subject: RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx
Date: Tuesday, May 30, 2017 3:28:35 PM

I just read through s.22 and s.28 and that didn't help me. I'll see if we can get some definitive explanation, otherwise per your suggestion.

From: John Kim
Sent: Tuesday, May 30, 2017 3:14 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx

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Bruno

From: Salman Qadir
To: Bruno Amara; John Kim
Subject: RE: Outstanding Business Issues Ontario Fair Hydro Plan vCEFD.docx
Date: Tuesday, May 30, 2017 3:53:24 PM

We can pose this question to MOF legal but hopefully this helps:

S22 of the FAA:

The Lieutenant Governor in Council may by order authorize the Minister of Finance, on behalf of Ontario, to agree to guarantee or indemnify the debts, obligations, securities or undertakings of any person.

s28 of the FAA:

Despite any other Act, a ministry or public entity shall not enter into any financial arrangement, financial commitment, guarantee, indemnity or similar transaction that would increase, directly or indirectly, the indebtedness or contingent liabilities of Ontario, or seek the approval of the Lieutenant Governor in Council to do so, unless the arrangement, commitment, guarantee, indemnity or transaction

Section 28 is specifically for any public entity, acting on behalf of the province, who will be indemnifying ANOTHER entity. What IESO and OPG have asked is that the Province indemnify them, which is where s22 comes into play.

From: Bruno Amara
Sent: Tuesday, May 30, 2017 3:29 PM
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Cc: Salman Qadir <Salman.Qadir@ofina.on.ca>
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Bruno

From:	John Kim
To:	Bruno Amara; Salman Qadir; Shajee Kathirgamanathan
Subject:	RE: PG and taxes/PILs
Date:	Monday, June 12, 2017 2:25:29 PM

Ok, thanks….will leave it at that as that was my comment to Ron initially. Let's keep an eye on it.

From: Bruno Amara
Sent: Monday, June 12, 2017 2:24 PM
To: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Subject: RE: PG and taxes/PILs

Yes. I think they are separate. In outstanding items that Salman referred to, the PILs exemption and PG are separate follow-up items.

From: John Kim
Sent: Monday, June 12, 2017 2:23 PM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: PG and taxes/PILs

The question though I' reading through the attachments is – why would PG related to taxes/PILs?

From: Salman Qadir
Sent: Monday, June 12, 2017 2:22 PM
To: Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: PG and taxes/PILs

This was also mentioned in the "Outstanding Business Issues" prepared by Kaitlin I believe:

- Provincial staff, with OPG's concurrence, recommends minimizing, to the extent possible, the PILs payable by the OPG financing vehicle, as those costs will be recovered from ratepayers.
- The Province is considering regulation changes to exempt from PILs the income arising to the OPG financing vehicle / OPG as a consequence of the Fair Hydro Plan.

From: Shajee Kathirgamanathan
Sent: Monday, June 12, 2017 2:19 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir

<Salman.Qadir@ofina.on.ca>
Subject: RE: PG and taxes/PILs

Hi John,

Is this related to the PILs exemption? Last week Gavin sent the attached.

OPG's issues was paying PILs on earnings from the GA financing. The attached document implies there are significant PILs which I'm rather surprised by since their returns may be small (based on the 5% share and benchmarks).

Shajee

Shajee Kathirgamanathan
Office: 416-325-1402 | Mobile: 647-294-3359
shajee.kathirgamanathan@ofina.on.ca

From: John Kim
Sent: Monday, June 12, 2017 2:13 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: PG and taxes/PILs

Hi there,

Just fishing for any potential linkages. Is there any connection between PG (that CMD is leading considerations for) and negating of taxes/PILs?

John

From:	John Kim
To:	Salman Qadir; Shajee Kathirgamanathan; Bruno Amara
Subject:	RE: PG and taxes/PILs
Date:	Monday, June 12, 2017 2:22:30 PM

The question though I' reading through the attachments is – why would PG related to taxes/PILs?

From: Salman Qadir
Sent: Monday, June 12, 2017 2:22 PM
To: Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
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John

From:	John Kim
To:	Shajee Kathirgamanathan; Salman Qadir; Bruno Amara
Subject:	RE: PG and taxes/PILs
Date:	Monday, June 12, 2017 2:30:08 PM

So that's a good point but let me go through my logic, the way I understand so far.

The benchmark will likely be a way to put that income/loss mechanism that we saw last week. The actual cost would be passed onto the ratepayers. So the impact of the benchmark is capped at + or - $1mn.

From: Shajee Kathirgamanathan
Sent: Monday, June 12, 2017 2:26 PM
To: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: PG and taxes/PILs

Just speculating here,

Would the provincial guarantee reduce the risk premium. This would decrease the borrowing costs, and in turn increase the ability to meet the benchmark for the Trust. Thereby enabling it to turn a profit and pay taxes/PILs?

Shajee Kathirgamanathan
Office: 416-325-1402 | Mobile: 647-294-3359
shajee.kathirgamanathan@ofina.on.ca

From: John Kim
Sent: Monday, June 12, 2017 2:23 PM
To: Salman Qadir <Salman.Qadir@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
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John

From:	Adam Prokop
To:	John Kim
Cc:	Bruno Amara; Salman Qadir; Shajee Kathirgamanathan
Subject:	RE: Preferred equity treatment
Date:	Tuesday, May 02, 2017 12:25:03 PM

Would we want to send to Ken, Carlos and the others, to ask TD for comments.

AP

From: Adam Prokop
Sent: Tuesday, May 02, 2017 12:23 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Subject: Preferred equity treatment

There is an exception to preferred share 20% rule:

"There are cases where a parent may invest in a subsidiary through deeply subordinated debt for tax or other reasons with the intention that the security mirrors the attributes of equity. DBRS would typically assess a range of factors to establish if the latter has been achieved, such as cross-default trigger covenants, term and ability to defer interest. Regardless of these factors, the parent-subsidiary relationship is key and represents the only reason that DBRS would consider these debt instruments for high equity treatment. In these cases, the 20% cap rule does not apply."

See attached file.

Kind regards,

Adam Prokop
Economic Specialist
Office: 416-315-6462
adam.prokop@ofina.on.ca

From: Salman Qadir
To: Adam Prokop; John Kim
Cc: Bruno Amara; Shajee Kathirgamanathan
Subject: RE: Preferred equity treatment
Date: Tuesday, May 02, 2017 12:48:07 PM
Attachments: SP - Hybrid Capital Handbook 2008 Edition.pdf

Here is S&P's handbook – although there have been various amendments issued since 2008 that would need to be checked. It states the following but need to review in more detail:

Pg 33.

We include any hybrid capital issuance in excess of 15% in the numerator of our leverage calculations. We do not generally recognize hybrid issuance of operating companies (reflected also as hybrid capital in the relevant parent's consolidated financial statements) as such in our consolidated capital adequacy analysis (see table 4)

Salman

From: Adam Prokop
Sent: Tuesday, May 02, 2017 12:25 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
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Office: 416-315-6462
adam.prokop@ofina.on.ca

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Criteria | Insurance | General:

Hybrid Capital Handbook: September 2008 Edition

Financial Institutions Ratings:
Nik Khakee, New York (1) 212-438-2473; nik.khakee@standardandpoors.com

Corporates Ratings:
Peter Kernan, London (44) 20-7176-3618; peter.kernan@standardandpoors.com
Todd A Shipman, CFA, Boston (1) 617-530-8241; todd.shipman@standardandpoors.com
Thomas Jacquot, Sydney (61) 2-9255-9872; thomas.jacquot@standardandpoors.com
Takamasa Yamaoka, Tokyo (81) 3-4550-8719; takamasa_yamaoka@standardandpoors.com

Insurance Ratings:
Ron A Joas, CPA, New York (1) 212-438-3131; ron.joas@standardandpoors.com
Mark Button, London (44) 20-7176-7045; mark.button@standardandpoors.com

Financial Institutions Ratings and Insurance Ratings:
Michelle M Brennan, London (44) 20-7176-7205; michelle.brennan@standardandpoors.com
Emmanuel Dubois-Pelerin, Paris (33) 1-4420-6673; emmanuel.dubois-pelerin@standardandpoors.com

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How Have Hybrid Capital Issues Performed?

Appendix

Criteria | Insurance | General:

Hybrid Capital Handbook: September 2008 Edition

*(**Editor's Note:** This criteria article was originally published on May 12, 2008. We are republishing this article following our periodic review completed on March 30, 2015.*

This article supersedes the articles "Issuing Equity Hybrids Via A Corporate Issuer's Operating Subsidiaries," published on July 26, 2007, and "Flexible Gapping Of Ratings Reflects Regional Variations In Structural Subordination As Well As Differing Debt-Servicing Capacities," published on May 25, 2005. This article also partially supersedes "Holding Company Analysis," published June 11, 2009.

This article has been partially superseded. Table 4a has been superseded by table 3 of "Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model," published June 7, 2010. The section titled "Issue Features: Dividend Stoppers, Look-Backs, And Pushers" has been superseded by the article titled, "Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers," published on Feb. 10, 2010. The article titled, "Bank Hybrid Capital Methodology And Assumptions," published on Nov. 1, 2011, has partially superseded references to financial institutions; it has itself been fully superseded by the article with the same title, published Jan. 29, 2015. The article titled "Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments," published on April 1, 2013, supersedes references to "high" equity content for corporate issuers and certain North American insurance holding company issuers, and also amends references to the role of management intent. The section below, titled "Rating The Issue: Default And Distress," has been superseded by "Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments," published Oct. 24, 2013. The section titled "Corporate methodology: Leveraged buy-out equity hybrids: Too good to be true" has been superseded by "The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities," published April 29, 2014.)

Financing with common stock (i.e., common shares) is the best alternative from the perspective of an issuer's credit quality. Common stock has no maturity. If dividends are paid at all, they are discretionary--at least for most types of entities, in most countries. Moreover, common stock is subordinated to all the company's debt obligations and other liabilities. Yet, common stock is expensive in the eyes of issuers, since dividends are generally not tax deductible. Also, stockholders, as owners, have full participation in the company's upside, and issuing common stock dilutes existing shareholders' ownership interest.

Hybrid capital instruments have been developed with the goal of gaining recognition as being equity-like—that is, being granted "equity content" by Standard & Poor's Ratings Services and by other rating agencies--and, in some cases, being treated as capital by regulators. At the same time, these instruments are generally more cost-effective (e.g., by being tax deductible) than common stock, and typically do not affect the earnings-per-share denominator.

In assessing equity content, we pay close attention to the instrument's individual features. Ultimately, though, we take a holistic approach, considering the overall effect of the issue on the issuer's credit profile. In some cases, the issue's strengths can offset its weaknesses.

In assessing equity content, we use a common analytical framework across all sectors and geographic regions, categorizing equity content as "high," "intermediate," or "minimal" based on guidelines we have developed. We have a somewhat different perspective on issues of investment-grade issuers as compared to speculative-grade issuers, given

differences in the relevant time frame and other pertinent rating considerations. Importantly, we always take account of the issuer's particular circumstances, including management's financial policies. In assessing the credit implications of any actual transaction, issuer-specific considerations can always trump any generalized conclusions we might reach about an instrument.

Inevitably, across different sectors, there are varying approaches to incorporating conclusions reached about the instrument into the quantitative analysis, given differences in financial characteristics and measures. In any case, ratios tell only part of the story.

In assessing an instrument's equity content, we try to look past form, and focus on the economic substance. The past few years have seen a proliferation of instrument types and features. Some issues, in seeking to meet the varying preferences of different constituents, have become exceedingly complex. From our perspective, complexity often detracts from equity content: As it becomes more and more difficult to fathom how matters could play out under different scenarios, the potential for unintended consequences increases. Once there is a longer track record with such structures, our comfort level could grow.

In determining an issuer credit rating (ICR), the utilization of hybrid capital is just one of many factors that need to be considered. In fact, it is rare for this one factor in and of itself to be critically significant to the ICR outcome.

In their most common forms, hybrid capital instruments afford equity benefit to issuers, in part, by having ongoing payment requirements that are more flexible than interest payments associated with nondeferrable senior debt, and by being contractually subordinated to such debt. Obviously, these characteristics make the instruments more risky for investors than nondeferrable debt. In assigning issue ratings to equity hybrids, we seek to reflect the incremental risks associated with the issue in terms of payment timeliness and principal recovery compared to nondeferrable debt. We typically reflect these risks in our issue ratings on equity hybrids by assigning them ratings that are lower than those on nondeferrable debt.

We continually reassess our hybrid capital criteria as instrument structuring innovations and other market developments warrant. Please check RatingsDirect for subsequent criteria updates.

Working With Standard & Poor's On Hybrid Capital Matters

We formed our New Instruments Committee (NIC) in early 2006, primarily to centralize our criteria-setting with respect to hybrid capital-related matters. The NIC is comprised of senior analysts across all relevant sectors and regions. Analysts closely involved in our hybrid capital criteria development activities are listed in table 1.

Table 1

Hybrid Capital Criteria Analysts

Analyst	Location	Telephone	Email	Sector
Vincent Allilaire**	London	(44) 20-7176-3628	vincent_allilaire@standardandpoors.com	Corporates
David Anthony**	London	(44) 20-7176-7010	david_anthony@standardandpoors.com	Insurance
Angelica Bala**	Mexico City	(52) 55-5081-4405	Angelica_Bala@standardandpoors.com	Financial Institutions
Michelle Brennan*	London	(44) 20-7176-7205	michelle_brennan@standardandpoors.com	Financial Institutions

Table 1

Hybrid Capital Criteria Analysts (cont.)				
Scott Bugie*	Paris	(33) 1-4420-6680	scott_bugie@standardandpoors.com	Financial Institutions
Mark Button**	London	(44) 20-7176-7045	mark_button@standardandpoors.com	Insurance
Terry Chan*	Melbourne	(61) 3-9631-2174	terry_chan@standardandpoors.com	Financial Institutions
Paul Draffin*	Melbourne	(61) 3-9631-2122	paul_draffin@standardandpoors.com	Corporates
Emmanuel Dubois-Pelerin*	Paris	(33) 1-4420-6673	emmanuel_dubois-pelerin@standardandpoors.com	Corporates
Gail I. Hessol*	New York	(1) 212-438-6606	gail_hessol@standardandpoors.com	(general)
Rob Jones*	London	(44) 20-7176-7041	rob_jones@standardandpoors.com	Insurance
David A. Kaplan*	New York	(1) 212-438-5649	david_a_kaplan@standardandpoors.com	(general)
Rosaleen Manzi**, Esq.	New York	(1) 212-438-6609	rosaleen_manzi@standardandpoors.com	Legal
Curt Moulton*	New York	(1) 212-438-2064	curt_moulton@standardandpoors.com	(general)
Solomon B Samson*	New York	(1) 212-438-7653	sol_samson@standardandpoors.com	Corporates
Jacob L Schlanger*	New York	(1) 212-438-7238	jacob_schlanger@standardandpoors.com	Insurance
Scott Sprinzen*	New York	(1) 212-438-7812	scott_sprinzen@standardandpoors.com	Financial Institutions
Calvin R Wong**	New York	(1) 212-438-7495	calvin_wong@standardandpoors.com	Structured
Takamasa Yamaoka*	Tokyo	(81) 3-4550-8719	takamasa_yamaoka@standardandpoors.com	(general)

*New Instruments Committee member. **New Instruments Committee adjunct member.

Anyone with questions about our hybrid capital criteria should feel free to contact any of the individuals listed. In addition, the NIC offers feedback to investment bankers and issuers who are developing new instrument structures. We provide a preliminary and generic assessment of the equity content, and the notching that would be applied in rating the issue, on a confidential basis. Such feedback is subject to our review of the final terms and conditions of the issue, if there is an actual transaction, as well as to consideration of issuer-specific factors.

To have a new structure assessed, investment bankers and issuers should contact any of the individuals listed. It facilitates the discussion if the instrument is described in the form of an indicative term sheet. The NIC seeks to provide feedback expeditiously. The NIC routinely meets twice per month, but additional meetings can generally be convened to address pending priority matters, as necessary. In the overwhelming majority of cases, we communicate our conclusions informally; however, we provide formal, written feedback in certain circumstances, as appropriate. If an issuer is proposing an issue of a structure for which close precedents already exist, it is most efficient to contact the primary analyst responsible for the issuer, or others on the coverage team. Members of the NIC will be involved, as necessary, in assisting with the review of the instrument terms and to ensure the consistent application of criteria.

If the issuer is contemplating financing strategies involving issuance of different hybrid capital instruments, and wants to have definitive formal feedback regarding the potential rating ramifications, this exercise lends itself to our Rating Evaluation Service. The issuer can obtain information about this service by contacting their respective Client Business Manager or the following regional contacts:

- North America: Terrence Streicher, VP-Rating Evaluation Service Product Manager; New York; (1) 212-438-7196; terrence_streicher@standardandpoors.com
- Europe, Middle East, Africa: Ian Byrne, Director, Commercial & Product Management; London; (44) 0-207-176-3633; ian_byrne@standardandpoors.com
- Asia-Pacific: Denis O'Sullivan, Vice President, Client Relationship Group Asia Pacific; Hong Kong; (852) 2533-3522;

denis_osullivan@standardandpoors.com

Equity Content: Guiding Principles

What constitutes equity in the first place? Traditional common stock--the paradigm equity instrument--sets the standard. But equity is not a monolithic concept; rather, it has several positive characteristics:

- Equity requires no ongoing payments that could lead to default;
- It has no maturity or repayment requirement, and is expected to remain as a permanent feature of the enterprise's capital structure; and
- It provides a cushion for creditors in case of bankruptcy.

Equity hybrids possess some--or all--of these characteristics to some degree. Yet, because equity has these several defining attributes, a specific security can have a mixed impact. Hybrid securities, by their very nature, can be equity-like in some respects and debt-like in others. Moreover, the specific features may provide the positive characteristic only to a limited extent.

In any event, the security's economic impact is most relevant; its nomenclature is a secondary consideration. A transaction labeled debt for accounting or tax purposes may still be viewed as equity for rating purposes, and vice versa.

In the case of regulated banks and insurance companies, aside from our own analytical views about the characteristics of a given hybrid capital instrument, we must also take account of the regulators' views. Indeed, this can be a key consideration. In many jurisdictions regulators have the authority and power to intervene in the operations of a bank or insurance company, and they determine whether to do so based, in part, on their own assessment of capital adequacy. Regulators' capital policies strongly influence bank hybrid capital issues' terms--and this is increasingly the case in insurers' issues. Not only will the structure of a hybrid instrument be influenced by regulatory treatment, but the redemption of hybrid capital instruments typically is also subject to regulatory review. Regulators can intervene to enforce the suspension or nonpayment of hybrid coupon payments, restrict the amount of hybrids that an entity can issue, and require any redeemed hybrid to be replaced with an instrument of equivalent equity content. Thus, as explained below, our analytical assessment of regulated issuers' hybrid capital instruments is typically anchored in the regulator treatment.

Equity Content: Ongoing Payments

A company generally pays dividends on its common stock only at its discretion: There is no fixed requirement to do so that could lead to default and bankruptcy if the common dividend were cut or eliminated.

In practice, though, once a company has established a record of paying a common dividend, it will be loath to reduce the payment, given management's likely concerns about capital markets perceptions. Common dividend reductions are seen as a signal that the company's prospects are clouded, and market perception can be a powerful consideration in management's decision making. As a consequence, some distressed companies continue paying their common

dividends, even though they arguably have more pressing uses for the cash. In this way, the common dividend can act like a fixed charge, draining the company, over time, of funds needed to bolster operations. Yet, whatever the pressure to pay common dividends, the company always retains some discretion, whatever the pressure to pay common dividends.

Most types of hybrid capital instruments have a stated dividend or coupon rate, but the payment either may be deferred or forgone at the discretion of management or a regulator, or must be deferred or forgone with the breach of a predefined trigger, or both. We assume that management or a regulator would always have greater reluctance to pass on the hybrid payment than to reduce or eliminate the common dividend. This is the hybrid capital market's clear expectation, as reflected in issue pricing, and borne out by historical experience. Accordingly, this distinguishes hybrid capital issues from common equity, in terms of the benefit to the issuer.

The longer a company can defer or skip payments, the better. An open-ended ability to defer or skip payments until financial health is restored is optimal. As a practical matter, the ability to forgo payments for up to five years or so is most critical in helping to prevent a general default. If the company cannot restore financial health in five years, it probably never will.

In addition, the fewer restrictions imposed on the company's ability to defer or forgo payments, the better. For example, some issues include a "look-back" provision under which the company can only defer or forgo payments after some minimum period of time has elapsed since the last common dividend was paid. In other instances, there is a requirement—for example, under the corporate charter or the national corporate legal framework-–that any dividend changes be approved at the annual shareholders' meeting. Or there may be other preconditions that must be satisfied, such as the breach of certain financial tests. With any such restrictions, the company's ability to react to worsening circumstances by deferring or forgoing payments can be considerably hampered, and so such features undermine equity content. (See section "Issue Features: Dividend Stoppers, Look-Backs, And Pushers.") (Note: It is typical for a hybrid capital issue to include a so-called "common dividend stopper"--a provision under which the company is prohibited from paying common dividends while it is deferring or forgoing hybrid issue payments. We generally view such a stipulation as a neutral factor from a credit perspective. On the one hand, eliminating both the common dividend and the hybrid payment together maximizes the overall cash conserved. On the other hand, the link between the two may increase the reluctance of the issuer to forgo paying on the hybrid. Thus, a common dividend stopper is not essential to our assessment of the equity content afforded the hybrid issue.)

In the case of hybrid capital issues with optional deferral provisions, we are generally indifferent to the choice between instruments with cumulative payments (which, when deferred, still accrue, and ultimately must be made up) and noncumulative payments (where there is no obligation to address missed payments). With noncumulative instruments, it may be easier for the issuer to recover after deferring, since there is no arrearage to be repaid. However, given the more severe consequences for investors, the company may be somewhat more reluctant to forgo payments on noncumulative instruments in the first place.

Naturally, any instrument feature that discourages the issuer from exercising the right to defer optionally is detrimental to equity content. This is one of the key aspects that we analyze when we assess hybrid capital securities' equity content. Such features include:

- Penalty rates. In the case of cumulative issues, if deferred payments accrue at a rate that is higher than the normal payment rate, we view this as clearly intended to discourage deferral.
- Alternative payment mechanisms (a.k.a., alternative coupon settlement mechanisms; see section "Issue Features: Alternative Payment Mechanisms/Alternative Coupon Settlement Mechanisms (APM/ACSM)"). In the case of some cumulative issues, the company must issue stock--common or preferred--once it has deferred for a certain period of time. If this requirement only becomes effective after five years of deferring, we don't view this as a significant negative. When management (or a regulator) is first weighing the decision to defer, this limitation is unlikely to be a significant consideration. However, if the requirement becomes effective earlier—especially if it is only after one or two years--companies might well want to avoid such a requirement, and so be even more reluctant than usual to defer in the first place.
- Nomenclature. In some cases, instruments with virtually identical credit features can be variously defined as debt or preferred stock. Although the distinction may be only one of nomenclature, we believe the identification of a security as debt constrains the company's practical discretion to defer payments, given the greater "headline risk" that may be associated with deferring payments on the debt form of the security. However, this does not necessarily preclude the instrument being viewed as having significant equity content if there are other mitigating features.

Finally, various case-specific considerations can enter into the assessment of payment flexibility. Other things being equal, a company with heavy ongoing funding requirements-–and hence a need to access the capital markets regularly—might be more reluctant than others to pass on making payments for fear of the capital markets' reaction. Such a company's regulator could well have the same reservations. Also, if the amount of cash that would be conserved is small relative to the company's near-term cash requirements, the company might rationally chose not to defer or forgo payments, since little would be gained from doing so.

By removing the discretionary element, mandatory trigger mechanisms can increase confidence that payments will be deferred or forgone when the issuer's circumstances make this desirable from the creditors' perspective. (Historically, income bonds--i.e., where interest payment is contingent on achieving a certain level of earnings--were designed with this in mind. However, to the extent that cash flow diverges from earnings measures, income bonds tend to be imperfect instruments.) The equity content of such instruments is significantly influenced by the trigger levels used to determine when payments are eliminated. For example, if the level of cash flow that triggers payment curtailment is relatively low, reducing the likelihood of deferral, that instrument does not support high ratings. Credit quality might already have deteriorated drastically before the trigger would be breached. Conversely, though, if the trigger level is set close to the expected performance level, and at a level where the company is still very strong, we would have to consider the headline risk that forced deferral might pose.

A different mandatory approach entails linking interest payments to the company's common dividend, creating a common equity-mimicking bond. (A number of international financial institutions issued such bonds in the late 1980s.) Of course, a company having an inordinate amount of dividend-linked issues outstanding could ultimately be reluctant to curtail its common dividend.

Equity Content: Permanence

Capital should be sufficiently permanent that it is available to preserve cash and absorb losses when needed. Obviously, retaining funds in perpetuity offers the company the greatest flexibility. Extremely long maturities are next

best. Accordingly, 100-year bonds possess an equity feature in this respect (and only in this respect) until they get much nearer their maturity. (To illustrate the point, consider how much, or how little, the company would have to set aside today to defease or handle the eventual maturity.) However, in 100-year bonds, interest payments are not deferrable and cross-default provisions could lead to these bonds being accelerated.

Hybrid capital issues usually come with a maturity. Having a limited life is a clear shortcoming in terms of equity permanence. If the maturity happened to coincide with a period of stress for the issuer, the need to refinance could add to financial pressures. Even if we expect the issue to be refinanced successfully at maturity, the potential for using debt in the refinancing would concern us.

As a practical matter, we view an issue with a remaining time to maturity of 20 years (15 years for 'BB' rated issuers and 10 years for 'B' rated issuers) as sufficient to support credit quality. However, even 20 years is a very long time for many issuers and investors. Different features have been introduced that further limit the likely life of the issue--and thereby constrain the extent of the equity content the issue affords.

Thus, the ability to call always gives reason for pause (see section "Issue Features: Call Provisions"). Will the issue remain outstanding beyond the call date? It is common for hybrid capital issues to be callable, either starting on a certain date and continuing for a defined period (often referred to as an "American-style" call) or on certain specified, discrete dates (i.e., "European-style" call). Calls exercisable after five years are the most common in certain markets, and we would question the rationale for an issuer including a call date sooner than five years after issuance. We have not placed much emphasis on call features as limiting equity content—that is, if we believe the issuer has good reasons for maintaining hybrid capital in its capital structure (e.g., to meet regulatory capital requirements, or because the issue is tax deductible and therefore is a cost-effective form of funding). Indeed, call provisions can even be beneficial from a credit perspective, because they afford the issuer the opportunity to refinance the issue at more favorable rates, market conditions permitting. Moreover, in many instances, the issuer could repurchase the issue on the open market or through a tender offer, even in the absence of a call provision.

Where an issue contains a call provision, the issuer has the option to redeem the issue, but no obligation to do so. Thus, in our assessment of equity content, we don't generally penalize instruments with call provisions, unless, in the case of unregulated issuers, the initial call date is less than five years after issuance—which heightens our skepticism about the issuer's intentions with respect to the issue. We may also be concerned when the issue is only callable on discrete dates followed by a long noncall period. Where an issuer is regulated and we believe the regulator will ensure that any refinancing would not be credit-harming, we do not penalize issues with call dates earlier than five years. (See section "Issue Features: Call Provisions.")

In recent years, more hybrid capital securities have included terms whereby the issuer has the right to call the instrument at par on the same future date that the coupon rate increases, or steps up, by a preset amount. Step-ups (and similar penalty-rate provisions) question the permanence of issues that incorporate them, and so undermine the equity content of a hybrid capital security (see section "Issue Features: Step-Ups, Resets, Remarketing"). The call and step-up are expressly designed to prompt issuers to retire the issue. Moreover, in certain circumstances, the issuer could incur significant reputational fallout if it did not call. Indeed, investors strongly rely on step-up provisions to incentivize a call. We view these types of hybrid capital instruments as a form of long-term capital if:

- The amount of the step-up is limited, such that if the issuer chose, for whatever reason, not to refinance the issue, it would not be burdened by onerous financing costs; and
- There is a high degree of assurance that if the issue were called, it would be replaced with another issue warranting an equal or higher degree of equity content.

We see no need for any replacement provision (legally enforceable or otherwise) if the issue does not have a step-up, even if the issuer has call rights. The issuer's option to retire hybrid capital issues is similar to its option to repurchase common equity. But, if a hybrid issue has a significant step-up or a discrete call followed by five or more years during which it is not callable, we presume the issue will be called--either at the time of the step-up/discrete call or before it. The presumed temporary nature of the issue begs the question of how it will be replaced. Legally binding replacement language reinforces the permanency of the capital raised by rendering replacement highly likely, particularly when the issuer would need the capital to maintain its creditworthiness. In our view, mere expression of intent regarding replacement is insufficient when there is a workable alternative that more strongly enforces the permanence of the equity. To be sure, legally enforceable replacement capital covenants (RCCs) can pose their own problems--especially those that are complex or unduly restrict a company's future choices (see section "Issue Features: Replacement Capital Covenants"). But we view RCCs as the lesser of two evils. RCCs offset the clear motivation to call and retire the hybrid security created by the step-up, and reestablish sufficient permanence to allow the security "intermediate" or "high" equity content under Standard & Poor's methodology. We believe that legally binding RCCs can be crafted to introduce flexibility and thus render them more acceptable to issuers.

At any time, a company can choose either to repurchase equity or to issue additional shares. However, some securities are more prone to being temporary than others. Our analysis tries to be pragmatic, looking for insights as to what may ultimately occur. For example, auction-rate or remarketed preferred stock is designed for easy redemption. Even though the terms of this type of preferred provide for its being perpetual, failed auctions or lowered ratings typically prompt the issuer to repurchase the shares. (They are sold as commercial paper equivalents, which heightens the potential for failed auctions if credit quality ever falls to 'A-3'--or even 'A-2'--levels, or if market conditions deteriorate. Although the company has no legal obligation to repurchase the paper--i.e., the last holder could be left with this "perpetual" security--the issuer sometimes bows to market pressures and chooses to repurchase the preferred. Accordingly, such frequently remarketed preferreds are treated as debt.)

Another important consideration is the issuer's tax-paying posture. It may be difficult for an issuer that is currently not paying taxes to assert that it will continue to finance with nontax-deductible preferred stock once it becomes a taxpayer, and that it can lower its capital cost by replacing the preferred with debt.

Other clues can come from who invests in the issue (e.g., money market, as opposed to long-term fixed-income investors) and the mode of financing that is typical of the company's peer group. For example, U.S. utilities traditionally finance with preferred stock, and industry regulators are comfortable with it; therefore, the usual concern that limited-life preferred stock will be refinanced with debt is less of an issue for utilities.

There is always the risk that tax-deductible instruments' favorable tax status could be overturned by tax authorities, or through legislative changes. If we had particular concerns about the continuation of favorable tax treatment, and loss of tax deductibility would make the economics unfavorable for the issuer, we would have significant reservations about

viewing the instrument as permanent, unless we had reason to believe that the issue would be refinanced in another equity-like form.

In assessing any issuance's degree of permanence, management intent is always an important consideration. Through discussion of financial policy with senior management, we seek insight into potential future retirement and replacement of hybrids. We also take into account a company's track record in this regard. We always must be aware that management intent can become diluted over time—for example, as there are changes in management.

Equity Credit: Subordination/Cushion For Creditors In The Event Of Default

What happens in bankruptcy also pertains to the avoidance of bankruptcy and default, albeit indirectly. That is, companies' access to debt capital depends on providers feeling secure about the ultimate recovery of their loans in the event of a default. Debt-holders' claims have priority in bankruptcy, while equity holders are relegated to a residual claim on the assets. The protective cushion created by such equity subordination can facilitate the company's access to capital, helping enable it to stave off a default in the first place. (In the case of some European bank, insurance, and corporate issues, mechanisms exist that can result in loss absorption outside of bankruptcy or reorganization by reducing the principal owed to investors—for example, following the recording of a net loss, when directed by the regulator.)

Regulators virtually always insist that instruments be subordinated to qualify for capital treatment. Apart from this consideration, in our framework subordination typically is a secondary factor compared with other beneficial aspects of equity, although lack of subordination would always weigh somewhat on equity content. Thus, if an instrument is senior, but ongoing payments are deferrable and it has a long-dated maturity, we could well view it as having meaningful equity content. On the other hand, if an instrument is subordinated, but lacks the other equity-like traits, it would be viewed as predominantly debt-like.

The distinction between subordination and deep subordination generally is not significant in our analysis, although deep subordination incrementally is somewhat more supportive of credit quality. However, many U.S. securities--to meet IRS guidelines for tax deductibility--may be termed subordinated while providing pari passu status to trade creditors. This is a shortcoming--albeit not one that we view as significant.

Equity Content Categories

To facilitate our analysis, we classify qualifying hybrid capital issues into three categories, based on our assessment of their equity content: "high," "intermediate," and "minimal." In our financial institutions practice (excluding insurance), where matters pertaining to quality of capital assume particular importance, we further distinguish between "intermediate-strong" and "intermediate-adequate." As discussed more fully in the section "Applying Hybrid Capital Equity Content Assessment In Credit Analysis: Financial Institutions Methodology (Excluding Insurance)," for regulated U.S. financial institutions, we only give equity credit to issues that qualify for Tier 1 regulatory capital treatment.

"High" equity content

"High" equity content hybrids have very strong equity-like characteristics. They include features that help protect credit quality near the current level, and if they substitute for plain vanilla debt, they improve the overall quality of the issuer's capitalization. Investors in "high" issues typically bear equity-like risk, and we would expect the value of such instruments to have a high correlation with the value of equity.

We have identified three potential types of "high" equity content instruments:

- The issue converts mandatorily to common equity within a fairly short time horizon;
- The issue has a coupon or dividend that varies directly with changes in the common stock dividend or with earnings or cash flow; or
- The issue is mandatorily deferrable upon the breach of financial triggers or rating triggers that are set close to the expected performance level/existing rating level.

"High" equity content due to mandatory convertibility. "High" mandatorily convertible issues provide for the deferred, but mandatory, issuance of common stock, while raising proceeds immediately. (See section "Issue Features: Conversion Into Common Stock.") There are several varieties of this structure, including instruments that convert directly into common stock and units comprised of a contract providing for the forward sale of common stock, coupled with an initial security with a maturity or call date that may or may not match the common stock issuance date under the forward contract. In either case, the instrument initially takes the form either of preferred stock, with optional deferability of payments, or debt, with fixed payments. (Naturally, we view the former form somewhat more favorably from a credit perspective. In the bank sector, regulators require that the initial instrument qualify as Tier 1 capital.)

To meet our standard for "high" equity content (indeed, to be viewed as having any equity content), investment-grade issuers must issue common stock within no more than approximately three years (issuers with issuer credit ratings in the 'BB' category must issue within two years; issuers with issuer credit ratings in the 'B' category must issue within one year).

Also, the security must include a conversion price floor, and this floor must be no less than the common share price at the time of initial issuance. For example, if the stock price is $50 per share when the convert is issued (a $1,000 note is equivalent to 20 shares), at conversion the note may not be convertible into more than 20 shares, regardless of the then-current stock price. Importantly, for us to believe that such an issue warrants "high" equity content, we must be convinced that the company will be sufficiently satisfied with the outcome of common stock issuance that it will not reverse the result with share repurchases. While necessarily arbitrary, the maximum three-year time frame and presence of a floor price are essential, in our view, to warrant equity content. We believe management's assurances today about their willingness to issue common stock in the future inevitably have little credibility beyond the three-year time period. Moreover, while it's reasonable that a company would want to retain some upside in ultimately being able to issue fewer common shares if the share price appreciates, if the conversion ratio were fully variable or required the issuance of shares at a price significantly discounted compared to the Day 1 share price (like the RHINOs issued a number of years ago), the dilution would increase as the company's share price declined, testing management's resolve at the very time when enhancement of the capital base might be most needed. (Although we generally view longer dated mandatorily convertible issues as debt-like due to the long time to conversion, these may be reclassified as "high" when the remaining period to mandatory conversion falls to within three years or less, depending on our then-understanding of management's intentions.)

In the case of mandatorily convertible instruments, where the interim issue converts directly into common stock, or where, in the unit version, the initial issue matures at the same time as the receipt of the common stock proceeds, no other security remains outstanding once the common stock issuance has occurred. In contrast, in the mismatched version of the unit structure, the initial security survives the common stock issuance, and the common stock issuance results in the company raising a second set of proceeds. Although the company will then possess cash that could be used to repay debt, we would not automatically net such cash against debt; rather, we would account for the debt and equity components separately at the outset. However, the issuer can often make the case that it will actually use the second set of proceeds (that is, the equity proceeds) to pay down debt immediately and permanently. Such debt reduction could apply to a debt maturity that coincides with the equity issuance--or to short-term debt (such as commercial paper), assuming the company carries a sufficient permanent layer of such debt. In these instances, we adopt a "net" approach, which leaves the company with only the common equity proceeds. (Note: In corporates [as opposed to financial institutions] where equity content leads to an adjustment of interest expense in coverage ratios, the treatment of ongoing payments in the initial preconversion period are treated as if they were common dividends.) In any event, the company can receive recognition for the deferred equity issuance in leverage ratios, even if we view the interim issue as debt-like.

"High" equity content through linkage to common shares. In theory, an instrument could also achieve the "high" designation by mimicking some of the characteristics of common stock–-by being perpetual (or at least with a remaining life of 20 years or more) and subordinated (albeit senior to common stock), and having interest or dividend payments that are tied directly to the common stock dividend. It is acceptable for "high" equity content if the distribution is tied to the common dividend only within a certain range, with some small portion of the payment being fixed. (We would not be concerned about a ceiling on the payout.) Of course, if such an issue were sufficiently material, it could become a significant disincentive for the company to cut its common dividend. In practice, though, there seems to have been very little issuer interest in such an approach, or in issues where the payment is tied to some other indicator of financial health, such as earnings or cash flow.

"High" equity content due to mandatory deferrability. Finally, the equity content we attribute to hybrid capital issues that rely on optional deferral is constrained by our assumption that managements (and regulators, where relevant) will always be loathe to utilize the option to defer or forgo payments--perhaps until it is too late for the deferral to make any difference to the company. By removing the discretionary aspect, issues with mandatory deferral triggers can potentially achieve "high" equity content (see section "Issue Features: Mandatory Deferral"). Mandatorily deferrable securities that would warrant "high" equity content recognition would entail the following features.

High thresholds. The mere existence of a mandatory deferral provision is meaningless. Everything depends on the thresholds that define the deferral trigger. To illustrate: If the trigger for nonpayment is 10 years of losing money, that provision is virtually worthless. The company would probably have defaulted prior to the deferral provision going into effect. To be included in the "high" equity category, an instrument's trigger must go into effect at a level relatively close to the current credit profile of the issuer. One approach is to use a rating trigger. To qualify for "high" equity content, the trigger must be set at a level within three notches of the initial rating level. A threshold defined in terms of crossing over to noninvestment grade does not suffice--unless, of course, the issuer credit rating happens to be within three notches of that level. A variety of financial benchmarks can also serve as a proxy for the appropriate threshold level. These always need to be crafted to fit the specific issuer's context. In any event, we need to be mindful that a single ratio cannot entirely be relied upon to capture all of the business and financial changes the credit may have undergone

by the time the trigger activates. As noted below, we do not view this type of issue as warranting "high" equity content if the issuer is confidence-sensitive, or if the trigger could be breached when the issuer is still investment grade because risks outweigh the intended benefits.

No loopholes. For example, some deals stipulate that the mandatory deferral must be simultaneous with or only occur following the cessation of common dividends (a look-back period). As long as the company chooses to pay even a paltry dividend, the security continues to pay. Obviously, such an instrument is "mandatory" in name only.

No back-door payment mechanisms. Many proposed high-equity structures provide for requiring payment or allowing payment in common stock while mandatory deferral is in effect, under the terms of so-called alternative payment mechanisms (APM; see section "Issue Features: Alternative Payment Mechanisms/Alternative Coupon-Settlement Mechanisms (APM/ACSM)"). While appealing on the surface, we believe such provisions could defeat the purpose of mandatory deferral. The likelihood is that the company will feel pressured--if not actually obliged--to make the payment, and then turn around and repurchase the stock it issued (unless it were otherwise inclined to issue common stock for whatever reason). Ironically, the higher the threshold of the instrument, the greater the likelihood the company would pay and repurchase. To meet our requirements for "high" equity content, APMs are acceptable only if they take effect five years or more after the initial breach of the trigger.

Permanence. Excluding mandatorily convertible issues, to qualify for "high" or "intermediate" equity content, there must be assurance that the issue—or a successor issue warranting a similar or higher degree of equity content-—will be a component of the issuer's capital base for a long time. We apply a common standard regarding remaining time to maturity to all investment-grade financial institutions (including insurance companies) and corporates, in all regions. Under this standard, we require a hybrid capital issue to have a remaining term of at least 20 years to receive our "intermediate" or "high" equity content designation. (See section "Issue Features: Maturities/Scheduled Maturities.") The ability to call can give reason for pause, since it puts into question whether the issue will remain outstanding beyond the initial call date. However, where an issue contains a call provision, the issuer has the option to redeem the issue, but no obligation to do so.

As long as we believe the issuer intends either to keep the issue outstanding or refinance it with the proceeds of another issue warranting comparable equity content, we do not view the call date as an effective maturity (see section "Issue Features: Call Provisions"). In recent years, many hybrid capital issues have coupled calls with mechanisms clearly designed to penalize the issuer if the call is not exercised, such as step-ups. While such provisions can enable the issuer to benefit from lower funding costs, since investors assume the issue will be called, they can fly in the face of any notion of permanence, absent mitigants, such as legally binding replacement capital covenants. We have developed guidelines for assessing such provisions (see sections "Issue Features: Call Provisions," "Issue Features: Step-Ups, Resets, Remarketing," and "Issue Features: Replacement Capital Covenants").

Subordination. Subordination (i.e., subordination to all conventional debt) is necessary to meet the criteria for the "high" or "intermediate" equity content category, when based on tight mandatory deferral. The original premise of modern, tax-deductible preferreds was that they would provide deep subordination. However, in reaction to some tax authorities' apparent sensitivity to full subordination, this feature was watered down. Virtually all U.S. trust-preferred securities, for example, are subordinated to indebtedness--but pari passu with trade creditors. While the lack of full

subordination weakens the equity content for all such securities, we have not automatically excluded those securities from the "high" or "intermediate" equity content category.

With mandatorily deferrable issues, investors are taking substantial risk--well beyond the corporate default risk--and this risk is reflected in relatively low ratings on the securities themselves (as discussed in "Rating The Issue (Notching)" below).

The benefits of mandatorily deferrable issues could be offset by exposing the company to negative market responses, in the event of a looming or actual deferral. This is more pronounced in times of market turbulence, when "headlines" can dramatically affect financial institutions' funding flexibility, whatever the state of credit fundamentals otherwise. We believe that for companies that are confidence-sensitive--notably, financial institutions, including insurance companies--deferrals driven by mandatory triggers could result in more harm than the benefit realized by reduction in debt service obligations. Accordingly, we do not consider hybrids with tight mandatory triggers as eligible for "high" equity content for confidence-sensitive issuers.

More broadly, even for issuers in less confidence-sensitive sectors, if the triggers halt payment while the company is still far from being incapable of making the payments, the benefits of reduced debt service could turn out to be small relative to the potential headline risk and investor reaction--especially in cases where the trigger threshold is at a level where the company is investment grade. The company could pay a price in terms of its financial flexibility. (Alternatively, the company would be motivated to avoid the deferral by retiring the issue.) These risks associated with mandatory deferrals are recognized in qualitative aspects of our analysis, no matter how the security is treated for ratio-calculation purposes.

Specific features of the security could mitigate or heighten the risk--and recent proposals for securities structured to achieve high equity content have included features that are pertinent to the issues we have raised in this section. In this regard, the trigger must not be opaque or overly complex. It can be defined by a ratings downgrade or breach of various financial benchmarks that serve as a proxy for credit quality. Any metrics used in defining the triggers need to be straightforward and highly transparent. But they also must be customized for the specific context of the issuer. Complexity may be hard to avoid, especially given the interplay of business risk with financial indicators of credit quality. (This can be especially challenging in sectors such as regulated utilities, where the business risk profile plays an outsize role.)

Some structures shift deferral risk from the investors by introducing a financial counterparty to stand in for the company at the point of deferral. By effectively dealing with the direct risk to investors, market reaction might arguably be muted. Still, the need for third-party intervention could produce similar negative responses. Moreover, the relationship of such a counterparty vis-à-vis the issuer could give it special clout to avoid or undo the cash savings of any deferral.

"Intermediate" equity content

This category encompasses a wide range of instrument types and accounts for the overwhelming majority of hybrid issues. "Intermediate" equity content hybrids have substantial equity-like characteristics. These include features that help protect credit quality in the event of financial distress. If such hybrids substitute for plain vanilla debt, they improve the overall quality of the issuer's capitalization. Nevertheless, an "intermediate" equity content hybrid is also

debt-like in some respects, typically due to the relatively fixed nature of the dividend/interest on an ongoing basis, given investor expectations. Noncumulative perpetual preferred stock (noncumulative in the sense that where the company passes on a dividend, there is no obligation to eventually make this up) is the most equity-like of the instruments we view as warranting "intermediate" equity content. As the name suggests, such an issue has no maturity date or repayment obligation, so the equity benefit does not diminish over time. It is subordinated to all debt and other liabilities of the company. And the company can choose not to declare dividends at its discretion, with no limitation on the length of time it can do so-—except that it cannot pay common dividends while it is deferring on the preferred dividend--and no obligation to make up missed payments. (In some cases, after a certain period of time, such as six quarters, during which dividends are not declared, preferred shareholders have the right to appoint a small number of directors to the company's board of directors. However, while this board representation is enough to pose a nuisance to the company, the preferred stockholders still have only limited ability to pressure the company for compensation.)

Yet, we don't generally view noncumulative preferred stock as warranting more equity content, given our assumption that managements are loath to exercise the right to defer payments (except in the case of regulated companies where this affects the regulatory capital treatment). Investors expect to be paid, and, short of severe financial distress, companies will be reluctant to disappoint investors, for fear of the capital markets' reaction. (In the case of regulated issuers, the regulator, in theory, could be more proactive about insisting that payments be forgone. Historical evidence is lacking, however, that this has been the case.) While, on balance, we believe noncumulative distributions are more supportive of credit quality than are cumulative payments, we recognize that the greater potential harm to investors-–since missed payments are never made up—could make companies even more reluctant than otherwise to exercise the right not to pay. Moreover, in cases where dividends on noncumulative perpetual preferred are not tax deductible (as in the U.S., but not in the U.K.), the relatively high after-tax cost of the issue could motivate the company to refinance it under certain circumstances-–belying the nominal perpetual life.

(Note: We also don't make a distinction in our analytical treatment of cumulative issues between those where deferred payments accrue interest and those where it doesn't. The latter are more equity like in that the payments the issuer ultimately must make up are smaller. However, the difference is unlikely to affect the issuer's financial profile meaningfully.)

Since 1993, U.S. companies have been issuing what we term "conventional" trust-preferred stock. This term is used to refer to a class of instruments that take different legal forms--being issued via a trust, via a partnership, or directly by the company. Trust-preferred structures can differ in other regions, but in the U.S., the common features from a credit perspective are as follows:

- A term of 30 to 40 years;
- Deep subordination, although senior to noncumulative perpetual preferred stock in certain cases; and
- Optional deferral of dividends for up to five years, at which point any arrearage has to be paid, or a legal default results.

Conventional trust-preferred stock, as defined above, is somewhat less equity-like than is noncumulative preferred stock, but nonetheless still warrants "intermediate" equity content under our criteria. Although a term of 30-40 years is less supportive of credit quality than a perpetual term, 30-40 years is nonetheless a long time in the life of any issuer,

generally being longer term than the overwhelming majority of its debt obligations. We don't believe different degrees of deep subordination are significant from creditors' perspective. And while the longer the company can defer or forgo payments the better, five years should be long enough for most companies that fall on hard times to effect a turnaround—if the company is going to survive at all.

Since 2005, U.S. companies have been issuing what we term "enhanced" trust-preferred stock, typically having the following features:

- A term of 40 to 60 years;
- Deep subordination—in some cases with the issue being junior to conventional trust-preferred issues; and
- Optional deferral of dividends for up to 10 years, and, in some cases, no legal default even if there is continuing nonpayment after 10 years.

The longer the ability to defer or forgo payments, the better, from the perspective of equity content. To highlight this point, as we apply our framework to financial institutions (excluding insurance companies), we distinguish between instruments where deferral is limited to five years, which instruments potentially receive our "intermediate-adequate" equity content designation; and instruments where deferral or nonpayment can exceed five years, which potentially receive our "intermediate-strong" equity content designation (as is the case with most trust-preferred instruments issued in Europe). We don't make such a distinction in other sectors.

Just as in the case of "high" equity content instruments, as discussed above, an instrument must have a remaining life of 20 years or more to continue receiving the "intermediate-strong" or "intermediate-adequate" equity content designation. Myriad "bells and whistles" are found in conjunction with the basic structures described here. Some of these can qualify the extent to which the instrument can be viewed as permanent or semipermanent.

Many issues completed in recent years have included call provisions that are combined with step-ups or other repricing mechanisms that are clearly designed to motivate the issuer to call the issue—even if it is not optimal for the issuer to do so at that point, from a credit perspective. Where the call date is at least five years from the initial issuance date, the increase in cost is moderate, and there are adequate offsetting provisions (e.g., a legally binding replacement capital covenant), the instrument can nonetheless qualify for "intermediate" equity content under the guidelines we have developed (see sections, "Issue Features: Step-Ups, Resets, Remarketing," and "Issue Features: Replacement Capital Covenants).

In addition, many recently completed issues have included provisions designed to limit the extent to which investors bear the risk of deferral. Conventional U.S. trust preferred has "unfettered deferrability," by which we mean that the company can optionally defer for the full five-year period without being required to undertake any issuance of common stock or additional hybrid capital. In some other cases, APMs are included that require the issuer, under certain circumstances, to undertake the issuance of common stock or additional hybrid capital, and utilize the proceeds to make the dividend/interest payment that it would otherwise defer.

We believe such a requirement--becoming effective at a point when the issuer's common stock price quite possibly would be depressed and its ability to issue new preferred stock on acceptable terms dubious--undermines the value of optional deferrability, since it could lead the issuer to be even more reluctant to exercise the deferral option than

would otherwise be the case. We have developed guidelines for determining when such provisions are still consistent with "intermediate" equity content (see section "Issue Features: Alternative Payment Mechanisms/Alternative Coupon Settlement Mechanisms (APM/ACSM)").

Some issues seek to strengthen equity content through the use of mandatory triggers by decreasing reliance on management's discretion (see section "Issue Features: Mandatory Deferral"). However, if the triggers are set at a level so remote that the company, at the point the triggers were breached, would likely be contemplating optional deferral anyway, they may add little to the optional deferral provision alone. In some cases, mandatory triggers are coupled with APMs, as discussed above. Unlike with "high" equity content instruments, we believe it is acceptable in the case of "intermediate" issues if the APM becomes effective immediately upon the breach of the trigger or after some fixed time short of five years. However, where this is the case, we believe that it is necessary for there to be restrictions on the company's ability to repurchase any securities issued under the APM, or the objective of cash conservation could be thwarted.

"Minimal" equity content

The "minimal" category includes some instruments with significant equity attribute(s), but which, as a whole, fall short of our standards for "intermediate." This category includes, for the most part, either subordinated issues with deferrable payments, but where there are fewer than 20 years remaining until the maturity, or long-lived subordinated issues with deferrable payments, but where the ability to defer is limited to fewer than five years or otherwise restricted. One example of the latter is certain Tier 2 or Tier 3 subordinated issues of banks on which the interest payments are not subject to optional deferral, but where the payments can be restricted by a relatively loose earnings test. Another example would be corporate issues that have all the main features of conventional trust preferred, except that they carry debt nomenclature-–which we believe could cause management to be even more reluctant than usual to exercise the right to defer payments, given the added headline risk of not paying on a debt instrument. (Such instruments can achieve "intermediate" equity content when in the form of enhanced trust preferred, given the offsets of the extended deferral feature and longer term.)

While, as discussed below, instruments with "minimal" equity content are treated as debt for ratio calculation purposes, that isn't to say that we disregard their equity-like characteristics in our analysis. Rather, we take account of them qualitatively. Given the varied attributes of any hybrid capital instrument--however categorized--financial ratios, at best, tell only part of the story.

Instruments structured as hybrid capital issues that fail to meet our standards for "high" or "intermediate" equity content do not necessarily warrant even the "minimal" equity content designation, in our view. Some are predominantly debt-like, and so are viewed as such. Examples include:

- Subordinated debt, where there is no deferability of payments. Here, we believe the inflexibility of the ongoing payments far outweighs the equity-like aspects.
- Very long-dated or perpetual senior debt, where there is no deferability of payments. Again, we believe the inflexibility of the payments more than offsets the equity-like aspects.
- Auction-rate preferred stock. Although nominally perpetual and subordinated, and having dividends that are deferrable, this instrument has a dividend rate that is reset through an auction process at very short-term intervals. Given a failed auction, the issuer is likely to come under intense pressure from investors to retire the issue.

- Mandatorily convertible issues where conversion into common occurs more than three years from the current time, or where there could be greater share dilution than permitted under our guidelines. In such cases, we would be concerned that a repurchase of the shares would follow the share issuance, and that the risk of this occurring could be greater the more depressed the issuer's share price.
- Instruments-–where adequate equity-like features are otherwise lacking--that can convert into common stock at the option of the holder, and where the conversion option becomes attractive to investors only when there is share price appreciation (see section "Issue Features: Conversion Into Common Stock And Share Settlement").
- Certain instruments that could convert into common stock-–mandatorily or at the option of investors-–but where the issuer then has the alternative of redeeming the issue for cash.

Applying Hybrid Capital Equity Content Assessment In Credit Analysis

Different attributes of equity hybrids are relevant to different dimensions of our analytical methodology. The aspect of ongoing payments is considered in fixed-charge coverage and cash-flow adequacy; equity cushion is considered in leverage, capital adequacy, and asset protection; the need to refinance upon maturity is considered in liquidity; and the potential for conversion is considered in financial policy. The before- and after-tax cost of paying for the funds also is a component of both earnings and cash flow analysis.

In our analytical methodology, we take account qualitatively of a hybrid capital issue's varied effects on the issuer's credit profile. We have also developed techniques for factoring in hybrid capital in our calculation of certain financial ratios-–knowing, though, that any such adjusted ratios represent a simplified view, and certainly do not tell the whole story.

In assessing hybrid capital issues' equity content, we use a common framework across our Corporate and Financial Services practices and across regions. In applying our conclusions, though, there are significant differences, reflecting the different nature of the companies and in our rating methodologies among sectors.

In our analysis of corporates, we have found that among all the possible ways to represent "intermediate" issues in financial ratios, the most effective is to split hybrid-related amounts 50%-50% between debt and equity.

Compared to the norm for corporates, most types of financial institutions (aside from insurance companies) are highly leveraged and have heavy funding appetites. In our analysis, the quality of capital is an important consideration. In considering regulated financial institutions (including insurance companies), we must pay particular attention to the matter of capital adequacy relative to regulatory capital requirements. In turn, the hybrid methodology does not follow the "partial credit" approach used for corporates; rather, for capitalization ratio calculation purposes, it grants full equity content within certain threshold limits, which are set depending on the degree of equity content.

Applying Hybrid Capital Equity Content Assessment In Credit Analysis: Corporate Methodology

Under our corporate methodology:

- Hybrids with "minimal" equity content are treated entirely as debt for ratio purposes;

- Amounts relating to "intermediate" category hybrids are split into 50% debt and 50% equity; and
- Hybrids with "high" equity content are treated entirely as equity for calculating ratios.

This approach is followed in our analysis of capital structure, as well as of cash flows and fixed-charge coverage. That is, for "minimal" equity content instruments, all related dividend or interest payments (however defined legally) are treated as a fixed charge; for "intermediate" equity content instruments, 50% of the related payment is treated as a fixed charge and 50% as the equivalent of a common dividend; and for "high" equity content instruments, all related payments are treated as if they were the equivalent of a common dividend—i.e., they are not included in fixed charges. (See also "Standard & Poor's Encyclopedia of Analytical Adjustments for Corporate Entities," published July 9, 2007, on RatingsDirect.)

As discussed above, in assessing a hybrid capital instrument's equity content, we consider the financial reporting treatment of the issue, since this can influence management's actions and the market's perception. However, in performing our ratio calculations, we reallocate as necessary between debt and equity, and between interest expense and dividends, in accordance with our analytical methodology, and our treatment is not driven by the accounting treatment.

We know our approach to calculating ratios is a simplified one, inevitably leading to some distortions. So, for example, as discussed above, we don't view "minimal" equity content issues as fully debt-like, nor do we view "high" equity content issues as the exact equivalent of common stock. And, for intermediate issues, there are cases where the 50%/50% allocation will skew ratios in a positive or negative direction (depending on the initial financial profile of the issuer and the use of proceeds), where our overall analytical interpretation of the hybrid issuance would be the opposite. Moreover, in the case of "intermediate" issues, the company will generally either pay the stipulated amount or defer it; it is rare for there to be a partial payment.

These drawbacks speak to the limited value of financial ratios where hybrid capital issues are concerned. These instruments represent a bundling together of different features, which have a varied effect on the issuer's credit profile. We haven't devised a means of calculating financial ratios that better captures such subtleties.

Prior to mid-2006, for hybrids with intermediate equity content, we computed financial ratios both ways-—viewing them alternatively as debt and as equity, i.e., we calculated two sets of coverage ratios--to display deferrable ongoing payments entirely as ordinary interest and alternatively as an equity dividend. Similarly, two sets of balance-sheet ratios were calculated for the principal amount of the hybrid instruments, displaying those amounts entirely as debt and entirely as equity. For hybrids in the middle category, analytical truth lies somewhere between the two, and we sought to interpolate between the two sets of ratios to arrive at the most meaningful depiction of an issuer's financial profile. However, this methodology also had drawbacks, including the challenges for issuers in appreciating the potential impact on our view of their financial profile. Therefore--notwithstanding the issues mentioned above--we decided to calculate ratios with the amounts relating to intermediate category hybrids split 50%-50%. This is the set of ratios we now emphasize as the basic adjusted measures, and these are the ratios we publish in our reports. We believe this approach has greater transparency and ease of comparability-—thereby outweighing the negatives. We continue to encourage analysts to view hybrids from all perspectives.

Under our corporate methodology, there is no hard-and-fast limit to the amount of hybrid capital for which we

recognize equity content. Nonetheless, without drawing any bright lines, we would, indeed, be sensitive at a certain point. That is not because the character of the security changes when a lot of it is issued. Rather, beyond a certain point, a company's nonstandard, complex, or over-engineered balance sheet begins to put its financial policies in a negative light. In turn, this could lead to market pressures to restructure or normalize company finances. This concern would be compounded to the extent that a company also uses various off-balance-sheet financing vehicles, derivatives, and long-term contracts, and/or other techniques that contribute to an overall opaque financing structure. The perception of financial aggressiveness--by us or by the investment community--would certainly overshadow any theoretical benefit from the equity content that might be afforded to hybrid securities. It helps to focus on measures that would indicate little or no concern. In simple terms, there should be no problem with issuing conventional hybrids in an aggregate amount up to 15% of capitalization. (Capitalization is defined as debt + hybrids + book equity, adjusted for goodwill and also making all our other standard adjustments.)

For corporates and financial institutions (excluding insurance companies), ratio calculations incorporate capital only after it is issued—or its issuance is mandatory within a relatively short period. Even though a company has contracted for the right to sell equity at its discretion and even has fixed a price, we do not include such contingent capital in advance. This treatment applies whether the contingent capital is provided by a financial counterparty or structured vehicle, whether prefunded or not.

That said, contracting for contingent capital can be very valuable as a credit support in specific situations. For example, a company might find its credit rating under pressure because of a potential acquisition or expansion; and management's stated intention to issue equity to finance such activity may not be entirely convincing. Arranging contingent equity capital in advance could be just what is needed to allay any concerns regarding a credit-harming outcome. The company would not want to issue equity prior to the transaction materializing. But locking in the availability and cost on a contingent basis makes sense as an "insurance policy." In the insurance sector, given the "lumpiness" of potential losses, we give formal recognition in capital ratios to certain contingent capital structures (see section "Applying Hybrid Capital Equity Content Assessment In Credit Analysis: Insurance Methodology").

Corporate methodology: Corporates' operating subsidiaries issuing equity hybrids

Many corporates structure their operating units as distinct legal entities, owned, controlled, and consolidated by the parent company. (This is especially the case in the utility business, where the operating subsidiaries are regulated entities. It is also the case for financial institutions [including insurance companies], but this note relates only to corporate issuers.) If such operating subsidiaries issue equity hybrids, the rating benefit extends to the parent company and the larger consolidated entity--inasmuch as our analysis focuses on the consolidated economic entity.

Issuance at the subsidiary level raises some questions regarding how the equity aspects help parent company creditors. In particular, the lack of subordination from the perspective of the parent's creditors and the potential for trapping funds at the subsidiary are two concerns that differentiate subsidiary issuance from parent issuance. However, we believe the equity content for the parent is generally deserved, as explained below.

A critical element of equity is subordination--and equity hybrids feature deep subordination (with the occasional exception of trade payables). The significance of subordination is twofold. It creates a cushion to absorb losses prior to bankruptcy, which leads to higher recovery (loss given default) on senior issues. In turn, the better recovery prospects

for senior issues allow the company greater access to (senior) capital, enabling it to stave off a default in the first place. It is precisely this latter consideration that is important for the corporate credit rating.

In the case of subsidiary issuance, the subordination pertains to other claims against that subsidiary--but the hybrid's claim actually is senior to claims of parent company creditors. This priority of claims is referred to as structural subordination (of parent company creditor claims, even senior debt claims).

Nonetheless, equity issued by a subsidiary enhances capital access by reassuring potential debt providers to the subsidiary itself. As long as the subsidiary is positioned to raise additional funds--and it can direct those funds to its parent or affiliates--the default risk for the entire consolidated entity, including the parent, is lower. (As far as recovery prospects, parent company debt issues are indeed disadvantaged by adding to operating company claims. Our recovery ratings and notching of parent issue ratings reflect such priority claims.)

As noted, we normally assume that parents and subsidiaries are free to direct cash at will throughout the consolidated group. (Indeed, in cases where this is effectively restricted--for example, by regulators or covenants--we do not apply the consolidated rating methodology.) Thus, the ability to defer payments on the equity hybrid is beneficial, not just for the immediate subsidiary that issued the hybrid, but also for the group as a whole, since the cash conserved can be directed to affiliates as needed.

There is a concern, however, that cash conserved by the subsidiary from dividend deferral may not be available to its affiliates by virtue of the typical dividend-stopper provisions in the hybrid security. These provisions force the cessation of common dividends as long as the hybrid periodic payments are being deferred. If the dividend stopper pertains to dividend payments by the subsidiary to its parent, the cash conserved may be trapped at the subsidiary, limiting the equity benefit associated with the hybrid.

There are, however, mitigating considerations regarding the dividend stopper.

- There is no requirement that a dividend stopper should apply to intercompany dividends. Some utilities have issued subsidiary securities that restrict payment of dividends by the parent on parent common stock; the subsidiary is free to pay dividends to the parent. (The linkage to parent company dividends adds a disincentive to defer. However, this consideration applies broadly to equity hybrids issued by the parent company. Accordingly, the issuance via a subsidiary is no more problematic than if the parent were the issuer.)
- There usually are ways other than common dividends to transfer cash intercompany, including, for example, loans and advances. Moreover, the dividend-stopper clauses of some utility hybrids have actually spelled out and permitted the upstreaming of cash payments to the parent for specific operating needs. (Of course, if there are constraints in individual situations--such as tax-related issues--our analysis will take the specific fact pattern into account.)
- The scenarios under which hybrid payments are deferred could well involve stress at the issuing subsidiary itself. (Indeed, the more significant the role of a particular operating subsidiary relative to its group, the more likely that the group's distress emanates from that operating subsidiary.) In that case, the cash conserved directly assists the subsidiary in meeting its various obligations. Indirectly, the parent benefits by avoiding the need to downstream cash to help its subsidiary.

Note: We analyze hybrid capital issues of corporates' finance subsidiaries utilizing our financial institutions framework.

Corporate methodology: Leveraged buy-out equity hybrids: Too good to be true

For the past few years, leveraged acquisition activity has employed ever-greater financial leverage. To stretch still more, equity hybrids have been introduced for such buyouts.

A recently popular hybrid security for this purpose provides leveraged buy-outs (LBOs) with a modicum of equity--or, at least the appearance of equity. The security is a preferred stock held by owners of common stock, and has the following terms:

- Perpetual;
- High dividend yield;
- Option of payment-in-kind (PIK), at the discretion of the company, for life of security;
- Some versions provide for PIK only, with no cash payments of dividends for life of security;
- Deeply subordinated; and
- Needs to be redeemed only upon change of control.

At first blush, the security is extremely equity-like. However, we are skeptical about this security's benefit for the company's long-term credit quality. We do not assign it any equity content, and treat it as debt in calculating credit ratios.

We specifically are concerned about the incentives created by this structure to pay the dividend in cash where possible--even when not required--and/or orchestrate a change of control. The LBO context (i.e., very aggressive financial policies of owner/sponsors) heightens our concerns. In the case of aggressive LBO owners, common equity itself is ephemeral: Indeed, for most LBOs, the overarching rating consideration is the risk associated with future owner actions, rather than the specifics of the current balance sheet. (Please see "Credit FAQ: Knowing The Investors In A Company's Debt And Equity," published April 4, 2006, on RatingsDirect.)

Roadmap for redemptions

The current genre of equity sponsors, to generalize, has a track record of taking out its investment in owned entities very quickly, via cash dividends and fees of all types. We should not expect these controlling shareholders to defer cash payment of dividends on preferred securities they hold. Rather, the preferred should be seen as a vehicle--apart from other ways to extract cash--for owners to cash out. The yield on these securities is usually quite robust. Thus, the preferred is a roadmap for one avenue owners can use to take out significant amounts of cash.

If there is no cash payment option, there will be no cash payments, of course. But the owners will still want to see a return on the investment represented by the preferred stake--especially as the value of the preferred investment accretes quite rapidly, given the high dividend accrual rate. The change-of-control redemption provision can provide the mechanism for doing just that.

Change-of-control redemption

Even though the common share owners can cash out in various ways, there is often a growing incentive to realize the value of their preferred stake. Indeed, their investment will shift to the preferred stock--as taking out common dividends reduces the common equity, while paying the preferred dividends in kind leads to an ever-larger preferred investment. Ultimately, the preferred value may exceed the common value many times over.

This sets the stage for recapitalizing. The owners can orchestrate a change of control to trigger payment of the preferred. The change can be bona fide or contrived. Either way, the preferred likely will be replaced with debt.

Because the entity will be saddled with the takeout debt upon the expected change of control, we view this security as eventual debt, rather than equity, and include that debt immediately in metrics such as debt/cash flow.

In other instances where there are incentives to replace hybrid equity securities, we similarly are concerned that they will be replaced with debt, and we grant no equity content. For example, we presume hybrids with a substantial step-up will be called and replaced with debt in the absence of any specific replacement commitment.

Note that we ordinarily treat potential change-of-control as event risk. Change of control instigated not from within the company, but from without, is unpredictable and deemed to be beyond the pale of ratings analysis. However, regarding the context addressed here, change-of-control is foretold by the terms of the security and the structure of the capital base.

Corporate methodology

Real estate investment trusts REITs have become increasingly popular in a growing number of countries. A defining characteristic of a REIT is that it does not pay income taxes, but holders of REIT equity, including both common and preferred stock, pay taxes on the dividends received. Tax rules typically require REITs to pay dividends equal to a very high percentage of their earnings.

Similar to the way we view other unregulated corporates, we are concerned about the permanence of REIT hybrid capital. U.S. equity REITs have often refinanced "perpetual" preferred stock with debt. We attribute "minimal" equity credit to most REIT preferred securities, fully burdening the fixed-charge coverage metrics with the preferred dividend.

We have concluded that although REITs may be less likely to defer payment of preferred dividends because of their special dividend payout characteristics, the difference in deferral risk generally does not warrant a different rating outcome for the instrument. (See "Issue Features: Dividend Stoppers, Look-Backs, and Pushers," below.)

Applying Hybrid Capital Equity Content Assessment In Credit Analysis: Financial Institutions Methodology (Excluding Insurance)

In assessing financial institutions' hybrid capital securities, we employ the same broad equity content categories as with corporates-–"high," "intermediate," and "minimal." To reflect certain finer distinctions linked to regulatory capital, within the "intermediate" category we differentiate between "strong" and "adequate" issues.

Two sector-specific considerations significantly influence our approach to assessing equity content in the case of financial institutions.

First, in the case of regulated financial institutions, regulators have the power to intervene in companies' operations, and they typically determine whether to do so based, at least in part, on their own definitions of capital adequacy. Consequently, and due to the importance of regulatory capital, when assessing individual instruments and their specific features, we take account of the regulators' view. We don't follow the regulators exactly. Rather, we have developed generalized guidelines that vary somewhat from regulators' to facilitate cross-border comparisons.

Qualification as regulatory capital (Tier 1 or Tier 2) is a mandatory requirement for us to include a hybrid security in our total capital measures for regulated companies. If the regulator excludes an instrument from regulatory capital, the instrument provides no cushion between minimum capital and regulatory action, which could include closure. Whereas we are sometimes more conservative than regulators as to where we place a hybrid security in our hierarchy of equity content (compared to regulators' own classification hierarchy), we are rarely more liberal.

The home country financial regulators' capital policy is inscribed in the terms of most bank hybrid capital issues. Not only will the regulatory treatment influence the chosen structure of a hybrid instrument, but the redemption and refinancing of hybrid capital instruments typically is subject to regulatory review. Regulators typically can intervene to enforce the suspension of hybrid coupon payments, restrict the amount of hybrids that an entity can issue, and require any redeemed hybrid to be replaced with an instrument of equivalent strength. Regulators define and accept hybrid capital instruments to allow financial groups to build and manage regulatory capital. They seek instruments that rank below debt in liquidation and that absorb losses while permitting the financial institution to continue to operate. Bank regulators in mature and emerging countries around the world have adopted the Tier 1 and Tier 2 categories of hybrid instruments developed and defined by the Basel Committee on Banking Supervision to rank the instruments by relative capital strength and to regulate capital and leverage in the industry. Bank regulators distinguish between "plain vanilla" subordinated debt, which provides protection to depositors and senior creditors in liquidation, and stronger types of regulatory capital, which defer or eliminate coupon payment under defined circumstances. In many countries, and notably in the EU, regulators further define Tier 2, setting specific standards for eligibility as upper and lower Tier 2 capital. Consequently, when we review a financial institution's hybrid capital instrument, the regulatory intent with respect to the instrument is a dominant factor in our analysis of equity content and payment deferral risk.

The second sector-specific consideration that influences our approach to this sector is that financial institutions are typically characterized by a high degree of financial leverage and heavy ongoing funding requirements. The quality of capital and its ability to provide a cushion against insolvency and liquidity risks are of paramount importance.

Consequently, we apply varying limits to the inclusion of hybrid securities in our capital measures for financial institutions. This parallels the regulatory approach and best fits the highly leveraged nature of financial services companies. These limits vary by degree of equity content: high equity content hybrid securities are subject to higher limits than are intermediate-strong hybrid securities, which are subject to higher limits than are intermediate-adequate hybrid securities (see table 2).

Table 2a

Equity Content Categories - Financial Institutions

Equity content desgnation	Maximum included in adjusted total equity (ATE)*	Examples
High	Up to 50% of adjusted common equity (ACE)	Short-dated mandatory convertible securities (less than three years)
		Issues with participating coupons
Intermediate-strong	Up to 33% of ACE	Noncumulative, perpetual preferred stock
	Up to 18% or 33%** of ACE	Enhanced trust preferred
Intermediate-adequate	Up to 12% of ACE	Conventional trust preferred
Minimal	Not included in ATE	Issues that otherwise qualify for "intermediate" or "high" but have remaining lives of less than 20 years.

Table 2a

Equity Content Categories - Financial Institutions (cont.)

*Maximum amounts are cumulative of lower-designated securities. For example, an issuer that had already issued "intermediate-adequate" hybrids in an amount equal to 12% of ACE could get equity credit for additional "high" issuance up to 38% of ACE (thereby totaling 50%) or up to 21% of ACE in the form of noncumulative perpetual preferred stock (an intermediate-strong instrument, which, by itself, would receive equity credit up to 33% of ACE), thereby aggregating 33% of ACE. **Enhanced trust preferred of regulated N.A. financial institutions is limited to 18%.

Table 2b

Definitions Of ACE And ATE

Common shareholders' equity (as reported by company)	
	(+) Minority interest-equity
	(-) Dividends (not yet accrued or distributed)
	(-) Revaluation reserves
	(-) Goodwill and nonservicing intangibles
	(-) Interest-only strips
	(-) Tax loss carryforwards
	(+/-) Postretirement benefit adjustments
	(+/-) Other adjustments
= Adjusted common equity	
	(+) Preferred stock and hybrid capital instruments (subject to limits)
	(+) General reserves
	(+) Unrealized gains
	(-) Equity in unconsolidated subsidiaries (financial companies)
	(-) Capital for insurance subsidiaries
	(-) Adjustment for securitized assets
= Adjusted total equity	

Like the regulators, we limit the proportion of hybrid securities in our capital ratios because excessive reliance on hybrid securities increases financial leverage due to the fixed cost of servicing the hybrids and potential concentrations in the redemption dates of dated or callable instruments. The servicing cost of hybrids is less flexible than that of common equity, and many hybrids are less permanent than common equity. Investors expect hybrid securities to pay a fixed coupon. Hybrids often contain features that create incentives for management to retire the instrument, or to repurchase common shares that might be issued as a result of a conversion clause. Moreover, many hybrid securities include highly complex combinations of different features and are still relatively novel and untested, making it difficult to foresee how the securities would perform for issuers in different scenarios--and may cast doubt over how they would absorb losses on a going-concern basis. Thus, a prudent financial policy dictates a degree of caution about reliance on capital in this form.

In the same vein, banking regulators impose restrictions on call and step-up features to limit the incentives to retire regulatory capital that is intended to be permanent. In 1998, the Basel Committee on Banking Supervision issued a notification for regulators to limit acceptance of "innovative capital instruments" with calls and step-ups to a maximum of 15% of Tier 1 capital and to subject innovative hybrids to stringent conditions:

- The call option with step-up should be a minimum of 10 years after the issue date;
- The step-up should be less than or equal to 100 basis points (bps), less the swap spread between the initial index

basis and the stepped-up index basis; or the step-up should be less than 50% of the initial credit spread, less the swap spread between the initial index basis and the stepped-up index basis;
- There should be no more than one rate step-up during the life of the instrument; and
- The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate.

Regulators in mature banking markets around the world generally have implemented the 15% Tier 1 limit on innovative hybrids broadly in line with the conditions suggested by the Basel Committee (although there are some exceptions based on the "grandfathering" of previous regulatory agreements).

The following are noteworthy points about our financial institutions methodology:

- As shown in Table 2, we express our caps in terms of percentages of "adjusted common equity" (ACE), as defined. In our capital measures, hybrid capital is included in "adjusted total equity" (ATE), which is a broader form of capital than ACE. Defining our caps in terms of ACE avoids the circularity that otherwise would result if the cap definitions were based directly on ATE.
- We differentiate the equity content of hybrid securities with deferrable payments limited to five years or less (such as conventional trust preferred) and instruments with longer deferral (such as enhanced trust preferred and noncumulative perpetual preferred). The former are typically "intermediate-strong" and the latter "intermediate-adequate."
- Given regulators' role in overseeing and authorizing any refinancing, we are not as concerned about call provisions as with unregulated issuers. Where an issuer is regulated and we believe the regulator will ensure that any refinancing would not be credit-harming, we do not penalize issues with call dates earlier than five years. And even where a call is coupled with a moderate step-up, we do not require a legally binding replacement capital covenant, unless the call date is less than 10 years from the date of the initial issuance. (See sections "Issue Features: Call Provisions" and "Issue Features: Step-Ups, Resets, Remarketings.")
- Hybrid securities with mandatory deferral triggers are never viewed as warranting "high" equity content in the case of confidence-sensitive entities (i.e., financial institutions, including insurance companies). Given financial institutions' heavy funding requirements and need to preserve access to capital markets, hybrid securities with mandatory deferral triggers could result in more harm--stemming from negative market responses--than the benefit derived from reducing debt service obligations. (See section "Issue Features: Mandatory Deferral.")

The following are noteworthy points regarding our approach to U.S. financial institutions in particular:

- The Federal Reserve is considered the leading regulatory authority with respect to hybrid securities by the other bank and securities regulators, who lack detailed frameworks of their own. Thus, we generally assume that the Federal Reserve framework is applicable to all regulated U.S. banks and securities firms.
- Unlike bank regulators in most other countries, the Federal Reserve does not allow issues with step-ups less than 30 years from the initial date of issuance as regulatory capital. This is the approach we take, then, to issues of regulated U.S. financial institutions.
- Our perception is that the Federal Reserve draws a sharp distinction between Tier 1 and Tier 2 capital, placing much greater emphasis on the former in its assessment of capital adequacy (see Table 3). As a consequence, for regulated U.S. financial institutions, we give equity credit only to issues that qualify for Tier 1 regulatory treatment, whatever their characteristics otherwise.
- Generally, in the case of instruments in the intermediate–strong category, we allow for inclusion of the amount outstanding up to 33% of ACE. In the case of U.S. regulated financial institutions, we have a limit of 18% for enhanced trust preferred. (Conventional trust preferred, which we classify as intermediate–adequate, is limited to

12%. Noncumulative perpetual preferred can still qualify for intermediate-strong, up to 33% of ACE.) This special treatment is driven by U.S. regulatory considerations. Specifically, under new rules for determining Tier 1 capital that the Federal Reserve adopted in 2005 and that take effect in first-quarter 2009, so-called "restricted core capital elements," which include trust preferred and other cumulative preferred, are to be limited to 15% of the sum of "core capital components," net of goodwill, for bank holding companies deemed to be "internationally active" (see Table 3). While the Federal Reserve's restriction is limited to internationally active banks (i.e., those with $250 billion or more of consolidated assets or having $10 billion or more of on-balance-sheet foreign exposure), given the caution of the Federal Reserve with respect to including trust preferred in Tier 1 capital, even in its enhanced form, we think it is prudent to depart from our normal numeric guidelines. We also believe that for our analytic purposes it is more prudent to hold all U.S. regulated financial institutions to the same standard. Indeed, it is at the smaller, less-diversified banks where matters of capital adequacy assume greater importance. Thus, in our framework, we limit enhanced trust preferred to 18% of ACE for all regulated U.S. financial institutions.

Table 3

U.S. Federal Reserve Board Framework: Components Of Risk-Based Capital For Bank Holding Companies

Qualifying total capital consist of the following two types of capital components:
- Core capital elements (Tier I)—which must represent at least 50% of qualifying total capital
- Supplementary capital elements (Tier II)

Tier of Capital Elements	Limits	
TIER I*		
Core Capital • Common stock • Perpetual noncumulative preferred stock • Perpetual noncumulative preferred stock convertible into common	Unlimited, but a majority of TIER I must be voting common stock	
Restricted Core Capital • Trust preferred plus three-year forward on common • Trust preferred plus three-to-five-year forward on preferred • Cumulative preferred stock mandatory convertible into common in three years	25% of TIER I	25% of TIER I
Restricted Core Capital (limited for internationally active BHCs) • Cumulative perpetual preferred stock • REIT preferreds (including partnership issued) • Eenhanced trust preferred • Traditional trust preferred securities	25% of TIER I (15% for Internationally active BHCs)	
TIER II		
Supplementary Capital • Non-Tier I portion of securities above** • Long-term dated cumulative preferred stock (20 year min. term) • Perpetual subordinated deferrable debt • Subordinated deferrable debt with automatic conversion features • Subordinated debt mandatorily convertible within 12 years	Up to amount equal to 100% of TIER I (50% of total capital max.)	Up to amount equal to 100% of TIER I (50% of total capital max.)
Supplementary Capital • Intermediate-term preferred stock (five-year min. maturity) • Dated subordinated debt (five-year min. maturity)	Up to amount equal to 50% of TIER I	

*Tier 1 capital is the sum of core capital elements, including permitted restructured core capital elements, less goodwill, other intangible assets, interest-only strips receivables, deferred tax assets, and nonfinancial equity investments.

**Non-Tier I portion of REIT Preferreds, and enhanced and traditional trust preferreds become subject to Lower Tier II limit beginning March 31, 2009.

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For all financial institutions, the analysis of hybrid capital must be placed in the context of the broader analysis of capital, and of a bank or insurer's creditworthiness. Formulaic ratio-driven analysis represents only part of the overall quantitative and qualitative assessment of capital, which in turn can only be analyzed within the broader commercial and financial profile of the rated company. Capital ratios are visible shorthand signals of balance-sheet strength, but are not closely correlated with credit rating levels. Qualitative analysis of capital policy is fundamental to the global assessment of banks' and insurers' creditworthiness. No single measure fully captures the breadth of information

needed to evaluate an entity's capital adequacy. Industry participants--investors, securities analysts, and the company management itself--at times focus excessively on the management of bank and insurance capital with respect to a specific ratio, to the detriment of analysis of broader issues such as risk profile and management. Capital ratios based on historical data are also less meaningful than expectations of future capitalization under various scenarios. Components in the qualitative analysis of capital include: unrealized capital gains or losses and hidden reserves or losses, access to capital and liquidity from third parties, the nature and extent of minority interests, dividend policy, potential for earnings generation and retention, and management strategy with respect to acquisitions, disposals, and investments.

Applying Hybrid Capital Equity Content Assessment In Credit Analysis: Nonbank Financial Institutions Methodology

U.S. broker-dealers

We apply the same analytical framework for U.S. securities brokers that we have developed for banks. We believe the guidelines we utilize for banks capture our notion of what is prudent for securities brokers, despite the differences in business characteristics and fundamentals. Moreover, in the U.S., there has been a convergence of the regulatory standards applied to banks and those applied to brokers. In June 2004, the SEC established a framework for supervising the parent holding company of a SEC-registered broker-dealer. Four firms--Goldman Sachs, Lehman Brothers, Merrill Lynch, and Morgan Stanley--have opted into this supervisory regime, and have thereby become "consolidated supervised entities" (CSEs). The CSE status includes SEC oversight of capital adequacy. In this regard, the SEC has indicated it will abide by the Federal Reserve's standards for inclusion of hybrid capital issues in regulatory capital. Likewise, then, as with U.S. banks, we cap inclusion of enhanced trust preferred in ATE at 18% of ACE.

Finance companies

In assessing the equity content of finance companies' hybrid capital issues and calculating their capital ratios, we apply the same framework as for banks. Finance companies' asset composition and leverage characteristics are broadly similar to those of banks. While bank regulators' tolerances for hybrid capital issuance are not directly applicable to finance companies, we believe the guidelines we utilize for banks nonetheless capture our notion of what is prudent for finance companies. However, finance companies' enhanced trust-preferred are included in ATE up to 33% of ACE. We do not impose the 18% cap we apply to U.S. banks, since this tighter limitation is based strictly on regulatory considerations. On the other hand, without the external oversight of a regulator to help ensure that prudent capital levels will be maintained, we believe it is appropriate to apply stricter standards for replacement in cases where issues are callable and there is a step-up in the interest or dividend rate if the issue is not called. Here, we utilize the same guidelines as we do in considering corporates. Thus, if the step-up is material, we require an RCC for "intermediate" or "high" equity content, in jurisdictions where RCCs are legally valid and practical (see section "Issue Features: Replacement Capital Covenants").

Asset managers

In assessing equity content and calculating financial ratios of independent asset managers' hybrid capital issues, we essentially use the corporate model rather than the framework applied to banks, finance companies, and broker

dealers. There are three reasons for this. First, commercial banks are highly leveraged, asset-intensive financial institutions; traditional asset managers are not. At most banks, loans and deposits are the largest items on the balance sheet. In contrast, asset managers have relatively small balance sheets. Second, as a result of the nature of their balance sheets, credit metrics differ between banks and traditional asset managers. Third, as banks, brokers, and insurance companies are heavily regulated financial institutions, our approach toward hybrid securities for these entities parallels that of the relevant regulators, whereas, where matters of capital are concerned, asset managers are largely unregulated.

Stock and commodity exchanges

Similar to asset managers, in the case of stock and commodity exchanges, we also employ the corporate model rather than that applied to banks, finance companies, and broker dealers. Our approach toward rating stock and commodity exchanges focuses on the cash flow generated from operations to service their financial obligations. Monoline exchanges that only provide trade execution and ancillary services (e.g., price dissemination) are less capital-intensive than other financial institutions such as banks and brokers. However, more diversified exchanges that also provide clearing and settlement, securities custody, and even banking, require some additional capital to support these more risky businesses.

Applying Hybrid Capital Equity Content Assessment In Credit Analysis: Insurance Methodology

We apply compatible methodologies when assessing the capital strength of banks and insurers, while recognizing the different nature of business risk and regulation in the two industries. We also reflect different national regulators' varied regulatory practices.

Regulatory policy in the insurance sector is generally less developed than in the bank sector; thus, many insurance regulators look to banking regulators for guidance in establishing policy on inclusion of hybrid instruments, including securities with calls and step-ups, in regulatory capital. In some countries, from the U.K. to The Netherlands and to the regulators in some countries of the Gulf Cooperation Council, the combination of bank and insurance regulation under one roof (e.g., the Financial Services Authority in the U.K.) has facilitated a convergence of bank and insurance regulatory policy with respect to hybrid capital. Furthermore, outside the U.S., there is a trend toward more consolidated group supervision—-e.g., by 2012, we expect this to apply to the whole EU under the Solvency II Directive. Still, in other parts of the world, insurance holding companies are rarely formally regulated, unlike bank holding companies. Most hybrid issuance is now from holding companies to give the consolidated groups optimal financial flexibility.

When we rate a regulated insurance or reinsurance company, we take account of the risk of full, formal regulatory intervention and presumed wind-up of the institution. Consequently, the amount of hybrid capital allowable in our capital analysis of insurers and reinsurers can vary according to local regulatory practice as regards eligible solvency capital, though we are rarely more generous than the local regulators. (In jurisdictions where the insurance regulators have expressed no view on a specific hybrid capital instrument issued by an insurance group, Standard & Poor's establishes its own stance on likely regulatory policy with respect to the instrument.)

To better reflect the often significant regional variations in the nature of insurance regulation as well as the many local differences in the regulatory eligibility of diverse forms of capital, we have differentiated criteria in respect of our hybrid capital and double-leverage tolerances. We focus on two analytic variables that are used to establish appropriate tolerances for hybrid capital and for the proceeds of ordinary debt-funded double leverage–-that is, the extent to which regulators are likely to enforce structural subordination on a company-by-company basis, and also the local regulatory tolerance of debt capital in eligible solvency.

For this reason, in line with local regulatory practice and given the extraordinary force of structural subordination that prevails, capital credit may be given in the U.S., for example, for ordinary debt-funded double leverage whereby an insurance holding company raises conventional senior or subordinated debt and downstreams the proceeds of that debt as equity at the regulated subsidiary operating level. In such circumstances, the additional tolerance for "intermediate" hybrid leverage is normally constrained at a maximum of 15% of operating group total adjusted capital (TAC; plus 10% for "high" equity content issues) given the capital credit already allowed for debt-funded double leverage.

Meanwhile, in much of the rest of the world, regulators calculate insurance and reinsurance solvency on a fully consolidated group basis, and generally exclude all leverage and double leverage except that which is funded by eligible hybrid equity. Standard & Poor's analysts in most parts of the world outside the U.S. do not recognize equity content in their group capital analyses for ordinary or subordinated debt, and instead only allow capital credit for explicitly hybrid equity leverage, normally up to 25% of TAC for "intermediate" hybrid issues, or up to 35% of TAC for "high" issues. This difference in regulatory policy is also reflected in holding company notching where, for example, U.S. holding companies are normally rated three notches lower than the counterparty credit rating of the core operating companies in the group. A two-notch differential normally applies to European groups.

For capital models that are based on operating company statutory balance sheets, we deduct the excess over the double-leverage tolerances from TAC. For capital models that are based on consolidated GAAP balance sheets, we add qualifying hybrid capital to TAC, subject to the tolerances referred to in table 4. However, we include any hybrid capital issuance in excess of 15% in the numerator of our leverage calculations. We do not generally recognize hybrid issuance of operating companies (reflected also as hybrid capital in the relevant parent's consolidated financial statements) as such in our consolidated capital adequacy analysis (see table 4).

Table 4a

Maximum Tolerances For Double Leverage And/Or Hybrid Equity Usage

--Cases where enforcement of structural subordination is high and regulators allow holding-company debt to fund operating-company capital (e.g., U.S. and Bermuda)--		--Cases where enforcement of structural subordination is low and regulators exclude holding-company senior debt from group solvency capital (e.g., Europe and Canada)--	
Category	**Maximum tolerance**	**Category**	**Maximum tolerance**
Total double-leverage tolerance	Up to 45% of capital*	Total double-leverage tolerance	Up to 35% of capital*
Debt-funded double leverage	Up to 20% of capital*	Debt-funded double leverage	0%
'High equity content" hybrid tolerance (three-year mandatorily convertible)	Up to 25% of capital*	'High equity content" hybrid tolerance (three-year mandatorily convertible)	Up to 35% of capital*
Sublimit "intermediate equity content" hybrid tolerance	Up to 15% of capital*	Sublimit "intermediate equity content" hybrid tolerance	Up to 25% of capital*

Table 4a

Maximum Tolerances For Double Leverage And/Or Hybrid Equity Usage (cont.)			
'Minimal equity content" hybrid tolerance	0% credit	'Minimal equity content" hybrid tolerance	0% credit
Hybrid Ratios			
U.S.	Standard & Poor's qualifying hybrid/[U.S. GAAP (consolidated) capital + total hybrid + total senior debt]	Europe	Standard & Poor's qualifying hybrid/[group consolidated TAC (excluding hybrid) + regulatory qualifying hybrid capital]
Double Leverage			
U.S.	[Standard & Poor's qualifying hybrid + total senior debt + nonqualifying hybrid] / [U.S. GAAP (consolidated) capital + total hybrid + total senior debt]	Europe	Standard & Poor's qualifying hybrid / [group consolidated TAC (excluding hybrid) + regulatory qualifying hybrid capital]

*The definition of "capital" in regard to the maximum tolerance varies by region. In the U.S. and Bermuda, capital is defined as [U.S. GAAP consolidated equity + total hybrids + debt] with no adjustments to the reported numbers. In Europe and Canada, capital is defined as [total adjusted capital (TAC) + regulatory qualifying hybrids]. Note that TAC is a measure of adjusted equity capital and excludes debt. In Europe and Canada, the hybrid tolerance is higher (e.g. 35% versus 25% for high equity content) to normalize for the smaller denominator, which excludes holding-company debt.

Table 4b

Components Of TAC	
Reported shareholders equity/policyholder surplus	
Plus	Equity minority interests*
Plus	Equalization/catastrophe reserves*
Plus	Prudential margins included in reserves
Minus	Proposed shareholder dividends not accrued
Minus	Standard & Poor's impairment of goodwill
Minus	Other intangible assets
Minus	On-balance-sheet unrealized gains/(losses) on life bonds* ** (post tax***)
Plus	Off-balance-sheet unrealized gains/(losses) on investments other than life bonds* (post tax***)
Minus	Off-balance-sheet pension deficits (post tax***)
Minus	On-balance-sheet pension surpluses (post tax***)
Plus	Up to 100% of off-balance-sheet life value of in-force (post tax***)
Plus	Property/casualty loss reserve surpluses/(deficits) (post tax***)
Plus	Property/casualty loss reserve discount
Plus/Minus	Analyst adjustments
= ECA (economic capital available)	
Minus	Remaining goodwill after Standard & Poor's impairment
Minus	Investment in unconsolidated subsidiaries, associates, and other affiliates
Minus	Investments in own shares/treasury shares
Minus	50% deducted of off-balance-sheet value of in-force (post tax)
Minus	50% deducted of life deferred acquisition costs (post tax)
Minus	100% deducted of property/casualty deferred acquisition costs
Minus	50% deducted of property/casualty loss reserve surpluses
Minus	33% deducted of property/casualty loss reserve discount
Plus	Policyholder capital available to absorb losses

Table 4b

Components Of TAC (cont.)	
Plus/Minus	Analyst adjustments
= TAC before hybrid capital adjustments	
Plus	Hybrid capital (subject to tolerance limits)
Minus	Excess over hybrid tolerance
= Total Adjusted Capital	

*Where not already included in shareholders' equity. **Subject to fair value exception. ***Where tax effect not disclosed, use effective tax rate.

In the insurance sector, we continue to review a variety of prefunded contingent capital arrangements and, assuming acceptable security features, have viewed these as eligible hybrid equity up to 5% of the capital structure for investment-grade issuers. This 5% is a subset of the traditional 15% capital bucket. For example, a trust issues perpetual or long-dated pass-through securities, with the proceeds ultimately used to purchase eligible assets that reside in a Regulation 144 Trust. For these securities, the insurer has a put option giving it the right to put the insurer's preference shares having a liquidation value equivalent to the assets owned by the trust to a special-purpose entity. We would expect a trigger to be included in the securities, requiring mandatory exercise of the put if the insurer's credit strength falls below investment grade for these securities to be viewed as equity currently.

We would accept the instrument, when drawn, as equity subject to the guidelines of any hybrid security. As with other hybrid instruments viewed as equity, they must have an appropriate long-term maturity, cannot be funded with an auction-preferred mechanism, and cannot have any feature that would cause management to make them a short-term security.

Bond insurers

Our approach to the so-called monoline bond insurers differs somewhat from our approach to multiline insurance companies.

What is the equity treatment for hybrid securities issued by a bond insurance holding company, and is there a limit on the amount of hybrid securities that can be part of its capital structure?

In the case of bond insurers, securities with "high" or "intermediate" equity content receive 100% equity treatment subject to limitations, while "minimal" equity content issues receive zero equity treatment and are treated as debt.

There are two ratios in our bond insurance rating criteria that limit the amount of hybrid securities that can be part of an insurers' capital structure:

- Holding company hybrid security tolerance ratio: Hybrid securities are limited to a maximum of 15% of the holding company capital structure. For this ratio, hybrid securities exclude contingent capital facilities. The formulaic expression of the hybrid security tolerance ratio for a bond insurance holding company is: hybrid securities/(capital + hybrid securities); in this ratio, capital is defined as shareholder equity plus long-term debt.
- Holding company total hybrid tolerance security ratio: Hybrid securities plus contingent capital facilities cannot exceed 20% of a holding company's capital structure. Contingent capital facilities are included in this calculation even though they may be "issued" by a subsidiary. The formulaic expression of the total hybrid security tolerance ratio for a bond insurance holding company is: (hybrid securities + contingent capital)/(capital + hybrid securities +

contingent capital).

If a bond insurance holding company exceeds its tolerance ratios, how would the amount that exceeds the tolerance ratios be treated?

Analytical treatment will differ in situations where a holding company exceeds tolerance ratios:

- If the level of consolidated hybrid securities exceeds the tolerance ratios due solely to contingent capital facilities, the overage of the contingent capital facility would be treated as neither debt (for holding company capitalization analysis) nor equity (for operating company capital modeling exercise).
- If the level of consolidated hybrid securities exceeds the hybrid equity tolerance ratio but not the total hybrid equity ratio, the overage of the hybrid equity tolerance ratio would be treated as debt (for holding company capitalization analysis) and the operating insurance company would receive full credit for any contingent capital facility, subject to limitations imposed on the insurance operating company. For example, if a holding company had $3.2 billion of capital, the hybrid security tolerance limit would be $565 million and the total hybrid security tolerance limit would be $800 million. If there were $650 million of "high" or "intermediate" equity content hybrid securities outstanding, only $565 million would receive appropriate equity treatment and the remaining $85 million would be viewed as debt. The presence of a $200 million contingent capital facility would not exceed the total hybrid security tolerance limit.
- If the level of consolidated hybrid securities exceeds the limit due to the combination of contingent capital facilities and other hybrid securities, the amount of hybrid security tolerance consumed by the contingent capital facility would first be evaluated. The remaining hybrid security tolerance cushion would be measured against any remaining hybrid securities to determine the amount of equity treatment for the hybrid securities. For example, if a holding company had $2.8 billion of capital, the total hybrid security tolerance limit would be $700 million. The presence of a $600 million contingent capital facility would leave a cushion of $100 million. If there were $400 million of "high" or "intermediate" equity content hybrid securities outstanding, only $100 million would receive appropriate equity treatment, and the remaining $300 million would be viewed as debt.

What effect does the use of debt and hybrid securities issued by a holding company have on the funding of an operating bond insurance company's capital?

Bond insurance holding companies typically issue debt or equity securities to fund the capital needs of their bond insurance subsidiaries. Once the proceeds from these securities are downstreamed to the operating insurance company, they are viewed as equity for capital adequacy purposes. However, we have criteria that limit the amount of financial leverage a holding company can employ. In determining a holding company's financial leverage, we consider the amount of long-term debt (including hybrid securities over the tolerance ratio) and equity (including hybrid securities under the tolerance ratio). The capitalization ratio is defined as: long-term debt/(long-term debt + equity). For bond insurance holding companies, a capitalization ratio of 20% or less is thought to be appropriate.

What effect does the establishment of a contingent capital facility have on the various insurance operating company capitalization ratios?

When looking at a bond insurance operating company's capital structure, the overall tolerance for contingent capital is 20% of total adjusted capital across all rating categories. Total adjusted capital is defined as statutory surplus plus contingent capital. The formulaic expression of the contingent capital tolerance ratio for an operating insurance

company is: contingent capital/(statutory capital + contingent capital).

If a bond insurer had statutory capital of $3.6 billion, contingent capital would be limited to $900 million. Even if a contingent capital facility totaled $1.0 billion, there would only be recognition of equity content for the $900 million in capital adequacy testing.

Any contingent capital in excess of 20% of total adjusted capital will not be considered in capital adequacy modeling. In addition, these types of capital markets instruments are a component of the reliance-on-soft-capital ratio, which should not be greater than 33%. Fees paid on the entire amount of the contingent capital facility are included as interest expense in the evaluation of the holding company's GAAP interest coverage ratio. The GAAP interest coverage is defined as: (GAAP pretax operating income + interest expense)/interest expense.

In terms of the equity treatment a bond insurer receives in Standard & Poor's capital adequacy model for contingent capital structures, does it matter what type of security would be issued once the bond insurer exercises its put?

First and foremost, the security issued by the bond insurer once it exercises its put must be viewed as equity by the insurance regulator for us to consider recognizing any equity content. Any security viewed as debt does not add to statutory capital, and therefore will receive no recognition of equity content in the capital adequacy model. To date, preferred stock and surplus notes have been the only put securities for which the bond insurers have received any recognition of equity content in the capital model, as regulators view these securities as equity. A contingent capital structure in which the insurer has the option to issue either surplus notes or senior notes once it exercises its put option will receive no recognition of equity content in the capital adequacy model. However, choosing to issue surplus notes would add to statutory capital, while opting to issue senior notes creates a liability and does not add to statutory capital.

Issue Features

In this section we focus on some selected instrument features that tend to play an important role in our determination of equity content. It bears repeating, though, that while detailed assessment of a specific hybrid capital security is obligatory to classify the security by its relative equity value, we ultimately take a holistic approach. Also, it is rare that the detailed features of a hybrid instrument have a material impact on an issuer's overall creditworthiness.

Issue Features: Optional Deferral

We believe issuers' option to defer dividend or interest payments under the terms of most hybrid capital instruments affords significant equity benefit. Such a feature provides issuers with the ability to conserve cash at a time of financial stress, without triggering a legal default.

The longer a company can defer payments, the better. An open-ended ability to defer until financial health is restored is best. As a practical matter, we believe the ability to defer dividend payments for up to five years is most critical in helping to prevent a general default. If the company cannot restore financial health within that period, it probably never will. The ability to defer payments for shorter periods may be valuable, but equity content diminishes quickly as

constraints on the company's discretion increase. We give no more than "minimal" equity content for instruments where the maximum deferral period is less than five years.

Issue Features: Mandatory Deferral

Certain securities have mandatory triggers that force deferral of distributions, conserving cash for a company that is experiencing reverses in its business or funding capabilities. With the use of mandatory triggers, concerns about management's reluctance to exercise the right to defer are avoided. When triggers are set at a level we would equate with the company possibly exercising its right to optionally defer payments, instruments typically warrant "intermediate" equity content, providing they are adequately equity-like in other respects.

When triggers are set at a level close to the company's current rating level (i.e., within two or three rating notches of the current rating), these securities can support the current level of credit quality, and thereby potentially qualify for our "high" equity content designation, providing they are adequately equity-like in other respects. Obviously, though, investors are taking substantial risk--well beyond the issuer default risk--and this risk is reflected in relatively low ratings on the securities themselves (see section "Rating The Issue: Deferral").

On the other hand, we have been concerned that these benefits could be offset by exposing the company to negative market responses. Such "high" equity content instruments may not work as intended--especially if investor reaction to payment deferral is very negative. That concern has become more pronounced in light of recent mortgage-related capital market turbulence, which has underscored the extent to which "headline" factors can dramatically affect financial institutions' (including insurance companies') funding flexibility, whatever the state of credit fundamentals otherwise.

We believe that for companies that are confidence sensitive--such as financial institutions (including insurance companies) --deferrals driven by mandatory triggers could result in more harm than the benefit realized by reduction in debt service obligations. Accordingly, we do not consider hybrids with tight mandatory triggers as eligible for "high" equity content for confidence-sensitive issuers.

More broadly, even for issuers in less confidence-sensitive sectors, if the triggers halt payment while the company is still far from being incapable of making the payments, the benefits of reduced debt service would generally be small relative to the potential headline risk and investor reaction, such as where the trigger threshold is at a level where the company is investment grade. The company could pay a price in terms of its financial flexibility. (Alternatively, the company could be motivated to avoid the deferral by retiring the issue.) We recognize these risks associated with mandatory deferrals in qualitative aspects of our analysis, no matter how the security is treated for ratio calculation purposes.

Specific features of the security could mitigate or heighten the risk--and recent proposals for securities structured to achieve high equity content have included features that are pertinent.

In this regard, the trigger must not be opaque or overly complex. It can be defined by a downgrade or breach of various financial benchmarks that serve as a proxy for credit quality. Any metrics used in defining the triggers need to

be straightforward and highly transparent. But they also must be customized for the specific context of the issuer. Complexity may be hard to avoid, especially given the interplay of business risk with financial indicators of credit quality. (This can be especially challenging in sectors such as regulated utilities, where the business risk profile plays an outsized role.)

Some structures shift deferral risk from the investors by introducing a financial counterparty to stand in for the company at the point of deferral. By effectively dealing with the direct risk to investors, market reaction might arguably be muted. Still, the need for third-party intervention could produce similar negative responses. Moreover, the relationship of such a counterparty vis-à-vis the issuer could give it special clout to avoid or undo the cash savings of any deferral.

Issue Features: Maturities/Scheduled Maturities

We apply a common standard regarding remaining time to maturity to all investment-grade financial institutions (including insurance companies) and corporates, in all regions. Under this standard, we require a hybrid capital issue to have a remaining term of at least 20 years to receive our "intermediate" or "high" equity content designation--unless the issue mandatorily converts into another type of equity-like issue in a shorter time frame. Other things being equal, we view undated (i.e., perpetual) and very long-dated securities as superior instruments from the perspective of equity content. But, as a practical matter, we believe an issue having a remaining life of 20 years or more is sufficiently permanent to warrant our "intermediate" equity content classification when other issue features are consistent with this designation. In the case of financial institutions, we do not use the remaining term of the issue-–beyond 20 years--to differentiate between "intermediate-strong" and "intermediate-adequate" issues. (These subcategories are not used with insurance companies.) Rather, such differentiation would reflect other issue features, such as the flexibility of payments.

"Intermediate" or "high" issues with initial maturities of greater than 20 years that subsequently fall to less than 20 years of remaining maturity are reduced to "minimal" equity content at that point, and as such do not receive any formal equity treatment in our calculation of financial ratios. There is no amortization period. Nevertheless, as a qualitative matter, we are still sensitive to the benefits afforded by such issues–-for example, the deferability of ongoing payments-–even where the "intermediate" or "high" equity content determination is not warranted because the condition of a long remaining term is no longer met.

For speculative-grade issuers, where debt maturities are typically far shorter than with investment-grade credits--and where, more broadly, the scope of our analysis necessarily extends fewer years--we do not apply the same standard. Here hybrid capital issues with maturities shorter than 20 years can still achieve the "intermediate" or "high" equity content designation, assuming other features make this appropriate. Generally, 15 years of remaining life suffices for issuers rated in the 'BB' category, and 10 years for issuers in the 'B' category.

Some issues have so-called "scheduled maturities," where the issuer is required to undertake all "commercially reasonable efforts" to refinance the issue. If the issuer is unsuccessful at refinancing the issue, it must repeat the attempt periodically. We treat scheduled maturities as effective maturities, even where accompanied by legally binding

replacement provisions. The latter do not mitigate scheduled maturities, which still expose the issuer to a sharp increase in financing costs if its credit spreads have widened. (We lower the issue rating to 'C' when it is not redeemed at the scheduled maturity as a result of the issuer's financial distress.)

(Note: We announced the current standards for minimum remaining terms and scheduled maturities on Feb. 20, 2007. Previously, we had different remaining-term standards in different sectors, and did not view scheduled maturities as effective maturities where there was a legally binding replacement provision in place. We stated that our new approach would not be applied to then-outstanding issues or to any then-pending issue where we had already reviewed the terms. Such preexisting issues of banks will continue to receive unchanged recognition of equity content until five years are remaining until maturity, and the equity content will then be amortized down at 20% per year. Such preexisting issues of insurance companies will continue to receive unchanged recognition of equity content until 10 years are remaining, and equity content will then be amortized down at 20% per year. We attribute no equity content when there are five years or less to maturity. Permanence of the instrument remains an essential and enduring criterion for equity content.)

Issue Features: Call Provisions

The ability to call can give reason for pause, since it puts into question whether the issue will remain outstanding beyond the initial call date. However, where an issue contains a call provision, the issuer has the option to redeem the issue, but no obligation to do so. Importantly, there hasn't been any significant market stigma associated with an issuer not calling an issue when there is no step-up. From a credit perspective, it might even be advantageous for the company to retain the flexibility to exercise a call provision—-to take advantage of issuing a similar equity-content hybrid at lower cost if the opportunity presents itself. Thus, typically we have not placed much emphasis on the inclusion of a call provision, especially if the instrument is truly low-cost-—such as with tax-deductible instruments-—and, therefore, shouldn't make the company feel pressed to refinance. However, we consider a hybrid with a longer period to the call date to be more equity-like than one with a shorter period to the call, all else being equal. This reflects the longer period that the former will remain in the capital structure on an obligatory basis.

As long as we believe the issuer intends either to keep the issue outstanding or refinance it with the proceeds of another issue warranting comparable equity content, we do not view the call date as an effective maturity. Still, in the case of unregulated issuers, we are highly skeptical of issuers' intentions in cases where the initial call date is less than five years after issuance: We generally do not give more than "minimal" equity consideration for issues in such cases. When a discrete call date is followed by more than five years during which the issue may not be called, an RCC can mitigate the unregulated issuer's incentive to call. If an issuer is regulated and we believe the regulator will ensure that any refinancing would not be credit-harming, we generally do not penalize issues that may be called earlier than the fifth anniversary or with discrete call dates.

Issue Features: Step-Ups, Resets, Remarketing

We view call provisions that are coupled with step-ups in the dividend/interest rate-—or with other mechanisms that

can likewise increase the cost to the issuer--very differently from simple calls. Where call provisions are combined with material step-ups, they are specifically designed to motivate calling of the issue to avoid the step-up. The idea, obviously, is to convince the market to price the issue as if the term were no longer than the period to the initial call—rather than until the final maturity. Because of investor expectations, the issuer could face reputational risks if it were ultimately to choose not to call the issue (which investors, for their part, have referred to as "extension risk"). This could pressure the issuer to call, even when it were not economically or otherwise optimal for it to do so. Clearly, this is incongruent with the notion of permanence that underlies equity content.

Currently, we view a step-up in the dividend/interest rate of 25 bps or less as not material, and thus not requiring any particular offsetting feature to preserve equity content.

In typical interest rate environments, we view step-ups in the range of 26 bps-100 bps in the case of issues of investment-grade issuers as material, but still moderate. At present, 100 bps is the de facto regulatory limit for banks, in most cases, as well as the norm for investment-grade issuers in most markets. (Under our criteria, we allow up to 200 bps for noninvestment-grade issuers, given that the initial financing cost is relatively higher.) Here, notwithstanding the disincentives, we view it as at least possible that the issuer would choose not to refinance if circumstances were unfavorable: in that event, the resulting higher rate would not be onerous. Still, to preserve the notion of permanence and thus qualify for "intermediate" or "high" equity content, we generally require issues of unregulated issuers with moderate step-ups to have legally binding RCCs. The RCC can restore sufficient assurance of permanence by stipulating that any refinancing be with proceeds of a similarly equity-like issue.

In some cases, bank and insurance regulators accept step-ups set at 50% of the initial credit spread of the issue, as defined. Where regulators have explicitly approved such an approach, we would generally view the step-up as moderate. Although if the step-up appears to us to be onerous (e.g., seemingly reflective of a temporary spike in market pricing), we could still conclude it is not consistent with equity content. Outside of regulated sectors, we would be open to flexible approaches to determining the step-up, but would need to be convinced that the results would not be punitive for the issuer.

Some instruments provide for a step-up in the coupon if the company issues similar capital within a specified time period with a higher coupon. This type of "make-whole" reset burdens the issuer with higher payments when it is likely to be under stress and increases the aversion to issue more capital when it might otherwise be prudent.

We are less concerned about explicit replacement provisions for callable issues of regulated entities, which include banks and bank holding companies in most countries, European insurance groups, North American insurance operating companies, and U.S. broker dealers. In this context, we treat such issuers as U.S. insurance holding companies, regulated utilities, asset managers, securities exchanges and clearinghouses, and unregulated finance companies as effectively unregulated. (Note that while unregulated finance companies require an RCC to offset a moderate step-up, the application of equity content treatment generally follows the methodology applied to regulated financial institutions. See section "Applying Hybrid Capital Equity Credit Assessment In Credit Analysis: Nonbank Financial Institutions.")

In regulated sectors, issues with moderate step-ups but lacking legally binding RCCs qualify for "intermediate" equity

content (but not "high" equity content), provided that the issues meet the standards for "intermediate" equity content in other respects. The spirit of financial institution regulation is to maintain a sound level of capital. Consequently, the oversight powers of the regulators generally include the authority to prevent a call and/or force the issuance of other equally strong capital as a replacement. This, combined with our understanding of the incentives that generally drive financial institutions' (including insurance companies') financial policies, ensures permanence. (Although regulators may in some cases focus only on whether minimum solvency requirements are met, the regulatory authority remains more important analytically, and the presence of a replacement provision would only provide incremental comfort). Under our criteria, when an RCC is not required, we do not look at the RCC expiration date or the other terms as defining the effective maturity or as otherwise being detrimental to equity content. Although we generally look to the regulator to ensure replacement where appropriate, where regulators allow short-dated calls combined with step-ups (we define short-dated as less than 10 years), we would require a legally binding RCC to cure the overwhelming lack of permanence even if the national regulator classifies the issue in question as regulatory capital. On the flipside, where the regulator objects to a step-up or other feature, such as a step-up before year 30 for U.S. bank holding companies, we generally follow that more stringent regulatory approach.

For regulated and unregulated issuers alike, where issues have step-ups of more than 100 bps (or 200 bps in the case of speculative-grade issuers), we view the call/step-up date as the effective maturity of the issue. Also, we do not generally classify securities with call and step-ups of less than five years from the date of issuance as "intermediate" or "high" equity content even if the securities have an RCC. We believe such a short noncall period puts in question the issuer's intentions.

Other repricing mechanisms

We increasingly are skeptical about features that seemingly try to obscure their purpose of provoking the issuer to call the issue. Thus, many long-dated equity hybrids have a fixed rate for the first 10 years, then convert to a variable rate. That variable rate may incorporate a penalty feature, other than a step-up, that is designed to motivate the issuer to call the issue: We then likewise question the permanence of the issue.

One example of such a penalty involves the payment of the highest of various rates that could fluctuate relative to each other. We have accepted as consistent with equity content some approaches that employ two or three rates tied to points on the yield curve, the highest of which determines the instrument's yield for each dividend period. Because the yield curve is normally upward-sloping, we presume the rates will not fluctuate--rather, that the long-term benchmark will pertain.

However, using a long-term benchmark for a security that resets at short intervals would itself be a penalty if not appropriately adjusted. Any long-term benchmark rate must be modified to make it economically comparable with a more appropriate short-term benchmark rate, to eliminate the penalty aspect. For example, the applicable rate could be a percentage of the long-term benchmark rate or "x" bps below the benchmark rate.

We presume that use of a long-term benchmark, on its own or in combinations, is an inherent penalty rate--unless there is an adequate pricing modification that equates it with the short-term benchmark rates ordinarily used for variable-rate debt. We will evaluate securities that incorporate such pricing modifications to a long-term benchmark rate individually. Our acceptance of the specific modified rate will require a rigorous statistical analysis of whether the

modification is adequate. Such analyses should be provided by the structuring bank.

RCCs can remedy a penalty-rate situation, to a point. We are sensitive to the size of the penalty involved, as noted above. If the penalty is greater than moderate (typically, if it exceeds 100 bps in investment grade), we do not recognize equity content even where an RCC is in place. Because of the difficulty in calculating the penalty associated with use of long-term benchmarks, given the constantly fluctuating variables involved, we cannot presume the penalty is 100 bps or less. Therefore, RCCs are insufficient to remedy this feature, without the aforementioned modifications and accompanying statistical analysis.

Other repricing mechanisms that we view as greater than a moderate penalty, and thus inconsistent with equity content, even with the presence of an RCC and/or regulatory oversight, include the following:

- Where there is a reset based on the then-relevant credit spread of the issuer—rather than on the issuer's initial credit spread—such that any deterioration in perceived credit quality would be reflected in a higher cost to the issuer;
- A reset to a floating rate from a fixed rate, but with a pre-established floor, is generally deemed inconsistent with equity content because calling and refinancing the issue may be less expensive than leaving the issue outstanding. However, an exception is sometimes made for instruments that are treated as Tier 1 capital of a regulated financial institution, if we are convinced that the reset mechanism does not represent more than a moderate penalty;
- Discrete calls that are followed by extended periods when the issue is not callable. For unregulated issuers, where that period is longer than five years, an RCC is required. The lengthy period during which the issuer must live with the current terms creates an incentive to redeem on the call date. This mechanism is especially onerous when combined with a coupon step-up because the issue is then subject to the penalty rate for an extended period; and
- Incentives to call that are qualitative, fluctuate, or are otherwise difficult to value will be assessed case by case. Our policy is to view almost every incentive or penalty, when combined with a 100-bps coupon step-up, as problematic, since the coupon step-up is already at the ceiling of the acceptable range for a moderate penalty. Examples could include a loss of favorable accounting treatment, higher cash flows, higher after-tax cost, or loss of peripheral tax benefits.

We do not, however, view the reduction of equity content to "minimal" as increasing the incentive to call, given the qualitative benefits we continue to attribute to issues with minimal equity content, and the paradoxical circularity of that logic.

Under the terms of some initially convertible issues, at some point the issue becomes nonconvertible and the rate increases—supposedly to the rate that would have been in place if the issue initially had not been convertible. We must assess each such case to determine if the increase is indeed consistent with the loss of the option value, and whether the increase in interest expense should be viewed in the same light as a step-up.

Issue Features: Replacement Capital Covenants

An RCC is a legally enforceable commitment by the issuer to replace a hybrid capital issue upon its call, redemption, or repurchase with an instrument having specified characteristics. To be effective in helping to preserve credit quality, the RCC must commit the issuer to replace a hybrid security, if it is called, redeemed, or repurchased, with an instrument having similar equity-like characteristics in terms of payment flexibility, degree of subordination, and permanence. In July 2005, First Tennessee Bank N.A. first demonstrated the feasibility of providing a legally binding

replacement clause when it made a "declaration of covenant" in connection with its preferred stock issuance. The covenant favors holders of the bank's covered debt. Where appropriately structured, an RCC can alleviate our concerns regarding the permanence of an issue having a call provision that is coupled with a moderate step-up: This is the only situation where we have any specific requirement for an RCC under our hybrid capital framework.

With respect to limitations on refinancing, covenants contained in the issue itself have dubious efficacy. After all, investors in the hybrid issue are likely to be indifferent to what the credit quality of the issuer is once their issue has been retired. The RCC addresses this by being structured for the benefit of holders of certain designated "covered" long-term debt of the issuer, giving these debt holders the right to pursue remedies against the issuer if terms of the covenant are not satisfied. Thus, in the legal sense, the replacement covenant is a separate agreement, not part of the hybrid issue indenture.

Beneficiaries of the covenant should be comprised of debtholders with significant amounts outstanding (excluding, of course, any amounts held by the company or its affiliates). If the RCC runs to a specific covered debt issue, the RCC should provide for transfer to another issue upon maturity or repayment of the original covered debt issue. Covered debt is preferably unsecured (senior or subordinated), since unsecured debt holders would ordinarily have the greatest incentive to enforce the covenant. However, even secured debt holders can be expected to act to enforce the RCC on their own behalf-—and we would rely on that in the absence of appropriate unsecured issues to serve as the covered debt.

In addition, the replacement issue should equal at least the amount redeemed. There is one exception: As a practical matter, we take a mix of 50% common equity and 50% debt to be an acceptable alternative to refinancing with 100% hybrid capital, for issues receiving "intermediate" equity content. (Common stock here refers to equity issuance with cash proceeds that can be used to partially refinance the hybrid, not retained earnings or equity issued as payment for acquired assets.) This is based on the rough generalization that the positive impact of common on the company's credit profile is double that of intermediate instruments. We do not generally consider less than full replacement by another hybrid capital issue to be adequate.

Replacement instruments need to warrant at least the original equity content designation ("intermediate" or "high"), in terms of payment flexibility and subordination. It suffices, though, for the term to extend only through the issue's initial effective maturity. In this regard, we recognize the full measure of equity content only so long as an issue has at least a 20-year remaining life. So, in this respect, a 20-year replacement issue would not achieve recognition of equity content received upon the original issuance. While issuing a new security that has limited equity content from day one may not be intuitive at first glance, the effect is identical to all cases where the original is not called. And, the alternative--that no such replacement was to occur—-would imply that no equity content should be granted in the first place. To illustrate: A 30-year security gets equity treatment for only 10 years. (The reasons for this are the company will enjoy a substantial period during which it can defer payments, and the payment of principal is still far enough in the future that it hardly factors into the current rating.) In effect, all nonperpetual hybrids that remain outstanding until maturity will exist for 20 years during which they no longer receive recognition of equity content (the 20 years prior to maturity). If a 30-year security were replaced in year 10 with a new 20-year instrument, that would replicate the initial instrument and be consistent with recognition of equity content for the initial 10 years, and no equity content thereafter.

Finally, the new replacement capital should be raised well in advance of the planned call to avoid incentives to redeem early and bypass the refinancing requirements.

Although RCCs can alleviate concerns regarding the permanence of the issue, they can give rise to new concerns if they are overly rigid and detailed—given the potential for unintended, unforeseeable consequences. For our criteria, issuers can incorporate flexibility in the choice of replacement securities. It is satisfactory for the covenant to commit in general terms that the issue be replaced with a security having similar equity-like characteristics. Moreover, we view as acceptable "carve-outs" that would excuse the issuer from the replacement obligation under certain circumstances, as follows:

- There is no material debt outstanding to serve as covered debt.
- Change of control. The issuer's undergoing a potentially radical transformation of this type is a form of "event risk" that we typically don't factor into either our issuer credit ratings or issue ratings.
- Tax law changes. Without tax deductibility, the cost/benefit of certain equity hybrids changes significantly, and the issuers should be able to call them (or not replace them with hybrids when they have the right to call for other reasons). While this possibility raises a cloud over the permanence of the hybrid, the risk can be assessed through understanding the potential for tax-law changes. Indeed, we would not initially recognize equity content in hybrid issues that faced significant tax risk, given both the potential cost penalty and/or the incentive for the issuer to somehow get out of the security.
- Market disruption. See below.
- Credit quality improvement subsequent to the time of issuance that obviates the need for the hybrid to support rating. The potential measures of credit quality improvement are varied. Any rating upgrade above the rating level at the time of issuance would provide prima facie evidence that the security is no longer needed. Alternatively, we would be willing to consider approaches that relied on indicative financial ratios instead of ratings. Another acceptable indication, albeit indirect, would be the consent to terminate the covenant by holders of the majority amount of covered debt outstanding--excluding amounts held by the issuer or its affiliates.
- Rating-agency criteria change leading to a reduction in the equity content for the security originally issued. Some covenants call for replacement with whatever security would qualify at that time. But since it is impossible to predict in advance what, if anything, would qualify, it is unreasonable to expect replacement on such an open-ended basis. (This carve-out would have to exclude criteria refinements of an incremental or technical nature, since such changes would not justify the issuer's jettison of the hybrid.)

While we accept the aforementioned termination events in the RCC, if one of the termination events were to occur, such that the provisions of the RCC were no longer binding, we would then cease to view the issue as warranting recognition of equity content, given the then lack of permanence. Where the provision is structured to allow the issuer to reelect the obligations of the RCC, and if it were to opt to do so, recognition of equity content could continue to be appropriate.

In countries where RCCs have no legal basis or are otherwise not practicable, such as under Japan's current legal framework, we would consider accepting a statement of intent in its place, providing such statement of intent was straightforward, visibly communicated to the market, was broadly consistent with the issuer's financial policy, and if the step-up was moderate and at least 10 years from the time of issuance. In Japan, the law requires that, for an agreement made for the benefit of a third party to be enforceable, the beneficiary must "express intent to enjoy such right." We believe requiring issuers to solicit such consent from bondholders would be cumbersome. Moreover, such

consent would likely become ineffective once the bonds are traded or transferred to a new investor. Similarly we would consider accepting a nonbinding statement for any issuer with no eligible covered debt.

Issue Features: Market Disruption Events (MDEs)

The MDE concept initially arose in the context of mandatory alternative-payment mechanisms (APMs/ACSMs; see below). The MDE addressed the risk that a company faced legal obligations to pay with proceeds of common equity issuance, but was unable to execute its obligations due to market disruption. Scenarios such as the closure of financial markets after Sept. 11, 2001, were the focus of this concern. The MDE allowed the company to defer its obligations until the disruption passed.

In the context of RCCs, MDEs also provide flexibility in the event of such "force majeure" scenarios. If an issuer has redeemed an outstanding hybrid issue (or legally committed itself to redeem) in a way that requires replacement, it must be allowed to defer that replacement as long as there is no practicable possibility of doing so. It should go without saying that it is unacceptable for such provisions to effectively create an opportunity for an issuer, upon an MDE, to redeem the hybrid and completely negate the replacement obligation.

The definition of such disruption needs to be very clear and objective, and limited to scenarios that are remote. Poor economic conditions, depressed financial markets, distressed pricing for the company's securities, and so on do not fit the definition of an acceptable MDE as we conceive it.

Most issues with RCCs provide for the replacement securities to be issued before the call and before serving redemption notice to bondholders. The proceeds of the new securities are meant to be used to fund the call. Accordingly, in such cases, the MDE provisions are irrelevant.

Issue Features: Dividend Stoppers, Look-Backs, And Pushers

Many types of hybrid capital instruments include so-called dividend stoppers, whereby if there is an optional or mandatory deferral of dividends/interest on the hybrid issue, the company is prohibited from making payments on any pari passu or more junior issues--including making dividend payments on common stock--until the arrearage, if any, has been cured. We generally view such a stipulation as a neutral factor from a credit perspective. On the one hand, eliminating both the common dividend and the hybrid payment maximizes the overall cash conserved. On the other hand, the link between the two may increase the reluctance of the issuer to forgo paying on the hybrid. Indeed, in cases where shareholder expectations or tax considerations (for REITs) increase the reluctance to suspend common dividends, omitting the dividend stopper could significantly increase the issuer's willingness to defer payments on the hybrid issue. This could enable a REIT's hybrid instrument to merit intermediate equity content, assuming other terms meet Standard & Poor's criteria. In general, the presence or absence of a common dividend stopper is not essential to our recognition of equity content.

Some instruments incorporate so-called look-backs, which we view as detrimental from a credit perspective. In these instruments, the right to optionally defer applies only after a period of no share repurchases or payment of common

dividends. The main point of deferrable payment securities is to accommodate a company that has a crisis and needs to save cash. Look-backs constrain this flexibility, as a practical matter, if the company had recently paid a dividend or repurchased any stock.

The details of the look-back provision dictate the extent of the potential problem. For example, does even the repurchase of a trivial amount of stock in conjunction with an employee option plan violate the look-back? Is the look-back period a quarter? Six months? One year? How do the frequency and juxtaposition of common and preferred dividend payment dates affect the possible delay?

The existence of a look-back that could impose a delay of one or more years would disqualify a security for our "intermediate" equity content category. (In the case of hybrid issuers that are speculative grade, even a potential delay of six months would rule out "intermediate" equity treatment.) Importantly, even where a look-back period is shorter and does not in itself disqualify the security, the potential for delay is still problematic--and, in combination with other features of the security, can affect its equity content categorization.

With respect to mandatory-deferral instruments, look-backs (sometimes termed "pushers") undermine the nondiscretionary aspect of the deferral. The company can choose to short-circuit the deferral by paying a paltry common dividend, for example. Such issues would, therefore, never qualify for our "high" equity content category.

Issue Features: Alternative Payment Mechanisms/Alternative Coupon-Settlement Mechanisms (APM/ACSM)

Optional deferral

Certain hybrid capital instruments combine optional deferral with a requirement that the company, at some point following the initial deferral, issue common stock, more of the same hybrid issue, or some other hybrid security, and utilize the proceeds to make up the arrearage and resume payments. Such mechanisms are variously referred to as APMs or ACSMs. We believe such a requirement significantly undermines the value of the optional deferral provision. The prospect of having to sell even a small amount of additional securities at a point when their pricing would likely be depressed could well serve as a disincentive for the company to defer in the first place.

Therefore, when such a requirement becomes effective within five years of the initial deferral, we would generally view such an instrument as warranting "minimal" equity content under our framework. (The base five-year requirement has long been our standard for an interval when the company can reasonably be expected to effect a turnaround, if it is to do so. We would not be as concerned about a requirement to issue shares that only becomes effective beyond five years: Such a requirement is unlikely to be a significant consideration for management when first weighing the possibility of deferring.)

Nevertheless, we would make an exception--and view the issue as compatible with "intermediate" treatment, depending on our holistic view of the instrument--if doubts about the company's willingness to defer were addressed by appropriately structured mandatory deferral triggers, thereby removing discretion from management (see below).

We would also make an exception where all three of the following conditions were met:

- Prior to five years, there is no requirement to issue additional securities unless hybrid payments are resumed. In this way, management retains some control of the timing of the capital raising.
- Before five years of deferral have elapsed, the additional common shares that are required to be issued to meet the dividend or interest requirement are limited to a relatively modest amount: for corporate and other unregulated issuers, no more than an aggregate of 2% of the total number of shares outstanding during the period the deferral continues. This mitigates concerns about dilution avoidance as a motive weighing on management. (Note: out-of-the money warrants to purchase common shares could be used as an alternative to directly issuing shares. This may be marginally more acceptable to management because the share price would have to appreciate before the warrants were exercised. Nevertheless, the same tight limit on the number of shares covered by the warrants would still be appropriate. In the case of certain regulated financial institutions, we have accepted what is sometimes a looser standard--warrants capped at 2% of market value, rather than 2% of shares outstanding.)
- The company has the option of issuing more of the hybrid or of another hybrid, and if it does so, the company is required to issue no more than 25% of the initial principal amount. This provides further assurance about dilution concerns, since the company will have an alternative that could well be seen as more attractive than common stock issuance. Moreover, there will be protection against the company's being burdened by a substantial amount of new obligations with uneconomic terms.

Direct allocation of additional hybrid securities, commonly referred to as "PIK payment," to the initial hybrid investors (requiring no new market issuance) would be even less problematic, at least when the basis of valuation is the nominal value as opposed to the market value.

Mandatory deferral

In certain instruments, an APM/ACSM-type mechanism is coupled with a mandatory deferral provision. For example, some issues define mandatory deferral triggers in terms of financial tests, such as the following:

- Cumulative consolidated net income for the two half-year periods ending six months prior to the coupon date must be less than zero; and
- Adjusted consolidated shareholders' funds must decline by 10% or more during the four half-year periods ending six months prior to the coupon date; and
- Six months after the prior two triggers have been activated, total adjusted capital (including mandatory convertibles and/or hybrid securities) must have declined by more than 10% during the preceding five half-year periods.

However, with the breach of these conditions, the issuer has the option to issue common stock or other specified securities before the payment date-–in sufficient amount to fund the payment owed, or, in other cases, in sufficient amount to offset the decline in capital–—and thereby avoid the payment deferral. We believe such an optional capital-raising feature undermines some of the equity benefit of the mandatory deferral provision. We see a risk that in cases short of financial distress, companies might succumb to investor pressure to utilize the capital-raising option—even if, from a credit perspective, the company's capital markets access would best be utilized for other purposes, or conserved. Lest there be any doubt, some companies have actually made explicit "best endeavors undertakings," in which they state in the issue offering materials that they would always undertake to raise fresh capital as needed to avoid a deferral. In other instruments, there is not an option, but rather a contractual requirement to undertake the sale of common stock or other equity-like issues immediately upon the breach of defined financial tests.

We have accepted such provisions as consistent with "intermediate" equity content, but not with "high" equity content. To warrant the "high" equity content designation, no forced or "best efforts"–based (or even optional) settlement of

mandatorily deferred amounts must be allowed to take place until the earlier of five years from the initially scheduled payment date or the point at which the breach is cured. For both "intermediate" equity content issues, there must be a prohibition against repurchasing the settlement currency (other than payment-in-kind at face value) extending at least 12 months from the cure date. Otherwise, through share repurchases, the issuer could well thwart the cash conservation on which our determination of equity content relies. (See section "Equity Content Categories.")

Issue Features: Conversion Into Common Stock And Share Settlement

We do not recognize equity content, per se, for a provision whereby an issue can convert into common stock at some premium, at the option of the investor. While, historically, many such issues have ultimately converted, we view this feature as a positive contingency. That is, if the company fares well and this is reflected in significant share price appreciation, then conversion would likely occur. (In theory, if the share price had appreciated well above the conversion price, there was only a short time remaining before the issuer could call the issue and thereby force conversion, and we were confident the issuer intended to do just that, we could then view the situation as warranting recognition of some amount of equity content. However, we have been reluctant to formalize this approach, given the rapidity with which share price volatility can erase even seemingly unassailable stock price gains.) On the other hand, if the issuer is struggling, this is highly likely to be reflected in a depressed share price, making the conversion uneconomic for investors. Of course, investors value the conversion option, and this should translate into lower interest cost for the issuer—something beneficial for the issuer, regardless of whether the issue ultimately converts. And if the conversion feature is combined with other features that qualify the instrument for "intermediate" or "high" equity content, the conversion feature certainly does not detract from equity content, in our view.

Likewise, we don't recognize equity content for a provision whereby the company has the option to repay an issue upon redemption or maturity by issuing common shares to the holders at the then-share price, instead of using cash. Although such a provision may save the company an underwriting fee, our assumption is that it could always choose to finance the maturity with a separate common stock offering, if inclined to issue common stock. Of course, if the local equity market were relatively underdeveloped or dormant, then such a provision would perhaps deserve more recognition.

Although leaving it up to the company to determine how to settle a convertible instrument does not necessarily detract from credit quality, if investors' exercise of an optional conversion provision means the issuer is required to repay the principal amount in cash—with only the appreciation settled in shares—we view that as the equivalent of a put. The instrument is more debt-like than equity-like. Share appreciation ordinarily being correlated with good performance by the company does not mean that maintaining capital adequacy is irrelevant to the company's credit profile.

As discussed above, we view mandatory conversion into common stock in a very different light. If the issuer's share price at the outset is used as a floor to limit the extent of shareholder dilution, if the ultimate conversion is no more than three years from the time of issuance in the case of investment-grade issuers (two years for issuers with issuer credit ratings in the 'BB' category; one year for issuers with issuer credit ratings in the 'B' category), and if various other conditions are met, an issue with such a feature can achieve "high" equity content. Otherwise, such issues are generally viewed as debt-like, given the concern that the shares issued would be repurchased.

Some instruments provide for a change in the conversion or exchange ratio if the company issues common shares within a specified time period at a lower price. (In lieu of changing the conversion ratio, some issues call for a cash payment to the hybrid holders.) This type of "make-whole" feature increases the aversion to issue more capital when it might otherwise be prudent and may burden the issuer with more dilution.

We do not consider an issue that converts or exchanges into common stock of a company other than the issuer as having equity content. Rather, we treat such an issue as an asset monetization, in that the issuer exchanges one asset (its equity stake in the third party) for another--the proceeds of the issue--albeit with a significant time delay between the latter and the former. The overall impact of the transaction can be positive, neutral, or negative, depending on such factors as the value realized for the equity stake relative to our expectations, our perception of the risks related to the equity stake, the cost of the financing (taking account of tax considerations), and the use of proceeds.

Rating The Issue

In the corporate and financial institutions sectors, we assign two types of credit ratings--one to issuers and the other to individual issues. The first type is called variously an issuer credit rating (ICR), counterparty credit rating, or corporate credit rating. It is our current opinion of an issuer's ability and willingness to meet its financial commitments on a timely basis. In contrast, while issue ratings address timeliness, they also address the potential for recovery of principal in the event of a bankruptcy or liquidation of the issuer--that is, the ranking of the issue.

Most types of hybrid capital instruments afford equity benefit to issuers by having ongoing payment requirements that are more flexible than interest payments associated with conventional debt, and by being contractually subordinated to such debt. Obviously, these characteristics make the instruments riskier for investors than debt. In assigning issue ratings to hybrid capital issues, we seek to assess the incremental risks associated with the issue in terms of payment timeliness and principal recovery compared to the ICR and to nondeferrable debt. We reflect these risks in the ratings of hybrid capital issues by assigning them ratings that are "notched down" from the ICR. Owing to the unpredictable nature of some of the risks to which hybrid capital issue ratings are subject, the ratings are potentially more volatile than the ratings on conventional debt issues.

We utilize a common framework across our corporate and financial institutions practices and across regions. However, the rating dynamics can work differently. For example, in the banking sector, most instances of companies deferring payments on trust preferred have reflected the intervention of regulators. In theory, given banks' high funding needs and the importance of maintaining confidence in the specific bank and the entire financial sector, the regulatory order to defer may occur when the company's credit quality is still stronger than the point where most corporates would consider such an action. So, in certain circumstances, where a bank is experiencing deteriorating credit quality, we may decide to widen the gap between the ICR and hybrid capital issue rating at an earlier point than for a corporate on a similar trajectory.

We also utilize this framework across the rating spectrum. In the case of highly rated issuers, the prospect of financial distress is, by definition, extremely distant. Still, issue ratings reflect our relative assessment of how different instruments in the issuer's capital structure might fare, should the downside case materialize. Some highly rated issuers

have argued that in their particular cases, the risk of deferral is so remote that it should not be reflected in a lower issue rating than for subordinated debt. If we accepted this argument, we would not notch down for deferral risk, but we would also see little basis for recognizing equity content in the issue.

Rating The Issue: Subordination

Subordination adversely affects the ultimate recovery prospects of subordinated obligation holders in a bankruptcy, since claims of priority creditors must be satisfied first. For issuers with investment-grade ICRs, we assign a rating one notch below the ICR for issues that are subordinated (but not deferrable). We typically rate subordinated instruments with deferrable coupons two notches below the ICR when it is investment grade (see details in next section). We do not distinguish in the notching between gradations of subordination: Junior subordinated issues and senior subordinated issues are rated the same. Experience has shown that, in bankruptcy, ultimate recoveries for different classes of subordinated instruments tend to be similar--and poor. (Likewise, other things being equal, we don't distinguish between hybrid capital issues that are cumulative and those that are noncumulative, since there is little reason to suppose recovery prospects of the two are materially different.)

Historically, in the case of issuers with speculative-grade ICRs, we automatically rated the issue two notches below the ICR just to reflect subordination (apart from the incremental notching for deferral risk). Under the updated Issue Rating and Recovery Analytics framework published on May 30, 2007 ("Recovery Analytics Update: Enhanced Recovery Scale And Issue Ratings Framework"), hybrid capital issues of speculative-grade issuers (except banks) can be notched down based on issuer-specific and instrument-specific recovery prospects in countries where we have adopted this issue rating approach and extended it for hybrid capital instruments. (Elsewhere, the two-notch differential for subordination remains automatic.) However, as a practical matter, this makes little difference to our rating conclusions: We expect the vast majority of nondeferrable subordinated instruments of speculative-grade issuers to receive a recovery rating of '6' on the revised scale (0%-10% recovery of principal post default), which would imply the same two-notch differential from the ICR that these instruments would otherwise be assigned just for subordination.

When a holding company issues the hybrid capital instrument, as is common for U.S. financial institutions, the notching is relative to our ICR on the holding company, which is typically lower than the ICR on the main operating unit.

Rating The Issue: Deferral

Payment risk can be heightened in the case of hybrid capital issues due to:

- The right of optional deferral, where management has the option under the terms of the instrument to suspend or cancel distributions without triggering a default (see section "Issue Features: Optional Deferral");
- Mandatory deferral, where, with the breaching of one or more predetermined triggers, the issuer is required to suspend payments (see section "Issue Features: Mandatory Deferral"); and
- Regulators' ability, in certain cases, to order companies to defer or cancel payments.

Our objective is to fully reflect payment deferral risk in hybrid capital issue ratings, whatever the potential driver of the

deferral. As deferral becomes an increasingly likely prospect, the gap between the ICR and the hybrid capital instrument would widen to reflect the heightened risk of deferral.

Optional deferral

We assume that issuers will be loath to exercise their right of optional deferral, given the negative reaction this evokes among investors and hence the ramifications it can have for the issuer's future access to capital markets. Deferral risk is heightened when the issuer faces increased prospects of financial distress, such that management's reluctance to defer may ultimately be overcome in favor of the need to conserve cash. As referred to above, the "pressure points" may differ for different types of issuers, meaning the consideration of deferral may come at earlier or later stages in the course of credit deterioration. One danger sign is when a company curtails or eliminates its dividend on common stock: This is sometimes a precursor to a deferral on equity hybrids. (Most equity hybrids have a "dividend stopper" that prevents the company from making any distributions to its common stockholders while it is deferring distributions on the hybrid; see section "Issue Features: Dividend Stoppers, Look-Backs, And Pushers.")

If a corporate has an unusually large proportion of equity hybrids in its capitalization, it may have an added incentive to defer, due to the significance of the cash flow savings that would result and perhaps pressure from senior lenders. However, in the case of large, regulated financial institutions, we believe this could cut both ways: the greater the amount of outstanding hybrids, the greater the potential for a systemic disruption or a backlash in the capital markets. This could give the issuer more of an incentive to continue payments under all circumstances.

Mandatory deferral

Triggers for mandatory deferral vary. Some consist of earnings-, cash flow-, or capitalization-based financial ratio tests; others refer to the issuer's incurrence of a loss during a defined period or the failure to meet specified minimum regulatory capital requirements. Still others tie the payment of the distribution on the equity hybrid directly to the company's payment of the common stock dividend.

Obviously, the payment deferral risk for the hybrid capital issue investor is higher when it would take only a minor and temporary shortfall in profitability to cause the deferral, for example. On the other hand, if it would take circumstances so dire for the trigger to be breached that the issuer would likely be on the brink of bankruptcy, then the payment risks for the hybrid capital issue investor would not be materially different than they would be for debt holders.

Triggers for mandatory deferral may be included in the terms of the hybrid capital issue. Alternatively, they may be included in the terms of other financing agreements or indentures of the issuer—for example, in the form of a financial covenant under a committed credit facility prohibiting the payment of dividends on all common and preferred stock if certain tests are breached. In our surveillance of hybrid capital issue ratings, we are alert to any changes in the issuer's financing agreements or indentures that could bear on its ability to make payments on a hybrid issue.

Regulatory deferral

In some regulated financial services sectors, regulators have the authority to direct companies to defer payments on equity hybrids based on the regulators' own assessment of what is prudent. In certain cases, banks have been ordered to defer even when they met all regulatory capital requirements (for example, Riggs National Corp., a bank holding company that was required to defer payments on trust-preferred securities in December 2004). Assessing the risk of deferral in the case of a regulated company requires careful consideration of sector- and country-specific factors,

including precedents of deferral ordered by the regulatory body in question. Especially important is the identification of financial measures to which the regulator is particularly sensitive.

The authority and intent of financial regulators to order deferral of payments in certain circumstances--whether or not clearly defined--means that most hybrid capital securities of regulated financial institutions can be viewed as having de facto mandatory deferral. Regulated financial institutions structure hybrids according to rules established by national regulators for regulatory capital measures. This includes the definitions of the capital ratios or performance measures that would trigger payment deferral if breached. The triggers for deferral--typically the regulatory minimum capital ratio for banks and insurers--are usually made explicit in the covenants of the hybrid security. Less often, the trigger is not explicit in the document but is understood by both issuer and regulator.

Rating The Issue: Factoring Payment Risk Into Issue Ratings

In reflecting payment/deferral risk in hybrid capital issue ratings, we evaluate the different sources of deferral risk that are present and seek to assess their combined significance. Where deferral is possible but we believe the prospect of a deferral is relatively remote for the foreseeable future, we take one notch from the ICR in setting the issue rating, whether the ICR is investment grade or speculative grade (subordination will increase the notching, as explained in the prior section). A one-notch differential is the typical treatment for issues that have optional deferral alone. For example, the subordinated and optionally deferrable issue of an issuer rated 'BBB+' would generally be rated 'BBB-'--one notch for subordination and one notch for payment deferral risk. If the issue were senior and deferrable (a rare but not unheard of combination), the issue would be rated 'BBB'. We take the same approach even at the highest rating levels. (Note that a subordinated and deferrable issue of a 'AAA' rated issuer is typically rated 'AA'. Because there is no 'AAA-' rating in our rating scale, 'AA' is two notches below 'AAA'.)

When we have heightened concerns that the issuer may defer--whether due to the exercise of its right to defer optionally, the breaching of a mandatory deferral trigger, or the exercise of a regulator's prerogatives--we increase the gap between the ICR and the issue rating. We do not impose any arbitrary limit on the size of the gap. So, in an extreme example, if the ICR of an issuer were investment grade, but we believed that there was a substantial risk that the payment on the issuer's trust-preferred securities could be deferred within a few quarters, the issue would have a low speculative-grade rating. On the other hand, if the issuer faced the immediate prospect of financial distress, yet we believed management remained determined-–for whatever reason-–not to exercise the right to optionally defer, we could, at least in theory, narrow the notching for deferral risk.

Combinations of different forms of deferral may or may not increase deferral risk. For example, if an issue has mandatory and optional deferability, and the mandatory triggers are defined so that they could be breached without there necessarily having been fundamental erosion in the issuer's credit quality, then the risks to investors would be greater than if there were optional deferability alone. The same would be true if the triggers were more reflective of fundamental credit quality, but could be breached before the point where the issuer would contemplate optional deferral. In either of these cases, a lower issue rating would be warranted than if there were optional deferability alone. In these circumstances we generally add to the gap between the issue rating and the issuer credit rating. On the other hand, if the mandatory trigger were sufficiently remote that we believed it would be unlikely to be breached before the

company would otherwise have optionally deferred, then we would not take away additional notches for the mandatory deferability compared to what would be appropriate for the optional deferability alone.

For example, MetLife Inc. issued $2.1 billion of noncumulative perpetual preferred in 2005 that was rated 'BBB', three notches below the ICR. The issue has both optional and mandatory deferral. The mandatory deferral is breached by the triggering of either of the following:

- Consolidated net income during any consecutive four quarters is zero or less AND shareholders' equity declines 10% or more during the most recent eight quarters AND MetLife cannot reduce the decline in shareholders' equity within the subsequent two quarters to less than the 10% threshold through equity issuance; or
- The risk-based capital ratio of Metlife's largest U.S. life insurance subsidiaries falls below 175% of the company action level.

Analytically, it was deemed reasonably possible, while not expected, that MetLife could have an atypical earnings event or a decline in its GAAP equity that would cause the first trigger to be breached, even while the company remained financially strong. More importantly, the second trigger relates only to measures of solvency for a portion of Metlife's U.S. life insurance operations, while the ICR reflects the diversity afforded by the company's U.S. property and casualty operations and its growing presence outside the U.S.

We have rated a number of mandatory deferrable issues where, as in the first trigger in the MetLife transaction, triggers are defined to give the issuer the chance to make up for a decline in shareholders' equity by issuing new equity. Some issuers of these instruments have argued that this completely mitigates mandatory deferral risk, since it would always be their company's intention to take whatever actions were necessary to forestall the breach of the trigger, barring cases where they would want to exercise the right to optionally defer. Some issuers have even put such assertions in the form of "best endeavors" undertakings included in offering documents or other filings. We must be skeptical about such assertions, just given the remoteness of the prospect of deferral, and the adverse changes the issuers might have undergone by the time that point was reached. However, if we were convinced that the company, apart from situations where it would optionally defer, would always avail itself of whatever capital markets access it had to avoid a breach of the mandatory trigger, then we would not notch down incrementally for the mandatory deferral risk; rather, we would only notch once, for the risk of optional deferral. However, there would then be little basis for ascribing any extra value in terms of equity content (beyond that warranted due to the optional deferral feature alone) to the mandatory deferral feature.

If a mandatory deferral trigger is defined in such a manner that we believed the trigger would always be breached before the company would otherwise consider deferring optionally, and if the company is legally required to issue common shares immediately upon the breach of the trigger, then we could conclude that deferral risk had been effectively eliminated, and not notch down for deferral risk.

In the case of regulated financial institutions, explicit mandatory deferral triggers do not add to deferral risk stemming from regulation if--as is generally the case--the triggers just replicate the capital standards that a regulator applies in determining whether to order a deferral. Also, in the case of banks, we consider it particularly unlikely that a company would exercise unilaterally its right to defer optionally. Moreover, we would generally presume that bank regulators would act preemptively to force banks to raise capital (or divest some activities) to prevent regulatory capital

guidelines from being breached. Thus, in most instances we take away only one notch for deferral risk in rating hybrid capital issues of investment-grade banks, even where there is a combination of optional deferral and regulatory deferral risk.

For example, certain Spanish and Australian banks' hybrid capital issues contain relatively narrow earnings tests, which link the payment of a coupon to the existence of profits in the previous fiscal year. However, we do not believe that the local regulators will apply these tests mechanistically. Rather, we expect there to be situations where the issuer reports a loss, but where the regulator still allows the issuer to pay a coupon. (The terms and conditions allow this flexibility.) We believe that the likelihood of regulatory intervention will depend on the circumstances that have given rise to the reported loss and that the probability of regulatory intervention on these hybrids is not materially affected by the existence of the tests. Yet, as indicated above, we would notch to a greater extent in cases we view as exceptional. Examples would be where we perceive that the likelihood of a reported loss has increased materially, or if we come to believe that the regulatory approach to the narrow earnings test would be more mechanistic.

Rating The Issue: Default And Distress

On July 23, 2008, we expanded the definition of our 'C' long-term issue credit rating to include issues on which cash coupon payments have been deferred, eliminated, or in some cases, paid in-kind, as permitted under the terms of the issue. The definition expansion only affects the rating that we assign to a hybrid capital issue when the cash coupon on the instrument is no longer being paid, but the issuer is not bankrupt or insolvent and our credit rating [ICR] on the company is not 'D', 'SD', or 'R'. We will generally continue to assign a 'D' rating to issues that are in payment default, to issues that have been subject to a distressed exchange, or when the issuer has filed for bankruptcy or taken similar action.

Some issues with mandatory deferability have clauses that require the issuer to undertake the sale of common or preferred stock and utilize the proceeds to make the distribution. If the payment can be made on a timely basis, we would not view this as a default. In such circumstances, we believe a grace period of up to 30 calendar days is appropriate—equivalent to the grace period commonly found in conventional debt issues. However, there is the risk that the company would be unable to complete the required share issuance, depending on the company's circumstances and conditions in the capital markets. So far, we have not notched down a second notch for mandatory deferability in cases where "best efforts" share issuance (or issuance of other securities) would then be immediately required. However, we could reassess this approach as we gain more insight into the practicability of this requirement. In any event, we will notch down when we believe that under the most likely scenario where a deferral could occur, the issuer's financial strength and share price would have declined so precipitously that the issuer's ability to complete even a modest-size common stock issuance (or issuance of other securities) could be dubious.

In theory, if we were convinced that the deferral of payments was highly unlikely to occur absent a default by the company on all of its obligations and/or a bankruptcy filing, then we would not notch at all for deferral risk, only for subordination.

Rating The Issue : Government Support

The policy for rating the hybrid equity securities of government-supported entities deserves particular mention. When Standard & Poor's expects the government to support a government-supported entity's debt obligations but has less confidence that the support would be extended to the government-supported entity's equity hybrids, then the base for the notching of the equity hybrid issue rating is not just the ICR (which factors in the imputed government support). The issuer's stand-alone profile (absent government support factors, including extraordinary intervention and rescue) is also a relevant rating factor in these situations.

This indeed was the case in Japan in the late 1990s and early in the current decade, when Japan's government provided massive support to the private banking sector to maintain confidence and prevent the failures of many institutions. The government support did not extend to all hybrid capital securities of Japanese banking groups during that period, however, and some of the bank hybrids, notably the operating company (opco) preferred securities, deferred payments. Two prominent cases of deferral were those of Resona Bank and UFJ Bank (through opco Tokai Preferred Capital Co.). During this period, we widened the notching of hybrid equity securities, including opco preferred securities, up to six notches below the ICR of the issuing groups. In the cases cited, the banks avoided liquidity problems after the payment deferrals: UFJ was merged with higher-rated Mitsubishi Tokyo Financial Group, and Resona Bank was under the direct control of the government.

A more recent example is the U.K. bank Northern Rock PLC, which has received significant liquidity support from the U.K. government since September 2007 and was nationalized in February 2008. The liquidity support includes a government guarantee arrangement that covers Northern Rock's deposits and senior unsecured wholesale funding, but explicitly excludes its subordinated capital issues. Northern Rock's preference shares (a Tier 1 capital instrument) were included within the nationalization, and ownership of them has consequently transferred to the government, with compensation to be determined by an independent valuer. These preference shares are now rated 'D' to reflect the impact on the prenationalization investors, who have not, to date, received any compensation for the change in ownership. Northern Rock's two other Tier 1 issues remain with their existing owners and are up-to-date with coupon payments.

Our approach would be similar in the case of an entity whose ICR benefited from support of a strong parent, but where we doubted whether parental support would be extended to the subsidiary's hybrid capital.

Rating The Issue: The Rating Approach To PIK Debt

PIK debt can pay interest in cash or in-kind in certain circumstances. These obligations are typically issued by speculative-grade corporates. PIK means that the investor, in lieu of cash, receives more of the same note, or that the note's principal is increased. There are several forms of PIK debt. In their simplest form, PIK notes pay interest in kind from the outset and for the life of the instrument. These are similar to zero-coupon bonds. Although such issues can help highly leveraged companies conserve cash, the generally steep interest rate and rapid accretion give the issuer a strong incentive to refinance the issue. Our ratings for such issues are not notched down to reflect default risk to a

greater extent than for ordinary debt issues of the company-—only to reflect subordination (if applicable).

Some PIK debt initially requires cash interest payments, but gives the issuer the option of paying in-kind later. Such an issue is analogous to deferrable payment equity hybrid securities. Although the PIK option is contractually permitted, the expectation is that the company will pay cash unless it faces severe financial distress. Accordingly, we reflect that risk with additional notching (for deferral risk) at the time of issuance.

Toggle notes are somewhat different from the two types described above, in that they are designed to facilitate switching back and forth between cash payment and PIK distributions, according to the preferences of the issuer. (In some cases mixed cash/PIK payments are also permitted.) When the PIK option is utilized, there is a bump-up in the interest rate, intended to make the investor relatively indifferent. With appropriate disclosure at the time of issuance, the investor knows to expect a toggling cash/PIK payment pattern. The fact that the issuer is noninvestment grade also helps to support this expectation. Where we are satisfied that disclosures are sufficient to give investors the expectation of receiving PIK at various stages of the security's life, and where the issuer is noninvestment grade at the time of issuance, we will not treat utilization of the PIK option as warranting the 'C' rating. In other words, we do not treat it as a payment deferral and we do not notch down for this PIK feature. For other forms of PIK debt, we believe that a shift from paying cash to paying in-kind indicates severe financial distress and warrants a 'C' rating. Previously, we assigned a 'D' to the issue in these situations.

Toggle notes may be senior, and even secured. We take account of this in assessing recovery prospects. In analyzing recovery prospects, however, we expect the PIK option would likely be utilized prior to a bankruptcy, and that this would thus translate into higher debt at time of default-—and so must be added when calculating recoveries.

All types of PIK notes provide a measure of flexibility that is a positive consideration with respect to issuer liquidity. We do not formally recognize equity content in toggle notes, though, given the incentive to pay in cash, and the relatively short maturities and senior ranking of the instruments-–at least as seen in the issues done to date.

Rating The Issue: Equity Unit Ratings

Companies continue to issue mandatorily convertible debt, structured as a unit that bundles two pieces:

- A corporate debt (or preferred stock) security; and
- A forward contract that requires the investor to purchase--and the company to sell--the company's common shares at a predetermined price (or formula).

Standard & Poor's may be asked to rate the underlying debt (or preferred) piece--or the unit. Such debt and/or a unit incorporates substantial equity risk.

The investor winds up with common stock--if not via conversion, strictly speaking--by fulfilling the contract obligation. Sometimes the debt is remarketed, but the company gets the new money, while unit holders still receive the stock to satisfy the terms of the equity contract.

The ratings we assign do not opine on the totality of the equity risk, but neither do we ignore the equity nature of these instruments, as explained below.

Under the current policy, the rating of the debt and/or unit is normally two notches below our corporate rating on investment-grade companies, or three notches in the case of speculative-grade companies. This level equates to the ordinary rating of a company's preferred stock, which is also an equity security of the company (although the risks incorporated in preferred ratings are, of course, somewhat different). Given the market risk that the investor takes, the assigned rating could arguably be lower; however, sizing the risk of share price changes is beyond the scope of rating analysis.

Thus, the rating on the unit applies to the company's obligation to service the debt component, as well as its obligation to issue common shares under the forward contract. The rating does not pertain to the safety of principal or the units' value. The units' ultimate value is a function of the market value of the company's common shares, and is not addressed by our rating.

Note that we apply a different approach where the purchase contract relates to shares of another company that are owned by the issuer, rather than the issuer's own common shares. In line with our market-linked bond policies, the rating on such exchangeable debt or preferred will be that of the issuer--even if the issuer is disposing of shares of a company with a very different credit profile. And, if the obligation is senior, it will carry the same senior debt rating as the issuer.

How Have Hybrid Capital Issues Performed?

Apart from the need to do so for our normal rating surveillance purposes, we monitor closely the deferral experience of rated hybrid capital issues with a view to validating our analytical perspective on hybrid capital issues. Among the characteristics of such issues, the flexibility of payments (i.e., the contractually permitted ability to defer interest or dividend payments) is generally the key to our recognition of equity content. Thus, it is important to look at the extent to which companies under stress actually avail themselves of the option to defer payments. We also seek validation of our notching policy, since, in setting the rating on hybrid issues, we notch down more than with conventional subordinated debt, under the assumption that there is incrementally greater payment risk. Under our rating definitions, if a payment is deferred or omitted, the issue rating would be lowered to 'C' (assuming the issuer is not bankrupt or insolvent).

Our findings have been mixed. Here, we consider the experience from 1995 to the present, taking account of all rated hybrid capital issues, in all regions and sectors, and including most types of conventional preferred stock, since they have deferral features similar to those in the newer forms of hybrid capital.

Corporates have accounted for the dominant share of all cases where the hybrid capital issue rating was lowered to 'C' (or the then-equivalent). We have identified 101 corporate groups that deferred or defaulted on 179 separate rated issues. The vast majority of the issuers–-95-—have been U.S. companies, and the majority of these issuers were speculative grade when the hybrid issue rating was first assigned. Only nine issuers deferred when their issuer credit ratings were higher than the 'B' category (this excludes Fannie Mae and Freddie Mac, which did not have ICRs). In 49 cases, the issuers never deferred in advance of a bankruptcy filing or default on conventional debt. In nine cases where issuers went bankrupt or defaulted on conventional debt, they deferred hybrid payments one year or more before this

occurred. In 21 of the 101 cases, the issuers deferred but did not subsequently file for bankruptcy or default on conventional debt—at least as of yet.

We have noted 14 instances of insurance companies that deferred or defaulted on issues--all but one U.S.-based. In eight of the cases—including, most notably, Conseco Inc.--the default occurred effectively concurrent with either a bankruptcy filing by the issuer or with the main operating units being placed under regulatory supervision. In five of the other six cases (Lumbermens Mutual Casualty Co., Southwestern Life Holdings Inc., Lasalle Re Holdings Ltd., Gerling Global Finance Alpha B.V., and Scottish Re Group Ltd., which is currently deferring), deferral commenced before the issuer ceased ongoing operations or filed for bankruptcy. In some of these cases, the holding companies' hybrids defaulted, whereas the operating companies did not. This shows that the hybrids provided a degree of protection to the operating companies. In another current example, Syncora Holdings Ltd., formerly Security Capital Assurance Ltd., deferred on its series A perpetual noncumulative preference shares: it remains current on its debt obligations. Many Japanese insurers maintained payments on their hybrids through periods of stress. One insurer, Asahi Mutual Life, deferred payment on its unrated "kikin" hybrids in 2003, while remaining current on its senior financial obligations.

In financial institutions (excluding insurance), we have observed 13 examples of deferral or default on rated hybrid capital issuers. Four were U.S. finance companies: Dynex Capital Corp. deferred for an extended period and never defaulted on conventional debt, FINOVA Capital Corp. and New Century Financial Corp. filed for bankruptcy, not having previously deferred, and Thornburg Mortgage, despite modifying the terms of its hybrid, continues to remain current on its conventional debt. Fannie Mae and Freddie Mac, government-related entities that the U.S. Treasury recently took into conservatorship, accounted for two notable instances. Payments were halted on a combined 38 hybrid issues ($36 billion). We also identified seven instances of deferral at banking groups—two Japanese (Resona Bank Ltd. and UFJ Bank Ltd.), one Thai (TMB Bank Public Co. Ltd.), three U.S. (Bay View Capital Corp., Riggs National Corp., and IndyMac Bank) and one European (Northern Rock plc). Interestingly, in only one of those seven--IndyMac--was there a default on other obligations following deferral on hybrid securities. The case of Riggs is noteworthy in that the company was not in immediate danger of violating regulatory capital standards. Rather, the company was mired in scandal, and the Federal Reserve exercised its broad authority to intervene in an institution it viewed as troubled.

Also noteworthy is Northern Rock plc. Its preference shares were included in the February 2008 nationalization of the bank, which meant that ownership mandatorily passed to the U.K. government from the investors. To date, the investors have not received any compensation. Our rating on this issue is 'D', not the 'C' rating we typically apply where interest is deferred as permitted in the terms of the agreement. This is because of the forced transfer of the preference shares to the U.K. government. We believe that any compensation to the original investors will be limited because it will be based on the estimated worth of the preference shares if Northern Rock had not been supported by the U.K. authorities. On July 4, 2008, Northern Rock announced that it will not declare or pay a dividend on the noncumulative preference shares until further notice, and the annual coupon was not paid on that date. Payments on debt have continued without interruption.

Among unrated U.S. bank holding companies, City Holding Co. deferred payments on its preferred shares in July 2001

and resumed in July 2002. Smaller unrated institutions are exhibiting an uptick in hybrid deferrals. We are aware of cases of unrated hybrids of German banks that deferred payments--e.g., certain hybrid securities of Allgemeine Hypothekenbank Rheinboden AG (now named Correal), Westdeutsche Landesbank, and Sachsen LB.

In interpreting financial institutions' results during the past decade, it is important to keep in mind that senior debt performed very well during 1995-2006 (and in 2007, too, excluding unregulated U.S. finance companies). Indeed, in mature markets, no regulated banks' rated senior debt defaulted during this time.

We have pondered why companies under pressure haven't been more proactive in utilizing the deferral option under outstanding hybrid capital issues. We believe it is most likely due to some combination of the following factors:

- The decline in the company's fortunes was too rapid for deferral to be possible. Examples of this include PG&E, Enron, Parmalat, and more recently, New Century.
- Management might have been too concerned about the "headline risk" associated with deferring, particularly as it could affect its ability to maintain capital markets access.
- The company might not have had enough hybrid capital outstanding for the potential cash-flow savings resulting from a deferral to be meaningful.
- Management was unrealistic in its assessment of its financial condition.

We believe it is unwise to read too much into our historical observations, given limitations of the data and the uptick of deferrals we are seeing in the current environment. While past utilization of the deferral option is less frequent than we might have expected, companies are loath to curtail or eliminate even their common dividends for many of the same reasons cited above—and the equity-like features of common stock set the standard against which we assess hybrid capital instruments. Perhaps future experiences will be different, given the representations that have been made about the equity benefits of the new generation of hybrids. In the sizable area of hybrid capital of regulated financial institutions, the widespread tendency for bank regulators to favor market discipline may lead to a higher incidence of payment deferral during the next decade compared to the 1995-2006 period. One conclusion we draw is that the deferral feature's value is more tangible in the regulated context and/or where there are mandatory triggers. We expect a higher incidence of coupon deferrals and suspensions on hybrid securities of regulated financial services companies in the future, as the amount of issuance grows. We will continue to track the performance of hybrid capital issues in all sectors to help us gauge the appropriateness of our conclusions regarding equity content and payment risk.

Appendix

Table 5

Essential Features Required For Equity Content

	Intermediate-Adequate	Intermediate-Strong	High	High
Interest deferral	Optional – Five years unfettered with default no earlier than five years	Optional – Five years unfettered with default at no earlier than 10 years Or - Mandatory deferral with moderately tight triggers	Mandatory deferral with tight triggers	
Term - capital permanence	20 years or more remaining to the "effective maturity"*			
Term - refinance risk	Where an incentive to redeem early exists, there must be both (1) a replacement provision or equivalent regulatory oversight, and (2) any incentive (or penalty if not redemed) must not be excessive.			
Subordination	Subordinated			
Mandatory conversion				Mandatory conversion to common stock within three years, with the conversion price not lower than initial share price.

*Refer to table below for more detailed criteria relating to "effective maturities".

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Table 6

Provisions In Hybrid Instruments Viewed As The Equivalent Of Maturity

Hybrid equity content treatment in our ratios ends when less than 20 years remain until the "effective maturity." At that point it is treated as debt for ratio purposes, with the benefits incorporated qualitatively in our analysis. This table summarizes which maturity-like provisions are viewed as an "effective maturity."

	Call (with no step-up)	**Call with moderate step up or equivalent* (For investment-grade issuers 26 bps-100 bps is viewed as moderate. "Moderate" can vary depending on local interest rates.)**		**Scheduled maturity (co. is required to make best efforts to redeem)**	**Final maturity (nonpayment upon maturity is a default)**
Standard & Poor's approach	Not viewed as an effective maturity, unless the call is within five years of the issuance date.	For unregulated issuers**: This is viewed as an effective maturity unless there is a replacement capital covenant (RCC). (The expiration date of the RCC would be viewed as an effective maturity).	For regulated issuers:***: This is not viewed as an effective maturity (and no RCC is needed) because the regulator ensures replacement where appropriate. For a step-up with a call before year 10 (even where the regulator accepts that), we require a legally binding replacement covenant.	Always viewed as an effective maturity	Always viewed as an effective maturity

Table 6

Provisions In Hybrid Instruments Viewed As The Equivalent Of Maturity (cont.)

Rationale	Issuer calls are standard in almost all long-term instruments and there is no obligation to redeem that inflicts costs (the market does not assume it will be called, so there is limited headline risk if it is not called). A call before five years is unusual and we take it to be an indication of a lack of permanence, even with a RCC.	The step-up presents an incentive to call and a penalty rate if not called, which undermines permanence. Given that the potential increase in cost is limited to a moderate step-up, the RCC is adequate to offset concerns about permanence. (In contrast, an RCC does not offset the lack of permanence in a short-dated issue.)	For regulated issuers, the regulatory oversight is viewed as adequate to ensure it will be replaced when its benefits are needed. However, where the call is before year 10, we require the even stronger RCC, as regulatory oversight doesn't ensure permanence to the extent an RCC does.	Unless there is a market disruption event, the company is obligated to redeem, which can impose onerous costs on the issuer. This is therefore viewed as an effective maturity.	The instrument must be repaid at this time or else an event of default is triggered.
How the company is likely to react under varying circumstances					
Doing well	Might or might not call, depending on its view of future interest rates	Will redeem	Will redeem	Will redeem	Will redeem
Under moderate stress	Won't retire the instrument (it's equity-like when needed)	Will redeem	Will redeem	Will redeem	Will redeem
Under heavy stress	Won't retire the instrument (it's equity-like when needed)	Won't retire the instrument (it's equity-like when needed)	Won't retire the instrument (it's equity-like when needed)	Will redeem	Will redeem

*"Step-up equivalents" are features that, similar to an increase in the coupon, motivate the issuer to call the issue. For example, a discrete call followed by a non-call period longer than five years would moderately motivate a call and an RCC would be required to achieve equity content, otherwise we would view that as an effective maturity. Features deemed to present a greater-than-moderate motivation to redeem cannot be remedied by an RCC. For example, a rate composed of the "higher of" a specified short-term, mid-term, and long-term interest rate after the first call (e.g. at year 10) is not curable by an RCC unless the rate is haircut to compeltely eliminate the penalty rate. Similarly, we would view a rate comprised of the "highest of" various uncorrelated interest rates such as Treasury (U.S.), Libor (U.K.), and the like as an effective maturity, even with an RCC. We also view a floating interest rate combined with a floor following the call date as an effective maturity even with an RCC (with an exception made in certain instances in regulated sectors).

** Unregulated issuers include North American insurance holding companies, most corporates, utilities, asset managers, security exchanges and clearinghouses. We also view finance companies as unregulated in this respect. (However, for tolerance limits and treatment in ratios, finance companies follow the regulated approach. See table below.)

***Regulated issuers include banks, U.S.-based securities brokers, most insurance issuers outside North America, and insurance operating companies in North America.

Table 7

Equity Unit Structures (Mismatched Mandatory Convertibles)

				Treatment in year #								
Maturity of front end (security issued at outset)	Forward contract is exercised at:	Mismatch	Treated as dual financing of debt and equity	1	2	3	4	5	6	7	8	9
five years	three years	yes	yes	($100 debt) + ($100 debt w/ equity content)			$100 debt + $100 equity		$100 equity			
eight years	five years	yes	yes	$100 debt		($100 debt) + ($100 debt w/ equity content)			$100 debt + $100 equity			$100 equity
five years	five years	no	no	$100 debt		$100 debt with equity content			$100 equity			
three years	three years	no	no	$100 debt with equity content			$100 equity					

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The mechanics of a typical unit structure: A unit is made up of two components: (a) a debt issue and (b) a forward contract obligating the investor to purchase common shares in three years. At year three, the debt owned by the initial investors is replaced with common stock and the debt is separately remarketed to new investors (for new proceeds). To achieve tax deductibility the structure typically separates (mismatches) the date of the debt maturity and the date of the exercise of the stock purchase/issue contract by at least two years.

The equity unit involves two sets of proceeds. It starts as $100 in debt and in three years becomes a total issuance of $200, made up of $100 in debt plus $100 in equity. In respect to capital ratios, we roll the clock forward three years and apply both the resulting debt and equity issuances to the ratios today. Where our understanding is that the second set of proceeds will be used for debt repayment, we ignore the second set of proceeds and apply "high" equity content, without the dual financing treatment, similar to our approach for the basic mandatory convertibles.

Table 8

How Equity Content Is Applied In Capital Ratio Analysis, Across Sectors

		Corporates (Includes regulated utilities, asset managers, security exchanges and clearinghouses)***		Insurance (Excludes bond insurers that have similar, but slightly different tolerance limits)	Financial institutions (Includes securities brokers and unregulated finance companies)
		Debt/equity	Maximum allowed	Treated as 100% equity, up to allowable limits	Treated as 100% equity, up to allowable limits
High		**Equity = 100%** Debt =0%	General guideline is 15%	Up to 25% of TAC (35% in Europe & Canada*)	Up to 50% of ACE
Intermediate	Strong	**Equity = 50%** Debt = 50%	General guideline is 15%	Up to 15% of TAC in US & Bermuda (25% for European and Canadian insurers*)	Up to 33% of ACE (preferred with unlimited deferral)
					Up to 18% -or- 33%** of ACE (enhanced trust preferred i.e., more than five years deferral)
	Adequate				Up to 12% of ACE (upper tier 2, trust preferred, five years deferral)
Minimal		**Equity = 0%** Debt = 100%	NA	NA	NA

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ACE = Adjusted common equity (common equity + minority interests - unaccrued dividends - revaluation reserves - goodwill - interest only strips - tax loss carry forwards +/- pension benefits +/- other adjustments).

TAC = Total capitalization (total shareholders' equity + preferred shares + minority interest + debt -appreciation on fixed-income securities).

Note: The higher caps (maximum allowed) are cumulative of amounts in the lower caps. E.g. in applying the caps for financial institutions, we would first look at intermediate adequate instruments up to 12% (ignoring adequate instruments that were over the 12% cap), then apply enhanced trust preferred from that amount up to 18%, etc.

*In the U.S. & Bermuda where structural subordination is high, regulators allow holding company debt to fund operating company capital. So our tolerances are 25% and 15% of TAC for high and intermediate instruments, respectively. In Europe and Canada where structural subordination is low, regulators exclude holding company debt from groups' solvency, so tolerance limits are higher at 35% and 25% of TAC for high and intermediate instruments, respectively.

**The 18% basket for financial institutions only applies to North American banks and security brokers, due to regulation. For non-N.A. banks, and for all unregulated finance companies (even in N.A.) enhanced trust preferred is

treated like preferred stock, i.e. up to 33%.

***In the corporate/industrial sector only, the interest payments are treated (partially) as common dividends. For "intermediate" issues, they would be treated as 50% interest and 50% common dividends (which are excluded from coverage ratios). In the financial and insurance sector all distributions are treated as interest, and only capital ratios are modified to reflect equity credit.

N.A.--Not applicable.

Table 9

Assigning Issue Ratings: Number of Notches Below the Issuer Credit Rating (ICR)

	Investment-grade rating		Speculative-grade rating	
	Optional deferral	**Mandatory deferral**	**Optional deferral**	**Mandatory deferral**
Subordination	1	1	2	2
Deferral	1	Typically 2**	1	Typically 2**
Total notches	2 *	3	3	4

* The overwhleming majority of hybrid issues are investment grade with optional deferral and are rated two notches below the ICR.

**Where there is a mandatory trigger the notching for DEFERRAL would typically be 2 (or more if there is a greater-than-usual likelihood of the trigger being breached). Where there is a mandatory trigger and (a) the company credibly says it will make its best efforts to settle with common shares and (b) the risk of the trigger being breached is relatively remote, the notching for DEFERRAL would typically be 1.

Notching of mandatory convertibles and equity units: Notching of the issue rating mirrors our approach to notching of preferred stock (even if the coupons are not deferrable and the debt host is senior). Our rating on the issue does not opine on the totality of the equity risk to investors.

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From:	Gavin He
To:	John Kim
Cc:	Bruno Amara
Subject:	RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions
Date:	Wednesday, June 07, 2017 8:42:53 AM

Hi John,

Sure, I will take a look.

Regards,
Gavin He

From: John Kim
Sent: Tuesday, June 06, 2017 8:59 PM
To: Gavin He <Gavin.He@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Hi Gavin,

Could you take a look?

Thanks,

John

From: Ronald Kwan
Sent: June-06-17 6:10 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Hi,

Please review.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: June-06-17 18:03
To: Sriram Subrahmanyan (MOF) <Sriram.Subrahmanyan@ontario.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>

Subject: RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Hi Sriram,

I received the following responses to your question on structure and types of potential income:

1) OPG is planning for the initial financing entity to be a trust. However, the Fair Hydro Plan Act allows for flexibility on the types of structures that can be used (trusts, corporations, partnerships, limited partnerships, other special purpose entities). Because the Fair Hydro Plan envisions a 30 year program, it is important that the PILs exemptions be broad enough to cover all of the various types of entities in the event that a different form is used for one or more future financing entities.

2) The memo we sent addressed types of income that might arise in a trust. As you'll have seen from the memo, it is strongly recommended that a PILs exemption be promulgated which would exempt from PILs any income distributed by a trust financing entity to OPG as beneficiary. This would allow the trust to flush its income to OPG as beneficiary. If a corporation is used as a financing entity, it is important that any income earned in that corporation be exempt from PILs. If a partnership or limited partnership is used as a financing entity, it is important that any income distributed to OPG (or any of its subsidiaries) as a partner or limited partner be exempt from PILs.

OPG is keen to move forward on these regulations. Without the regulations and the PILs exemptions, any taxes payable by a financing entity (whether it's a trust, corporation or otherwise), will be collected from ratepayers which will eat up part of the fair allocation amounts. In addition, the costs of the Fair Hydro Plan will increase as the rating may be affected and the capacity available from the debt markets will decrease as the lenders add a contingency for future taxes that may be collectible at some point in the future from ratepayers.

I would suggest we set up a call to further discuss, perhaps next week.

Please let me know if that makes sense,
Scott

From: Subrahmanyan, Sriram (MOF)
Sent: June 2, 2017 3:39 PM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF)
Subject: RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Scott,

Thank you for sharing the Torys Memorandum, dated May 17, 2017, with us.

The structure was not finalized at the time we first reviewed the proposal. Based on the Memorandum, it appears that the type of structure is still being determined. If there has been progress in this regard, we would be happy to conference with Torys and OPG to discuss the appropriate next steps.

As the PILs relief sought appears to be appropriate given the policy objective, we would probably recommend amendments to ensure the structure is not subject to PILs. However, we would suggest that a ruling from the tax administration division may be appropriate in this case, provided the final structure is not subject to regular federal tax and if authority can be found in the existing legislation and regulations.

Our recommendation would depend on the type of structure that is ultimately selected and on other particulars such as the types of income that would be earned in the special purpose vehicle.

Regards,

Sriram

From: Nelms, Scott (MOF)
Sent: May 31, 2017 1:10 PM
To: Subrahmanyan, Sriram (MOF); Kwan, Ronald (OFA); Lewis, Robin (MOF); Kim, John (OFA)
Subject: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Hi Sriram, Ron,

Further to our conversations from earlier this spring, we received the following from OPG on its request for PILs exemptions relating to Ontario's Fair Hydro Plan. Please let me know if you have questions or comments. Torys and OPG have also asked whether we would like to set up a call in the next few days to discuss.

Thanks,
Scott

Scott Nelms
Electricity Investment and Governance Secretariat | Ministry of Finance
7th Floor | 375 University ave. | Toronto, ON
w: (416) 212-6469 | c: (647) 330-2681
scott.nelms@ontario.ca

From:	Ronald Kwan
To:	John Kim; Bruno Amara
Cc:	Gavin He
Subject:	RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions
Date:	Tuesday, June 06, 2017 9:49:26 AM

Hi,

Would you check in with Ann and Rob on this file.

Thanks,
Ron

From: Ronald Kwan
Sent: June-02-17 17:54
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

FYI.

Ron

From: Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
Sent: June-02-17 17:49
To: Sriram Subrahmanyan (MOF) <Sriram.Subrahmanyan@ontario.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>
Subject: RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

Thanks Sriram. I have reached back to OPG to determine whether a structure has been or is close to final. I will circle back with those details along with some of the other points you raise below.

From: Subrahmanyan, Sriram (MOF)
Sent: June 2, 2017 3:39 PM
To: Nelms, Scott (MOF)
Cc: Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF)
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Our recommendation would depend on the type of structure that is ultimately selected and on other particulars such as the types of income that would be earned in the special purpose vehicle.

Regards,

Sriram

From: Nelms, Scott (MOF)
Sent: May 31, 2017 1:10 PM
To: Subrahmanyan, Sriram (MOF); Kwan, Ronald (OFA); Lewis, Robin (MOF); Kim, John (OFA)
Subject: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

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scott.nelms@ontario.ca

From: Gavin He
To: John Kim; Bruno Amara
Cc: Shajee Kathirgamanathan
Subject: RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions
Date: Thursday, June 08, 2017 12:14:22 PM
Attachments: Memo re PILs Exemption CEFD.DOCX

Hi John/Bruno,

Please find attached the comments for your considerations.

Thanks Shajee for helping out on this.

I saved this under below folder:
S:\Users\CEF\Hydro 2017\Electricity Prices\OFHP\PILs

Regards,
Gavin He

From: Ronald Kwan
Sent: Tuesday, June 06, 2017 9:49 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>
Subject: RE: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

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Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>
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Sriram

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To: Subrahmanyan, Sriram (MOF); Kwan, Ronald (OFA); Lewis, Robin (MOF); Kim, John (OFA)
Subject: Privileged and Confidential - Fair Hydro Plan - PILs Exemptions

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Scott Nelms
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7th Floor | 375 University ave. | Toronto, ON
w: (416) 212-6469 | c: (647) 330-2681
scott.nelms@ontario.ca

TORYS LLP

MEMORANDUM

PRIVILEGED AND CONFIDENTIAL

To	Ontario Power Generation Inc.	**Date**	May 17, 2017
From	Torys LLP, Toronto Tax		
Re	Fair Hydro Plan – PILs Exemption		

As part of the Fair Hydro Plan (the "Plan"), it is expected that Ontario Power Generation Inc. will act as the financial services manager and that Ontario Power Generation Inc., or a wholly-owned corporate subsidiary of Ontario Power Generation Inc. (in either case, "OPG"), will establish one or more new financing entities that will raise debt to acquire "investment assets" from the IESO. A Bill to implement the Plan has been introduced to the Provincial Legislature [1] and there is flexibility under the Bill for the new financing entity to be a corporation, a trust, a limited partnership or a partnership.

We understand that the Province would like to minimize, to the extent possible, Federal and Provincial taxes and "payments in lieu of taxes" ("PILs") under the *Electricity Act, 1998* (Ontario) (the "OEA") payable by a financing entity as the costs of any of those taxes payable by a financing entity will be passed on to ratepayers through the collection of the clean energy adjustment under the Bill and the associated regulations. Accordingly, we understand that the Province is considering the possibility of making regulation changes to exempt the income arising as a consequence of the Plan from PILs. In order to assist the Province in their consideration of this regulation change, including the scope of any such amendment, we have set out below a summary of: (i) the tax treatment of the income of the financing entity under the *Income Tax Act* (Canada) (the "ITA"), the *Taxation Act, 2007* (Ontario) (the "OTA"), and the OEA, (ii) certain matters relating to the computation of the financing entity's income for tax purposes, and (iii) our recommendations with respect to how the Province can ensure that PILs arising from the Plan are minimized.

It is also important to note that Ontario Power Generation Inc. will not bear any of the tax costs arising as a consequence of participating in the Plan. If there are any tax costs, they will be borne by ratepayers through the clean energy adjustment.

[1] Bill 132, *An Act to enact the Ontario Fair Hydro Plan Act, 2017 and to make amendments to the Electricity Act, 1998 and the Ontario Energy Board Act, 1998*, 2nd Sess, 41st Leg, Ontario, 2017 (first reading May 11, 2017).

Tax Treatment of Income of Financing Entity

As noted above, there is flexibility in the draft legislation to implement the Plan relating to the form of a financing entity. What follows is a summary of the tax treatment of the income of the financing entity if it is a corporation, a trust or a limited partnership/partnership, as well as the tax treatment of amounts paid or allocated to OPG as a shareholder, beneficiary or a partner, respectively, of the financing entity:

Form of Financing Entity / OPG	Treatment of Income under ITA/OTA	Income Subject to PILs
Corporation	-Income of the corporation should be exempt from tax	Yes
OPG as shareholder of corporation[2]	-Dividends paid to OPG should be exempt from tax	Yes
Trust	-Income should be subject to tax, although the trust can reduce its income by the amount of its income which is paid or made payable to its beneficiaries	No
OPG as beneficiary of trust	-Trust income paid or made payable to OPG as a beneficiary should be exempt from tax	Yes
Limited Partnership/Partnership	-Limited Partnership/Partnership is not generally a "taxpayer" although income is computed at the partnership level and allocated to partners for tax purposes	No
OPG as partner of limited partnership/partnership	-Partnership income allocated to OPG as a partner should be exempt from tax	Yes

As summarized, if the financing entity is a corporation, the income of this corporation would be subject to PILs, and further, any amounts paid or allocated by the financing entity to OPG, as a shareholder, beneficiary or limited partner/partner of the financing entity, would similarly be subject to PILs. Consequently, any regulation change to exempt the income of the financing entity from PILs under the OEA should be broad enough to accommodate the three possible forms of financing entity and address PILs at both the financing entity level (in the case of a corporation) and the shareholder, beneficiary and limited partner/partner level.

[2] We note that corporations are generally entitled to claim a deduction under section 112 of the ITA (and any OTA equivalent) equal to the amount of taxable dividends received from another Canadian corporation, with the result that taxable dividends are generally not subject to tax under Part I of the ITA (and any OTA equivalent). To illustrate the scope of the PILs exemption under consideration by the Province, we have ignored this deduction in preparing this chart.

Income Computation Matters

As part of the Plan, it is expected that the financing entity will raise debt and acquire "investment assets" from the IESO. The investment assets do not appear to be debt instruments from a commercial perspective on the date they are acquired, but rather seem to be intangible assets. Given the unique nature of the investment assets, the tax analysis that is generally relied on by a financing entity in a typical securitization transaction (which involves interest-bearing debt obligations) is not applicable. There are no specific rules in the ITA or OTA which govern the manner which the investments assets should be treated for tax purposes, such that further analysis will need to be conducted in order to determine whether the investment assets are on income or capital account to the financing entity, and that the "cost" of the investment assets are appropriately recognized as a deduction or offset in computing the income of the financing entity.

In addition to the tax implications relating to the investments assets, the following additional matters, among others, are relevant in computing the income of the financing entity:

- In order to be deductible, an expense must satisfy the requisite income earning purpose test;
- Expenses which are owing to a non-arm's length person must be paid in a timely fashion so that the expense does not give rise to an income inclusion;
- Capital losses may generally only be offset against capital gains, such that consideration must be given to the character of the assets and liabilities of the financing entity to ensure there are no mismatches;
- If the financing entity incurs foreign-currency denominated debt, any related foreign currency hedging instrument will need to be sufficiently "linked" to the underlying debt to ensure capital treatment of the hedge; for example, if the period of the hedge does l not match the period of the related debt, the financing entity will realize gains or losses on the hedge that will not be offset with realized losses or gains on the debt; and
- If the financing entity is a trust, it will be necessary for interests in the trust to "vest indefeasibly" or be structured as units where at least 95% of the units, by fair market value, are redeemable on demand by the holder to ensure that the trust is not deemed to dispose of any capital property under the "21 year" rule.

Recommendations

In order to ensure that the taxes arising under the Plan are minimized so that the overall cost of the Plan (over its 30 or more years of existence) to ratepayers is minimized and to ensure that Ontario Power Generation Inc. is kept whole from tax costs arising as a consequence of participating in the Plan, the following exemptions from PILs are required:

1) If the financing entity is a trust: Any income paid or made payable to OPG by the trust should be exempt from PILs. If this PILs exemption is not promulgated, the income will

Commented [GH1]: Historically, one of the purposes of the PILs regime was to ensure publicly-owner (aka government-owned) electricity entities would be forced to operate on equal footing with privately held companies by paying the equivalent of corporate income taxes (albeit to the OEFC rather than to the Federal and Provincial governments).

As OPG enacts new businesses (eg. bioenergy, solar, isotope sales and new markets etc), these taxes would similarly be 'PILs' and remitted to OEFC.

Providing this tax exemption for OPG would be seen as an unfair advantage for a publicly-owned corporation, particularly in the event there are any future desires to privatize. In addition as OPG is not mandated to be the financial manager, it is unclear if another financing entity would be eligible for these PILs exemption.

Commented [SK82]: Are there limitations in the role of the financing entity, and would it (by utilizing this PILs exemption) be able to expand its breadth into other operating businesses?

not be distributed out of the trust, tax will be payable by the trust on the income and the costs of that tax payable will be passed on to ratepayers through the clean energy adjustment. This will be a significant cost.

2) If the financing entity is a corporation: The corporate financing entity should be exempt from PILs and any dividends paid to OPG should be exempt from PILs. Again, if these PILs exemptions are not promulgated, no dividends will be paid to OPG and the costs of all PILs paid by the financing entity will be passed on to ratepayers through the clean energy adjustment. This will be a significant cost.

3) If the financing entity is a partnership or limited partnership, any income allocated to OPG should be exempt from PILs.

4) If the financing entity is any other form of special purpose vehicle, the income of such entity should be exempt from PILs and any income from such special purpose vehicle allocated, paid or taxable in the hands of OPG should be exempt from PILs.

Commented [SK83]: Unclear why 'the income will not be distributed out of the trust' if the PILs exemption is not promulgated. What exactly is stopping the income from being distributed to OPG?

Why can't OPG (in its capacity as a larger organization) manage its tax obligations (PILs) appropriately upon receiving income paid (or payable) by the trust?
(ie. If the financing entity/trust has less maneuverability, why can't OPG as a larger organization engage in better tax planning).

Commented [SK84]: What is meant by significant?

From my understanding no taxes will be paid on the 95% of the borrowings of the fund.

Furthermore there will be a benchmark on the weighted average borrowing and the trust will receive a gain/benefit/income on the 5% if it beats the benchmark.

From: John Kim
To: Ronald Kwan; Bruno Amara
Subject: RE: Rate Mitigation Implementation Meeting - June 8, 2017
Date: Thursday, June 08, 2017 7:43:33 AM

Hi Ron,

I'm okay with the outstanding issues piece. If you're attending this morning, it would be helpful to gauge the level of support and the timing of the requested indemnities.

Likely, we will received merged set of questions and comments from MOF Legal and be in a position to send over to Energy policy shops (EIGS included?), Energy Legal, etc. We will run it by you beforehand.

Thanks,

John

-----Original Message-----
From: Ronald Kwan
Sent: Wednesday, June 07, 2017 9:43 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: FW: Rate Mitigation Implementation Meeting - June 8, 2017

Hi,

Any comments, before the meeting, such as on the revised version of the outstanding business issues?

Ron

-----Original Message-----
From: Gadi Mayman
Sent: June-07-17 9:30 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: Fw: Rate Mitigation Implementation Meeting - June 8, 2017

Here's the material for your meeting tomorrow.

Gadi

Original Message
From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Wednesday, June 7, 2017 8:02 PM
To: Steen Hume (CAB); Kaili Sermat-Harding (ENERGY); Michael Reid (ENERGY); Carolyn Calwell (MCSS); Scott Nelms (ENERGY); "jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)'; 'Rosemaire Leclair'; 'Mary Anne Aldred (maryanne.aldred@ontarioenergyboard.ca)'; 'Kim Marshall (Kim.Marshall@ieso.ca)'; Scott Thompson (CAB); Helen Angus (MOHLTC); Steven Davidson (MTCS); 'Martine Band'; 'CROZZOLI Carlo -CBUSDEV&STRT'; Gadi Mayman; 'LEE John -TREASURY'; Karen Hughes (MGS); Veinot, Cindy (TBS)
Cc: Serge Imbrogno (ENERGY); Andrew Teliszewsky (ENERGY); Matt Whittington (ENERGY); Baker, Carys (ENERGY); Kyle MacIntyre (MOF); David McLean (MOF); Robert Foster (MOF); 'jordan.penic@ieso.ca'; 'sarah.branco@ontarioenergyboard.ca'; 'Turnevicius, Lorraine'; 'catriona.king@opg.com'; Francesca Bungaro-Yemec (ENERGY); Feather, Adam (ENERGY); Hilary Cox (ENE); Matthew Kitchen (ENERGY); Patrick Laughton (MOF); David Barrett
Subject: RE: Rate Mitigation Implementation Meeting - June 8, 2017

Good evening,

Please find attached the material for discussion tomorrow morning.

Thanks,
Martin

From: John Kim
To: Ronald Kwan
Cc: Gavin He
Subject: RE: Rate Mitigation Implementation Meeting - May 18, 2017
Date: Friday, May 19, 2017 6:29:49 AM

Sure, will do. Any comments on the note last night would be welcome but will engage team members today and next week.

John

From: Ronald Kwan
Sent: May-19-17 1:22 AM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: Rate Mitigation Implementation Meeting - May 18, 2017

Hi John,

Note the point on "OFA to work on analysis of comparison of clean energy adjustments to Debt Retirement Charge."

Ron

From: Gadi Mayman
Sent: May-18-17 8:16 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: Fw: Rate Mitigation Implementation Meeting - May 18, 2017

I wasn't at the meeting today. I'll forward Scott Nelms' report when he sends it.

Gadi

From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Thursday, May 18, 2017 6:53 PM
To: Steen Hume (CAB); Kaili Sermat-Harding (ENERGY); Michael Reid (ENERGY); Carolyn Calwell (MCSS); Scott Nelms (ENERGY); Tim Christie (ENERGY); ''jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)'; 'Rosemaire Leclair'; 'Mary Anne Aldred (maryanne.aldred@ontarioenergyboard.ca)'; 'Campbell, Bruce (bruce.campbell@ieso.ca)'; 'Kim Marshall (Kim.Marshall@ieso.ca)'; Scott Thompson (CAB); Helen Angus (MOHLTC); Steven Davidson (MTCS); 'Martine Band'; 'CROZZOLI Carlo -CBUSDEV&STRT'; Gadi Mayman; 'LEE John -TREASURY'
Cc: Serge Imbrogno (ENERGY); Andrew Teliszewsky (ENERGY); Matt Whittington (ENERGY); Baker, Carys (ENERGY); Kyle MacIntyre (MOF); David McLean (MOF); Robert Foster (MOF); 'jordan.penic@ieso.ca'; 'sarah.branco@ontarioenergyboard.ca'; 'Turnevicius, Lorraine'; 'catriona.king@opg.com'; Francesca Bungaro-Yemec (ENERGY); Feather, Adam (ENERGY); Hilary Cox

(ENE); Erin Thompson (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting - May 18, 2017

Please find attached action items from today's meeting.

From: Schlaepfer, Martin (ENERGY)
Sent: May 17, 2017 7:09 PM
To: Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Reid, Michael (ENERGY); Calwell, Carolyn (ENERGY/MEDEI/MRI); Nelms, Scott (MOF); Christie, Tim (ENERGY); ''jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)'; 'Rosemaire Leclair'; 'Mary Anne Aldred (maryanne.aldred@ontarioenergyboard.ca)'; 'Campbell, Bruce (bruce.campbell@ieso.ca)'; 'Kim Marshall (Kim.Marshall@ieso.ca)'; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); 'Martine Band'; 'CROZZOLI Carlo -CBUSDEV&STRT'; Mayman, Gadi (OFA); 'LEE John -TREASURY'
Cc: Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); MacIntyre, Kyle (TBS); McLean, David (MOF); Foster, Robert (CAB); 'jordan.penic@ieso.ca'; 'sarah.branco@ontarioenergyboard.ca'; 'Turnevicius, Lorraine'; 'catriona.king@opg.com'; Bungaro-Yemec, Francesca (ENERGY)
Subject: Rate Mitigation Implementation Meeting - May 18, 2017

Good evening,

Please find attached the material for discussion tomorrow morning.

Thanks,
Martin

From:	John Kim
To:	Ronald Kwan
Cc:	Gavin He
Subject:	RE: Rate Mitigation Implementation Meeting - May 18, 2017
Date:	Friday, May 19, 2017 7:53:12 AM

Great, thanks.

From: Ronald Kwan
Sent: Friday, May 19, 2017 7:37 AM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>
Subject: Re: Rate Mitigation Implementation Meeting - May 18, 2017

Hi,

Cindy said that next week would be fine.

Thanks,
Ron

On May 19, 2017, at 6:29 AM, John Kim <John.Kim@ofina.on.ca> wrote:

> Sure, will do. Any comments on the note last night would be welcome but will engage team members today and next week.
>
> John
>
> ---
>
> **From:** Ronald Kwan
> **Sent:** May-19-17 1:22 AM
> **To:** John Kim <John.Kim@ofina.on.ca>
> **Cc:** Gavin He <Gavin.He@ofina.on.ca>
> **Subject:** FW: Rate Mitigation Implementation Meeting - May 18, 2017
>
> Hi John,
>
> Note the point on "OFA to work on analysis of comparison of clean energy adjustments to Debt Retirement Charge."
>
> Ron
>
> ---
>
> **From:** Gadi Mayman
> **Sent:** May-18-17 8:16 PM
> **To:** Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> **Cc:** Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>

Subject: Fw: Rate Mitigation Implementation Meeting - May 18, 2017

I wasn't at the meeting today. I'll forward Scott Nelms' report when he sends it.

Gadi

From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Thursday, May 18, 2017 6:53 PM
To: Steen Hume (CAB); Kaili Sermat-Harding (ENERGY); Michael Reid (ENERGY); Carolyn Calwell (MCSS); Scott Nelms (ENERGY); Tim Christie (ENERGY); ''jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)'; 'Rosemaire Leclair'; 'Mary Anne Aldred (maryanne.aldred@ontarioenergyboard.ca)'; 'Campbell, Bruce (bruce.campbell@ieso.ca)'; 'Kim Marshall (Kim.Marshall@ieso.ca)'; Scott Thompson (CAB); Helen Angus (MOHLTC); Steven Davidson (MTCS); 'Martine Band'; 'CROZZOLI Carlo -CBUSDEV&STRT'; Gadi Mayman; 'LEE John -TREASURY'
Cc: Serge Imbrogno (ENERGY); Andrew Teliszewsky (ENERGY); Matt Whittington (ENERGY); Baker, Carys (ENERGY); Kyle MacIntyre (MOF); David McLean (MOF); Robert Foster (MOF); 'jordan.penic@ieso.ca'; 'sarah.branco@ontarioenergyboard.ca'; 'Turnevicius, Lorraine'; 'catriona.king@opg.com'; Francesca Bungaro-Yemec (ENERGY); Feather, Adam (ENERGY); Hilary Cox (ENE); Erin Thompson (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting - May 18, 2017

Please find attached action items from today's meeting.

From: Schlaepfer, Martin (ENERGY)
Sent: May 17, 2017 7:09 PM
To: Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Reid, Michael (ENERGY); Calwell, Carolyn (ENERGY/MEDEI/MRI); Nelms, Scott (MOF); Christie, Tim (ENERGY); ''jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)'; 'Rosemaire Leclair'; 'Mary Anne Aldred (maryanne.aldred@ontarioenergyboard.ca)'; 'Campbell, Bruce (bruce.campbell@ieso.ca)'; 'Kim Marshall (Kim.Marshall@ieso.ca)'; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); 'Martine Band'; 'CROZZOLI Carlo -CBUSDEV&STRT'; Mayman, Gadi (OFA); 'LEE John -TREASURY'
Cc: Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); MacIntyre, Kyle (TBS); McLean, David (MOF); Foster, Robert (CAB); 'jordan.penic@ieso.ca'; 'sarah.branco@ontarioenergyboard.ca'; 'Turnevicius, Lorraine'; 'catriona.king@opg.com'; Bungaro-Yemec, Francesca (ENERGY)
Subject: Rate Mitigation Implementation Meeting - May 18, 2017

Good evening,

Please find attached the material for discussion tomorrow morning.

Thanks,
Martin

From:	Petsche, Nadine (TBS)
To:	Chris Skubel (MGS)
Cc:	Andrea Dutton (MOF); Afshin Malekzadeh (MOHLTC); Sophie Liu (TCU); Helen Graham (MOF); John Kim; Nick Smook (MOF); Paul Kaufman (MOHLTC); Didem Proulx (MTCU); Hindmarch-Watson, Tim (CAB); Hosick, Sarah (TBS); Veinot, Cindy (TBS)
Subject:	RE: Revised Electricity Assessment Note
Date:	Tuesday, June 13, 2017 8:44:18 AM
Attachments:	OFHP Regulations RAN - draft v3np.doc

Chris,

Please find attached draft wording for consideration in the accounting section of the note.

Please note that Cindy Veinot has not yet reviewed the wording.

Regards,

Nadine

From: Skubel, Chris (TBS)
Sent: June 12, 2017 8:31 PM
To: Liu, Sophie (TBS); Petsche, Nadine (TBS); Graham, Helen (TBS); Kim, John (OFA); Smook, Nick (TBS); Kaufman, Paul (TBS); Proulx, Didem (TBS); Hindmarch-Watson, Tim (CAB)
Cc: Dutton, Andrea (TBS); Malekzadeh, Afshin (TBS)
Subject: FW: Revised Electricity Assessment Note

Hi Everyone – Please see the attached draft assessment note for the electricity reg's tracking to TB/MBC tomorrow. I'd appreciate any input or feedback by first thing tomorrow. As you can see in the below chain, we've also simultaneously shared the latest version with senior management so the note is subject to change.

OPCD/TBS Legal – We've left placeholders in the risk section for accounting and legal risks. I am hoping that risks from previous assessment notes can be re-purposed and used for this note (assuming they haven't been mitigated). Frankly, I just didn't know which ones were the most important to flag. Please let me know if you have any concerns.

Thanks and happy to discuss.

Chris

From: Skubel, Chris (TBS)
Sent: June-12-17 8:27 PM
To: Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Cc: Dutton, Andrea (TBS); Malekzadeh, Afshin (TBS)
Subject: Revised Electricity Assessment Note

Hi Everyone – Please see the attached revised electricity note taking into consideration the conversation at today's re-group.

For the financial risks, we were unable to locate any material that spoke about the source of data or assumptions that supports the voted appropriation estimates for the social programs. As such, we haven't been able to address Karen's concern on documenting the assumptions behind the financials. We'll continue to look.

Please let me know if Maria, Cindy or Karen have any further comments on the material. Also, sharing the latest draft of the submission with tracked changes from the version shared this morning.

Thanks,
Chris Skubel

A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	June 13, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – May 9, 2017	**Tracking to: Fast Track** LRC & Cabinet – June 14, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan – Regulations Part 1

I. DECISION BEFORE THE BOARD

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval

II. RECOMMENDATIONS:

• Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval including: o Global Adjustment Refinancing; o Electricity Social Programs; and, o Bill Presentment.	*Receive*
• Proposed regulations: o Note key aspects of proposed regulations; o Recommend proposed regulations; and, o Direct the Ministry to return to TB/MBC with any additional regulations with financial implications supporting implementation of the Ontario Fair Hydro Plan prior to proceeding to LRC.	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o The details of additional proposed regulations with financial implications prior to proceeding to LRC; and, o An update on previously minuted report back requirements.	*Direct*

III. FINANCIAL SUMMARY

$ Millions	**2017-18**	**2018-19**	**2019-20**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base: Global Adjustment Refinancing*	0.0	0.0	0.0
Electricity social programs – RRRP/DRP^	344.0	472.0	484.0
Electricity social programs – FNDC^	15.0	20.0	20.0
Offset Recommended	0.0	0.0	0.0
Total Potential Fiscal Impact	0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.
^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017 which includes refinancing a portion of the Global Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

In May 2017, the Ministry reported back to TB/MBC with an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

Proposed Regulations

The proposed regulations are the next step in implementation of the OFHP and would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016,* and the *Fair Hydro Plan Act, 2017*.

Implementation of Global Adjustment (GA) Refinancing

On March 2, 2017, as part of OFHP, it was announced that a portion of the GAs would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The Ministry is proposing a new regulations and amendments to existing regulations that would (for example):

- Define the typical consumer upon which the calculations to achieve the reduction will be based;
- Support the required calculations related to refinancing the GA which will implement rate reductions for the typical residential consumer; and,
- Authorize the Independent Electricity System Operator to borrow to fund the regulatory asset.

The Ontario Energy Board will calculate the electricity rates that consumers will pay as of July 1, 2017.

Delivery of Electricity Social Programs

To date, a number of electricity support programs exist and there is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base (including high distribution cost, low income and first nations on-reserve customers).

The Ministry is proposing new regulations and amendments to existing regulations to support the implementation, establish frameworks and clarify program details for the new and enhanced social programs which will be effective July 1, 2017.

Local Delivery Companies will be reimbursed for credits provided via social programs to customers by IESO, which is subsequently reimbursed by the Ministry's voted appropriation.

Commented [npp1]: For an interim period and/or as required? The role of the OPGTrust may not be fully presented otherwise.

Commented [npp2]: •Consider whether additional details are necessary to more clearly present the transaction overview:
•The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a Regulatory Asset.
–OEB would determine rates to allow IESO to recover under-collection recorded in its variance account in the event the under-collection is not sold.
IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust

Investment Asset
•The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an "Investment Asset".
–The legislation establishes property rights for the Investment Asset such as the right to collect principal and interest and financing costs in the form of the clean energy adjustment from eligible consumers.
•The Investment Asset may in turn be sold to other investors or group of investors.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. The proposed new regulations and regulatory amendments will (for example):

- Identifies who is eligible for RRRP funding (Hydro One R2 customers);
- Establishes the DRP to complement RRRP whereby eligible residential customers would have their monthly base distribution charges held to a maximum amount (it is estimated that ~800,000 customers will benefit); and,
- Identifies the LDC's whose customers are eligible for enhanced protection.

On-Reserve First Nations Delivery Credit (FNDC)

The program will be available to on-reserve customers serviced by licensed distributors and would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The proposed new regulations and regulatory amendments will (for example):

- Set out the program particulars including eligibility for the program (it is estimated that ~21,000 customers will benefit);
- Limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs; and,
- Provides a transitional period for LDCs to deliver the rate assistance.

Bill Presentment

The Ministry is proposing new regulations and amendments to existing regulations to support transparency and communications of the changes made under the OFHP on consumer invoices.

See Appendix F for additional details on the proposed regulations.

Analysis/Risks

Financial

- The financials submitted by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board (OEB). TB/MBC has requested the details of the forecasting models and costing estimates including assumptions.

$M	2017-18	2018-19	2019-20	2020-21
Rural or Remoate Rate Protection (RRRP)	344	472	484	497
On-Reserve First Nations Delivery Credit (FNDC)	15	20	20	20
Total	359	492	504	517

- The regulatory amendments do not result in a fiscal impact however the Ministry notes it is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The social programs allocations are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis, which would allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives, has been requested by TB/MBC to support better decision making and support meeting the government's fiscal targets.

Commented [npp3]: For purposes of…have been provided?

Commented [npp4]: Details in the regulations will impact the final accounting analysis (IESO ability to recognize a rate regulated asset, control of OPG Trust by OPG, etc.)

- Lastly, there are no sunset dates for the programs and it is important to understand the full cost of the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22.

Accounting

The fiscal impact associated with the Fair Hydro Plan will be determined by how the series of complex transactions are accounted for on the Province's Consolidated Financial Statements which are prepared in accordance with public sector accounting standards established by CPA Canada. A number of details yet to be finalized through the regulations and various commercial agreements will impact the final accounting analysis.

It is anticipated that both the IESO's and OPG's external auditors will provide independent accounting opinions on the appropriate accounting for elements of the FHP structure related to each entity, respectively. Based on the audited financial results for these organizations, supported by the anticipated accounting opinions, the Office of the Provincial Controller will prepare the Province's consolidated financial statements.

At this time, the Auditor General has voiced several concerns regarding the planned accounting treatment for the Fair Hydro Plan as related specifically to the Global Adjustment component which is expected to impact the Province's financial results for the first time in 2017/18. The Auditor General has also publicly communicated her opposition to a change in the IESO's accounting policy to reflect rate regulated balances on its books. The Province supports the IESO's accounting treatment as more fairly presenting the economic substance of the entity's market-related activities.

The Auditor is currently reviewing the Province's accounting analysis related to the Affordability Fund which reflects a $100M transfer payment to be reflected in the Province's 2016/17 Public Accounts.

If the Auditor General does not concur with the Province's accounting treatment, including the change in accounting treatment by the IESO, she may qualify her audit opinion on the Provinces' financial statements in the Public Accounts.

- ~~*Placeholder for accounting issues… [OPCD]*~~

Legal

- *Placeholder for legal issues… [TBS Legal]*

The Ministry has also reported back with an update to key risks including mitigation strategies (see Appendix G). In addition, the Ministry has also sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY), and launched third party technical analysis to assist with implementation of GA refinancing.

Additional Report Backs

To continue to implement the OFHP, the ministry will be returning to TB/MBC on June 27, 2017 with part 2 of the report back on the creation and amendment of regulations (related to Global Adjustment and the Ontario Electricity Support Program) prior to proceeding to LRC including an update on previously minuted report back requirements.

Name of analyst:	Chris Skubel/ Afshin Malekzadeh	**Phone number:**	416-327-2151
Date:	June 13, 2017	**Log number:**	
Branch / Division:	GGPR / PEMD / Treasury Board Secretariat		

APPENDIX A: PROPOSED MINUTE

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval.

In this regard, the Board:

i) Note that the proposed regulatory amendments include the following program parameters:

Electricity Social Programs:

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary;
b) Hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit; and
c) Sets out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    a. Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Limits eligibility to 11 affected LDCs serving on-reserve consumers identified by the OEB including: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

Implementation of GA Refinancing:

a) Support the required calculations to be made by the Ontario Energy Board (OEB);
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,
d) Provides provide the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC on the details of additional proposed regulations with financial implications prior to proceeding to LRC.

iv) Direct the Ministry to report back to TB/MBC on June 27th with an update on previously minuted report back requirements.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: OFHP OVERVIEW

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

APPENDIX D: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

v) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

d) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
e) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
f) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
g) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

e) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
f) Requirement for future consumers to pay the clean energy adjustment that backs financings.
g) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
h) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
i) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
j) Sets out that security interests can be granted in investment interests in the investment asset.

vi) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

vii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

viii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different

demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.

b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.

d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

ix) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the broadened program now government funded
   - Report on and assessment of impacts of consolidation of LDCs
   - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Identify eligibility criteria, and refinements being made.
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

x) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX F: DETAILS OF PROPOSED REGULATIONS

Partial Refinancing of the GA

The Ministry is proposing new regulations that would support the implementation of refinancing the GA including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the *Ontario Fair Hydro Act, 2017*.

The ministry is also proposing amendments to an existing regulation to authorize Independent Electricity System Operators to borrow for the purposes of funding the regulatory asset, including borrowing from the Ontario Financing Authority.

Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The *Fair Hydro Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, making the escalating factor unnecessary.

The ministry is proposing a new regulation to create a government funded DRP program. The regulation establishes a mechanism for the Ontario Energy Board (OEB) to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

The *Ontario Fair Hydro Plan Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program.

The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. It is estimated that as many as ~7000 eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program as they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under *Ontario Rebate For Electricity Consumers Act, 2016*, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.
If the required regulations are approved, the program would be in effect July 1, 2017.

Ontario Electricity Support Program

Additional regulatory amendments will be forthcoming in late June 2017.

Bill Presentment

The ministry is proposing to create new regulations under the *Ontario Fair Hydro Plan Act, 2017* that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments message. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017. The requirement for Hydro One to provide an on-bill message related to RRRP (which has become out-of-date with these program updates) is also repealed with proposed amendments. For clarity, Hydro One would not be exempt from including the messaging related to OFHP.

In anticipation of these new OFHP invoicing requirements, the ministry has made an amendment to revoke the “8% provincial rebate” messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an “8% Provincial Rebate” line item remains.

APPENDIX G: UPDATE ON RISKS AND MITIGATION STRATEGIES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **Update:** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **<u>Update:</u>** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **<u>Update:</u>** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **<u>Update:</u>** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **<u>Update:</u>** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be ~~created~~ increated in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

From:	Liu, Sophie (TBS)
To:	Nadine Petsche (MOF); Chris Skubel (MGS)
Cc:	Andrea Dutton (MOF); Afshin Malekzadeh (MOHLTC); Helen Graham (MOF); John Kim; Nick Smook (MOF); Paul Kaufman (MOHLTC); Didem Proulx (MTCU); Hindmarch-Watson, Tim (CAB); Hosick, Sarah (TBS); Veinot, Cindy (TBS); Sandy Ng (MCSCS)
Subject:	RE: Revised Electricity Assessment Note
Date:	Tuesday, June 13, 2017 9:33:16 AM
Attachments:	OFHP Regulations RAN - draft v3np +SL.doc

Hi Chris, added one risk. Thanks

From: Petsche, Nadine (TBS)
Sent: Tuesday, June 13, 2017 8:44 AM
To: Skubel, Chris (TBS)
Cc: Dutton, Andrea (TBS); Malekzadeh, Afshin (TBS); Liu, Sophie (TBS); Graham, Helen (TBS); Kim, John (OFA); Smook, Nick (TBS); Kaufman, Paul (TBS); Proulx, Didem (TBS); Hindmarch-Watson, Tim (CAB); Hosick, Sarah (TBS); Veinot, Cindy (TBS)
Subject: RE: Revised Electricity Assessment Note

Chris,
Please find attached draft wording for consideration in the accounting section of the note.
Please note that Cindy Veinot has not yet reviewed the wording.
Regards,
Nadine

From: Skubel, Chris (TBS)
Sent: June 12, 2017 8:31 PM
To: Liu, Sophie (TBS); Petsche, Nadine (TBS); Graham, Helen (TBS); Kim, John (OFA); Smook, Nick (TBS); Kaufman, Paul (TBS); Proulx, Didem (TBS); Hindmarch-Watson, Tim (CAB)
Cc: Dutton, Andrea (TBS); Malekzadeh, Afshin (TBS)
Subject: FW: Revised Electricity Assessment Note

Hi Everyone – Please see the attached draft assessment note for the electricity reg's tracking to TB/MBC tomorrow. I'd appreciate any input or feedback by first thing tomorrow. As you can see in the below chain, we've also simultaneously shared the latest version with senior management so the note is subject to change.

OPCD/TBS Legal – We've left placeholders in the risk section for accounting and legal risks. I am hoping that risks from previous assessment notes can be re-purposed and used for this note (assuming they haven't been mitigated). Frankly, I just didn't know which ones were the most important to flag. Please let me know if you have any concerns.

Thanks and happy to discuss.

Chris

From: Skubel, Chris (TBS)
Sent: June-12-17 8:27 PM
To: Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Cc: Dutton, Andrea (TBS); Malekzadeh, Afshin (TBS)
Subject: Revised Electricity Assessment Note

Hi Everyone – Please see the attached revised electricity note taking into consideration the conversation at today's re-group.

For the financial risks, we were unable to locate any material that spoke about the source of data or assumptions that supports the voted appropriation estimates for the social programs. As such, we haven't been able to address Karen's concern on documenting the assumptions behind the financials. We'll continue to look.

Please let me know if Maria, Cindy or Karen have any further comments on the material. Also, sharing the latest draft of the submission with tracked changes from the version shared this morning.

Thanks,
Chris Skubel
A/ Team Lead
Planning & Expenditure Management Division
Treasury Board Secretariat
Tel: 416-327-2151

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	June 13, 2017
Agenda Class:	Major Item
Last reviewed by: TB/MBC – May 9, 2017	**Tracking to: Fast Track** LRC & Cabinet – June 14, 2017

SUBMISSION TITLE:	Report back on Ontario Fair Hydro Plan – Regulations Part 1

I. DECISION BEFORE THE BOARD

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval

II. RECOMMENDATIONS:

• Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval including: o Global Adjustment Refinancing; o Electricity Social Programs; and, o Bill Presentment.	*Receive*
• Proposed regulations: o Note key aspects of proposed regulations; o Recommend proposed regulations; and, o Direct the Ministry to return to TB/MBC with any additional regulations with financial implications supporting implementation of the Ontario Fair Hydro Plan prior to proceeding to LRC.	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o The details of additional proposed regulations with financial implications prior to proceeding to LRC; and, o An update on previously minuted report back requirements.	*Direct*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Global Adjustment Refinancing*	0.0	0.0	0.0
	Electricity social programs – RRRP/DRP^	344.0	472.0	484.0
	Electricity social programs – FNDC^	15.0	20.0	20.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.
^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017 which includes refinancing a portion of the Global Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

In May 2017, the Ministry reported back to TB/MBC with an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

Proposed Regulations

The proposed regulations are the next step in implementation of the OFHP and would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016,* and the *Fair Hydro Plan Act, 2017*.

Implementation of Global Adjustment (GA) Refinancing

On March 2, 2017, as part of OFHP, it was announced that a portion of the GAs would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

The Ministry is proposing a new regulations and amendments to existing regulations that would (for example):

- Define the typical consumer upon which the calculations to achieve the reduction will be based;
- Support the required calculations related to refinancing the GA which will implement rate reductions for the typical residential consumer; and,
- Authorize the Independent Electricity System Operator to borrow to fund the regulatory asset.

The Ontario Energy Board will calculate the electricity rates that consumers will pay as of July 1, 2017.

Delivery of Electricity Social Programs

To date, a number of electricity support programs exist and there is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base (including high distribution cost, low income and first nations on-reserve customers).

The Ministry is proposing new regulations and amendments to existing regulations to support the implementation, establish frameworks and clarify program details for the new and enhanced social programs which will be effective July 1, 2017.

Local Delivery Companies will be reimbursed for credits provided via social programs to customers by IESO, which is subsequently reimbursed by the Ministry's voted appropriation.

Commented [npp1]: For an interim period and/or as required? The role of the OPGTrust may not be fully presented otherwise.

Commented [npp2]: •Consider whether additional details are necessary to more clearly present the transaction overview:
•The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a Regulatory Asset.
–OEB would determine rates to allow IESO to recover under-collection recorded in its variance account in the event the under-collection is not sold.
IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust

Investment Asset
•The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an "Investment Asset".
–The legislation establishes property rights for the Investment Asset such as the right to collect principal and interest and financing costs in the form of the clean energy adjustment from eligible consumers.
•The Investment Asset may in turn be sold to other investors or group of investors.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. The proposed new regulations and regulatory amendments will (for example):

- Identifies who is eligible for RRRP funding (Hydro One R2 customers);
- Establishes the DRP to complement RRRP whereby eligible residential customers would have their monthly base distribution charges held to a maximum amount (it is estimated that ~800,000 customers will benefit); and,
- Identifies the LDC's whose customers are eligible for enhanced protection.

On-Reserve First Nations Delivery Credit (FNDC)

The program will be available to on-reserve customers serviced by licensed distributors and would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The proposed new regulations and regulatory amendments will (for example):

- Set out the program particulars including eligibility for the program (it is estimated that ~21,000 customers will benefit);
- Limits eligibility to all residential rate class First Nations customers living on reserve served by the 11 affected LDCs; and,
- Provides a transitional period for LDCs to deliver the rate assistance.

Bill Presentment

The Ministry is proposing new regulations and amendments to existing regulations to support transparency and communications of the changes made under the OFHP on consumer invoices.

See Appendix F for additional details on the proposed regulations.

Analysis/Risks

Financial

- The financials submitted by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the Ontario Energy Board (OEB). TB/MBC has requested the details of the forecasting models and costing estimates including assumptions.

$M	2017-18	2018-19	2019-20	2020-21
Rural or Remoate Rate Protection (RRRP)	344	472	484	497
On-Reserve First Nations Delivery Credit (FNDC)	15	20	20	20
Total	359	492	504	517

- The regulatory amendments do not result in a fiscal impact however the Ministry notes it is currently assessing the potential impact of the Hydro One rate application and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The social programs allocations are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis, which would allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives, has been requested by TB/MBC to support better decision making and support meeting the government's fiscal targets.

Commented [npp3]: For purposes of…have been provided?

Commented [npp4]: Details in the regulations will impact the final accounting analysis (IESO ability to recognize a rate regulated asset, control of OPG Trust by OPG, etc.)

- ~~Lastly, t~~There are no sunset dates for the programs and it is important to understand the full cost of the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22.
- Lastly, TB/MBC has requested detailed consumer impacts with assumptions and methodologies specified and documented to support better decision making and achieving the intended program goals.

Accounting

The fiscal impact associated with the Fair Hydro Plan will be determined by how the series of complex transactions are accounted for on the Province's Consolidated Financial Statements which are prepared in accordance with public sector accounting standards established by CPA Canada. A number of details yet to be finalized through the regulations and various commercial agreements will impact the final accounting analysis.

It is anticipated that both the IESO's and OPG's external auditors will provide independent accounting opinions on the appropriate accounting for elements of the FHP structure related to each entity, respectively. Based on the audited financial results for these organizations, supported by the anticipated accounting opinions, the Office of the Provincial Controller will prepare the Province's consolidated financial statements.

At this time, the Auditor General has voiced several concerns regarding the planned accounting treatment for the Fair Hydro Plan as related specifically to the Global Adjustment component which is expected to impact the Province's financial results for the first time in 2017/18. The Auditor General has also publicly communicated her opposition to a change in the IESO's accounting policy to reflect rate regulated balances on its books. The Province supports the IESO's accounting treatment as more fairly presenting the economic substance of the entity's market-related activities.

The Auditor is currently reviewing the Province's accounting analysis related to the Affordability Fund which reflects a $100M transfer payment to be reflected in the Province's 2016/17 Public Accounts.

If the Auditor General does not concur with the Province's accounting treatment, including the change in accounting treatment by the IESO, she may qualify her audit opinion on the Provinces' financial statements in the Public Accounts.

- ~~*Placeholder for accounting issues… [OPCD]*~~

Legal

- *Placeholder for legal issues… [TBS Legal]*

The Ministry has also reported back with an update to key risks including mitigation strategies (see Appendix G). In addition, the Ministry has also sought independent advice regarding financing, accounting and legal requirements from E&Y (OPG), KPMG (IESO), TD Securities (OFA) and Blakes (ENERGY), and launched third party technical analysis to assist with implementation of GA refinancing.

Additional Report Backs

To continue to implement the OFHP, the ministry will be returning to TB/MBC on June 27, 2017 with part 2 of the report back on the creation and amendment of regulations (related to Global Adjustment and the Ontario Electricity Support Program) prior to proceeding to LRC including an update on previously minuted report back requirements.

Name of analyst:	Chris Skubel/ Afshin Malekzadeh	**Phone number:**	416-327-2151
Date:	June 13, 2017	**Log number:**	

Branch / Division:	GGPR / PEMD / Treasury Board Secretariat

APPENDIX A: PROPOSED MINUTE

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceed to LRC and Cabinet for approval.

In this regard, the Board:

i) Note that the proposed regulatory amendments include the following program parameters:

Electricity Social Programs:

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provide for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary;
b) Hold R2 customers to a maximum monthly base distribution charge – in addition to the $60.50 monthly RRRP benefit; and
c) Sets out a process that the OEB will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    a. Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by LDCs that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Limits eligibility to 11 affected LDCs serving on-reserve consumers identified by the OEB including: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

Implementation of GA Refinancing:

a) Support the required calculations to be made by the Ontario Energy Board (OEB);
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1, 2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,
d) Provides provide the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC on the details of additional proposed regulations with financial implications prior to proceeding to LRC.

iv) Direct the Ministry to report back to TB/MBC on June 27th with an update on previously minuted report back requirements.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2017-18**	**2018-19**	**2019-20**	**2017-18**
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C: OFHP OVERVIEW

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

APPENDIX D: PREVIOUS TB/MBC MINUTE (MARCH 1, 2017)

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

In this regard, the Board:

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

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

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

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to $2,534,000,000 in 2017-18, $2,668,000,000 in 2018-19, $2,942,000,000 in 2019-20, $3,420,000,000 in 2020-21 and $3,232,000,000 in 2021-22.

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

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service

territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

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

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

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

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

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

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

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

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

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

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

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

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

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

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

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

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

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

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

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

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

v) Note that the proposed Fair Hydro Act, 2017, includes:

Electricity Social Programs:

d) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
e) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
f) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
g) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

Global Adjustment Refinancing:

e) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
f) Requirement for future consumers to pay the clean energy adjustment that backs financings.
g) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
h) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
i) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
j) Sets out that security interests can be granted in investment interests in the investment asset.

vi) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

vii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

viii) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different

demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.

b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.

c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.

d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

ix) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the broadened program now government funded
   - Report on and assessment of impacts of consolidation of LDCs
   - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Identify eligibility criteria, and refinements being made.
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

x) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

APPENDIX F: DETAILS OF PROPOSED REGULATIONS

Partial Refinancing of the GA

The Ministry is proposing new regulations that would support the implementation of refinancing the GA including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the *Ontario Fair Hydro Act, 2017*.

The ministry is also proposing amendments to an existing regulation to authorize Independent Electricity System Operators to borrow for the purposes of funding the regulatory asset, including borrowing from the Ontario Financing Authority.

Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The *Fair Hydro Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, making the escalating factor unnecessary.

The ministry is proposing a new regulation to create a government funded DRP program. The regulation establishes a mechanism for the Ontario Energy Board (OEB) to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

The *Ontario Fair Hydro Plan Act, 2017* amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program.

The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate.

The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. It is estimated that as many as ~7000 eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program as they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under *Ontario Rebate For Electricity Consumers Act, 2016*, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.
If the required regulations are approved, the program would be in effect July 1, 2017.

Ontario Electricity Support Program

Additional regulatory amendments will be forthcoming in late June 2017.

Bill Presentment

The ministry is proposing to create new regulations under the *Ontario Fair Hydro Plan Act, 2017* that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments message. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017. The requirement for Hydro One to provide an on-bill message related to RRRP (which has become out-of-date with these program updates) is also repealed with proposed amendments. For clarity, Hydro One would not be exempt from including the messaging related to OFHP.

In anticipation of these new OFHP invoicing requirements, the ministry has made an amendment to revoke the “8% provincial rebate” messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an “8% Provincial Rebate” line item remains.

APPENDIX G: UPDATE ON RISKS AND MITIGATION STRATEGIES

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to provide financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **Update:** • In April 2017, the Ministry of Energy received approval for the creation of an operating asset "OPG Share Purchase" and an increase in operating asset allocation for $1.1 billion. • This approval was dependent on the passing of the legislation (i.e., the *OFHPA* that received Royal assent on June 1, 2017). • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation was developed with input from third-party financiers (i.e., dealers) to ensure that the *OFHPA* enables the refinancing of the Global Adjustment (GA). • OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province is providing both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation was developed with input of third-party financiers (i.e., dealers) to

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered. • The legislation also enables the Province to: o Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **<u>Update:</u>** • Work is ongoing to finalize the scope of the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• Under the legislation, the Ontario Energy Board (OEB) is providing the necessary oversight required to enable IESO the ability to establish a Regulatory Asset. • To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will issue an accounting order to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset. **<u>Update:</u>** • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.
GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• The legislation to enable GA refinancing the costs associated with electricity generation facilities will be allocated across present and future electricity consumers will be set out in the Fair Allocation Amount. • In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation. **<u>Update:</u>** • The legislation was designed to limit this risk. • The Fair Allocation Amount will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Social Programs			
Social Program Implementation Delays	L	M	• Work with LDCs; provide transitional provisions. • Work with Chiefs of Ontario (COO) to develop a plan to identify eligible on-reserve customers. • The bill includes transitional provisions that would ensure customers remain eligible for the rate protection and First Nations Delivery Credit from the prescribed date. **<u>Update:</u>** • The Ministry convened multiple working groups on the social programs, attended by all impacted LDCs. No LDC has raised issue with providing the programs by July 1st. • The Ministry continues to work with COO and affected LDCs to reach out to unidentified First Nations Delivery Credit eligible customers. This includes development of a communications postcard in the near term, to be followed by more targeted outreach.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
Social Program Cost Estimating	M	M	• Distribution Rate Protection costs are driven by a number of variable factors including: the OEB's rate setting process; the lowest cost distributor in the prescribed cohort of "high cost distributors" and consumption patterns. • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be ~~created in~~created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. **Update:** • Hydro One's cost-of-service application for 2018-2022 distribution rates is currently before the OEB. This application will affect the out year cost projections for Distribution Rate Protection. The Ministry is monitoring this application and will report back as the OEB review continues. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.
Non-Status Indigenous communities without reserves or Metis could raise a Charter challenge on the First Nations On-Reserve Delivery Credit Program	L	L	• This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal as per section 15(2) of the Charter. **Update:** • This mitigation remains in place. The Ministry has received support letters from the Chiefs of Ontario approving the approach to restrict FNDC to on-reserve.

From:	Gavin He
To:	Ronald Kwan
Cc:	John Kim; Bruno Amara; Emily Kerr; Karim Javeri
Subject:	RE: URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 1:13:21 PM

Hi Ron,

Thanks! I will remove that comment and send it back to DMO then.

Regards,
Gavin He

From: Ronald Kwan
Sent: Thursday, June 08, 2017 1:13 PM
To: Gavin He <Gavin.He@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi Gavin, et al,

Thanks.

My comment on "Would this suggest a potential Energy request to the OFA for an MOU like the ORECA one?" is more an internal one to reach out to Energy staff to ask. It doesn't need to go back to CO.

Ron

From: Gavin He
Sent: June-08-17 13:00
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi Ron,

Please see attached the consolidated version with your edits for your review.

Thanks,
Gavin He

From: Gavin He
Sent: Thursday, June 08, 2017 12:34 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi Ron,

Please find attached the comments from CEFD for your review. In addition, I added the comment from OFA in the attached version as well.

The document is also saved under below folder:
\\ofina.on.ca\ofadfs\Users\CEF\Hydro 2017\Electricity Prices\OFHP\CBN

Please note that comments are due back to DMO by 1:30 p.m. today.

Thanks,
Gavin He

From: Gavin He
Sent: Thursday, June 08, 2017 10:44 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: URGENT: CBN Fact Check

Hi all,

Please find attached the CO note on the first part of the implementation of the Ontario Fair Hydro Plan. Could you please review ASAP and provide your edits to Ron by noon today?

Comments are due back to DMO by 1:30 p.m. today. Sorry for the short turnaround time.

Thanks,
Gavin He

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, June 08, 2017 10:38 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Cc: Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
Subject: CBN Fact Check

Hi Anna and Gavin,

Attached is the latest CBN for Energy's OESP reg. It is tracking to June 27th as part of the first of two bundles of regulations required for the implementation of the Ontario Fair Hydro Plan.

CO has a hard deadline of 2:00 today, so I'm wondering if you guys can please have your teams review and provide comments (if any) to me by 1:30?

Thanks,
Dave

From:	Ronald Kwan
To:	Gavin He; John Kim; Bruno Amara; Emily Kerr; Karim Javeri
Subject:	RE: URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 11:39:32 AM

Hi,

Can we get copies of the proposed draft regs too.

Do we need to check with MOF Legal on any components? And see if TBS staff are reviewing and commenting too.

Thanks,
Ron

From: Gavin He
Sent: June-08-17 10:44
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
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Thanks,
Gavin He

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, June 08, 2017 10:38 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
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From:	Ronald Kwan
To:	Gavin He
Cc:	John Kim; Bruno Amara; Emily Kerr; Karim Javeri
Subject:	RE: URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 1:12:37 PM

Hi Gavin, et al,

Thanks.

My comment on "Would this suggest a potential Energy request to the OFA for an MOU like the ORECA one?" is more an internal one to reach out to Energy staff to ask. It doesn't need to go back to CO.

Ron

From: Gavin He
Sent: June-08-17 13:00
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi Ron,

Please see attached the consolidated version with your edits for your review.

Thanks,
Gavin He

From: Gavin He
Sent: Thursday, June 08, 2017 12:34 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi Ron,

Please find attached the comments from CEFD for your review. In addition, I added the comment from OFA in the attached version as well.

The document is also saved under below folder:
\\ofina.on.ca\ofadfs\Users\CEF\Hydro 2017\Electricity Prices\OFHP\CBN

Please note that comments are due back to DMO by 1:30 p.m. today.

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To:	Ronald Kwan
Cc:	John Kim; Bruno Amara; Emily Kerr; Karim Javeri
Subject:	RE: URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 12:59:35 PM
Attachments:	REG-11477_ID49242_LRC_CBN- DRAFT- OFHP regulations v5_CEFD_v3.docx

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Ontario

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy
Fair Hydro Plan Regulations

Cabinet (info) Feb 15, 2017	TB/MBC and Cabinet March 1, 2017	Announcement March 2, 2017	TB/MBC May 9, 2017	Cabinet May 10, 2017	Introduction May 11, 2017
Royal Assent June 1, 2017	TB/MBC June 13, 2017	Cabinet June 14, 2017	Program Effective Date July 1, 2017		

Summary of Proposal

The proposed regulations are consistent with Cabinet direction. [TBC]

Context for Decision:

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. OFHP includes some benefits for all consumer classes as well as targeted benefits to those identified as having the greatest need, and includes the following major components:

- Refinancing a portion of the Global Adjustment (GA);
- Helping vulnerable electricity consumers ("social programs");
- Expanding the Industrial Conservation Initiative (ICI);
- Improving sector efficiency; and
- Modernizing Ontario's electricity market.

The *Fair Hydro Act, 2017,* was introduced on May 11, 2017, passed on May 31, 2017 and received Royal Assent June 1, 2017.

Proposal

This proposal is the next step in the implementation of the OFHP and would establish most of the necessary regulations under the *Ontario Energy Board Act, 1998* (OEBA), *Ontario Rebate for Electricity Consumers Act, 2016,* (ORECA) and the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) related to:

1. Partial Refinancing of the Global Adjustment (GA):

The ministry is proposing a new regulation under Part II of the OFHPA that would support the required calculations related to the refinancing of GA. More specifically, the proposed regulation would implement the reduction in rates for the typical residential consumer effective July 1, 2017.

2. Social Programs and Bill Presentment:

The ministry is proposing new regulations under the OFHPA and the OEBA and amendments to existing regulations under the OEBA and ORECA to support implementation and clarify program details of the social programs, as well as support transparency and communication of the changes made under the OFHP.

To fully implement the required regulations for the OFHP, the ministry will be seeking approvals of three additional regulations in late June 2017.

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. Since the OFH was announced there has been increased media attention and public pressure for the government to take the necessary steps to enact the commitments made in the plan. The *Fair Hydro Act, 2017,* identifies a July 1 implementation date for the various price mitigation initiatives contained within. Pending approval of the regulations, the OEB will recalculate rates to be implemented for July 1, 2017.

Effective May 1, 2017, the OEB reduced electricity prices for eligible households and small businesses. At the time, the OEB also announced, upon passage of the Act, that it would further adjust Regulated Price Plan (RPP) prices as needed so that RPP customers receive the full rate relief as legislated.

What is the expected cost to government?

The estimate for the combined impact of the social programs in this proposal is expected to be $359M in 2017-18, growing in 2018-19 once annualized. The ministry will return to TB/MBC with updated out-year figures following program implementation. This investment has been factored into the fiscal plan in the 2017 Ontario Budget. These estimates are based on variable inputs such as program uptake, future energy consumption of various consumer groups and future distribution rates, and are therefore subject to change.

TABLE 1: Fiscal Impact ($M) of Social Programs	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344
On-Reserve First Nations Delivery Credit	15

Note: As approved in the TB/MBC submission of Mach 1, 2017, and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31, 2018.

What are the key steps to deliver this proposal?

- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, MOF, OFA and LDCs on the implementation of OFHP.
- July 1, 2017- the remaining reductions and initiatives associated with the OFHP would take effect. Programs that are not established on this day for technical implementation issues will allow benefits to be retroactively applied to customers once programs are reflected in bills by individual LDCs.

How will the changes be communicated?

The proposed changes will be communicated via a news release or backgrounder in late June.

Cabinet Office Analysis

The proposed new regulations under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and the regulatory amendments under the *Ontario Energy Board Act, 1998* (OEBA) allow for the implementation of the key elements of Ontario's Fair Hydro Plan (OFHP) announced on March 2, 2017 and are consistent with Cabinet direction [TBC].

1. Partial Refinancing of the Global Adjustment:

The ministry is proposing a new regulation under Part II of the OFHPA that would support the implementation of the refinancing of GA, including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board (OEB) to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the OFHPA. If approved, the OEB is targeting June 22 to announce changes to rates for the July 1 effective date.

Critics of the OFHP may see the implementation of this component of the plan as compromising the independence of the OEB. This is mitigated by the fact that the government has always, through legislation and regulation, established the parameters

within which the OEB operates, and has no control over the day to day operations of the Board.

2. Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

Rural or Remote Rate Protection (RRRP) helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The Fair Hydro Act, 2017 amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments to O. Reg. 442/01 moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, under O. Reg. 442/01, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, as provisions under the new section 79.3 under the OEBA provides benefits beyond RRRP, making the escalating factor unnecessary.

The ministry is proposing a new regulation under the OEBA to create a government funded distribution rate protection (DRP) program. The regulation establishes a mechanism for the OEB to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs, as authorized under the OEBA, and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up ~~of~~by provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same

reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

Commented [RK1]: Would this suggest a potential Energy request to the OFA for an MOU like the ORECA one?

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances related to lands affected by energy infrastructure.

The OFHPA amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program. The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate. The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. There is a risk that some eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements. The following LDCs would be prescribed as responsible for delivering the program: [LDCs list?]

The proposed regulation relies upon definitions of key terms such as “member of a band” and “reserve” from the *Indian Act* (Canada). This approach is defensible and relatively straightforward, but may be criticised as not taking into account lands that are considered as roughly analogous to reserve land, but that do not meet the strict

definitions of the *Indian Act.* For example, many communities have lands within the federal Additions to Reserve (ATR) process that would be excluded from this program until the lands are officially recognized as reserve. This risk is mitigated by the fact that many of these parcels of land will have few if any residences on them, so the impact is expected to be minor. The legislation provides sufficient flexibility to expand application to these kinds of lands if appropriate in the future.

The ministry is also proposing amendments to O. Reg. 363/16 under the ORECA to provide clarity that FNDC should be included in the base amount used to calculate the 8% rebate. This is consistent with how other support programs have been treated for the purposes of applying the 8% rebate to customer's bills.

3. Bill Presentment

The ministry is proposing to create new regulations under the OFHPA that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments to O. Reg. 275/04 that would remove invoicing requirements related to the Debt Retirement Charge (DRC) exemption message, per s. 8.2. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017.

In anticipation of these new OFHP invoicing requirements, the ministry has amended O. Reg. 364/16 (Minister's order) to revoke the "8% provincial rebate" messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an "8% Provincial Rebate" line item remains.

Risks

Fiscal

The social programs do not have a scheduled end date and represent an ongoing fiscal pressure, which will likely increase over time. These estimates are based on variable inputs such as program uptake, electricity market conditions, future energy consumption

Commented [GH2]: From OFA: Suggest a mention of accounting risks in the Fiscal subsection, particularly given the AG's stated position at Committee on this. May want to seek input from OPCD/TBS.

Suggest including on page 6, as part of the objectives of the proposed regulations:
- Details on how the interest on the Trust debt will be managed; and
- The Clean Energy Adjustment as it relates to repayment from 2027 onwards.

of various consumer groups and future distribution rates, and are therefore subject to change.

Perception

It is expected that there will be some criticism of the OFHP messaging and bill presentment changes as being political in nature and not strictly necessary for transparency or program implementation.

Legal

In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets present only a low risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the asset, but rather is doing so in order to lower the price in the short term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period.

Under the FNDC program “non-status” Indigenous communities without reserves (e.g. certain members of the Algonquins of Ontario (AOO), Mocreebec etc.) and Métis will not be eligible as they do hold reserve lands. There is a risk that these communities could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter (equality rights). This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change. This risk is mitigated by phase in implementation provisions in the enabling legislation that allows for LDCs to provide retroactive payments to July 1, 2017 if they are, for technical reasons, unable to have the required program changes implemented by this date.

Linkages

Commented [EK3]: The Fair Hydro Plan also included changes to the Ontario Electricity Support Program (OESP). Should those changes be included in this note?

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer 2017. The LTEP identifies needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The *Ontario Rebate ~~for Electricity~~ for Electricity Consumers Act, 2016*, (ORECA) put in place a~~n 8%~~ rebate for an amount equivalent to the 8% provincial portion of the HST for eligible residential, small business customers and farms, beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) – Was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB program ended on December 31, 2015.

Debt Retirement Charge – On January 1, 2016, the government ended the electricity DRC on residential users, which was earlier than previously estimated~~planned~~. For all other consumers the DRC will be removed by April 2018, also earlier than previously estimated.

Industrial Conservation Initiative (ICI) – Implemented in January 2011 to help large industrial consumers reduce electricity costs by reducing consumption in peak periods. As part of OFHP, ICI eligibility has been expanded several times, and was most recently expanded to allow for the participation of the manufacturing and, e.g., greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI provides a benefit~~s~~ to all consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – Approved as part of OFHP, and under development, the Affordability Fund is intended to provide energy efficiency measures to Ontarians who are not eligible for low income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (~~i.e.,~~ Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings for those eligible. Funding electricity social programs through government funds rather than the rate base will also provide saving to all electricity consumers (i.e., Class A and B).

Commented [RK4]: Is this what is meant – for industrial and commercial regardless of whether they are in Class A or Class B?

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON) - is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods,; and,
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed that the government consult on and develop options to mitigate the impact of carbon pricing and resulting increased utility costs on residential tenants. The mitigation is proposed because tenants do not usually have the opportunity to make changes to their building envelope (e.g., windows, insulation) or major appliances that would allow them to address utility costs themselves. On April 24, 2017, the government introduced the *Rental Fairness Act, 2017* which, if passed, would remove above-guideline rent increases for utilities, to protect tenants from carbon costs and encourage landlords to make their buildings more energy efficient.

Delivery

The proposed regulations are required under the major components of the *Fair Hydro Act, 2017* in order to fully implement the initiative and clarify program details.

1. Partial Refinancing of the Global Adjustment:

The ratepayer benefit of the OFHP will be in place as of July 1, 2017. The establishment of the regulatory asset and purchase by the OPG trust is expected to take three to six months to implement following the June 1, 2017 Royal Assent of the *Fair Hydro Act, 2017*.

The act includes transition provisions in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Using the methodology outlined in the OFHPA and the Part II regulations, the OEB will calculate the electricity rates that consumers will pay as of July 1, 2017.

2. Social Programs:

DRP and RRRP

The programs will take advantage of existing LDC and IESO processes. The regulatory amendments also enable payment flows to prescribed LDC to allow recovery of RRRP and DRP payments made to customers.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the DRP in time for the prescribed effective date. In this case, the regulation dictates the eligibility of July 1st and gives until October 1, 2017 for LDCs

to get their systems in place. The LDCs would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program.

On-Reserve First Nations Delivery Credit (FNDC)

The ministry is consulting with affected LDCs, the OEB, the IESO and Chiefs of Ontario (COO) on implementation. FNDC will take advantage of existing LDC, IESO, and community-LDC relationships to implement the program. The regulatory amendments also enable payment flows to prescribed LDCs to allow recovery of FNDC payments made to customers.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the prescribed July 1, 2017 effective date. OFHPA includes transitional provisions that would ensure customers remain eligible for the delivery credit from the prescribed date. Once available, the rebate would appear on the eligible customer's electricity bills as a credit for their delivery line. FNDC line item, demonstrating the savings by eliminating the delivery line costs on the bill.

STAKEHOLDER AND PARTNER CONSIDERATIONS

General Public (including residential and small businesses) – Likely support a proposal that is projected to provide 25% in average rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but there has been public discussion of the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications. There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Commented [RK5]: "e.g.,"?

~~Large~~ Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral on the rest of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to cap and trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. Funding electricity support programs through government funding rather than the rate base will provide some saving to both Class A and B consumers.

Commented [RK6]: Are the concerns from the subset of Class B customers not eligible for the OFHP?

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being ineligible for the delivery charge relief.

NGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generators as part of the clean energy costs.

Solar PV sector – May react negatively to price relief as it can be seen to undercut the economics of net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price in order to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.) LDCs recover their costs through distribution rates. LDCs are licensed to serve a specific geographic area by the Ontario Energy Board (OEB). An LDC must receive Ontario Energy Board approval to charge a distribution rate.
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:
  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable per unit charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates for residential customers are moving to a fully-fixed charge by 2019 for most LDCs. Some LDCs, such as Hydro One and Algoma Power are transitioning over a longer period.

  - Line Loss: The costs to recover electricity that is lost when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One –** Customer service classes are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. Lower customer density increases the cost to serve. Residential class R1 customers are considered 'medium density' customers and residential class R2 are considered 'low density customers.' Hydro One also served urban residential customers, considered "high density" through its UR class. Hydro One also has urban and non-urban general service classes.
- **Ontario Power Generation (OPG) –** A business corporation owned by the Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to participate in quasi-judicial proceedings and formal stakeholder consultations.
- **Independent Electricity System Operator (IESO) –** An independent corporation established under the *Electricity Act, 1998* that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Affordable Housing- *Residential Tenancies Act, 2006* amendments –** To mitigate the costs of carbon pricing on tenants, who are not able to control major building features that impact energy use (like insulation and windows) or major appliances, the government has amended regulations under the Residential Tenancies Act, 2006 to remove the ability for landlords to increase rents above the guideline based on extraordinary increases in utility costs.

From:	Gavin He
To:	Ronald Kwan
Cc:	John Kim; Bruno Amara; Emily Kerr; Karim Javeri
Subject:	RE: URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 12:34:09 PM
Attachments:	REG-11477_ID49242_LRC_CBN- DRAFT- OFHP regulations v5_CEFD_v2.docx

Hi Ron,

Please find attached the comments from CEFD for your review. In addition, I added the comment from OFA in the attached version as well.

The document is also saved under below folder:
\\ofina.on.ca\ofadfs\Users\CEF\Hydro 2017\Electricity Prices\OFHP\CBN

Please note that comments are due back to DMO by 1:30 p.m. today.

Thanks,
Gavin He

From: Gavin He
Sent: Thursday, June 08, 2017 10:44 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: URGENT: CBN Fact Check

Hi all,

Please find attached the CO note on the first part of the implementation of the Ontario Fair Hydro Plan. Could you please review ASAP and provide your edits to Ron by noon today?

Comments are due back to DMO by 1:30 p.m. today. Sorry for the short turnaround time.

Thanks,
Gavin He

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, June 08, 2017 10:38 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Cc: Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
Subject: CBN Fact Check

Hi Anna and Gavin,

Attached is the latest CBN for Energy's OESP reg. It is tracking to June 27th as part of the first of two bundles of regulations required for the implementation of the Ontario Fair Hydro Plan.

CO has a hard deadline of 2:00 today, so I'm wondering if you guys can please have your teams review and provide comments (if any) to me by 1:30?

Thanks,
Dave

Ontario

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy
Fair Hydro Plan Regulations

Cabinet (info) Feb 15, 2017	TB/MBC and Cabinet March 1, 2017	Announcement March 2, 2017	TB/MBC May 9, 2017	Cabinet May 10, 2017	Introduction May 11, 2017
Royal Assent June 1, 2017	TB/MBC June 13, 2017	Cabinet June 14, 2017	Program Effective Date July 1, 2017		

Summary of Proposal

The proposed regulations are consistent with Cabinet direction. [TBC]

Context for Decision:

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. OFHP includes some benefits for all consumer classes as well as targeted benefits to those identified as having the greatest need, and includes the following major components:

- Refinancing a portion of the Global Adjustment (GA);
- Helping vulnerable electricity consumers ("social programs");
- Expanding the Industrial Conservation Initiative (ICI);
- Improving sector efficiency; and
- Modernizing Ontario's electricity market.

The *Fair Hydro Act, 2017,* was introduced on May 11, 2017, passed on May 31, 2017 and received Royal Assent June 1, 2017.

Proposal

This proposal is the next step in the implementation of the OFHP and would establish most of the necessary regulations under the *Ontario Energy Board Act, 1998* (OEBA), *Ontario Rebate for Electricity Consumers Act, 2016,* (ORECA) and the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) related to:

1. Partial Refinancing of the Global Adjustment (GA):

The ministry is proposing a new regulation under Part II of the OFHPA that would support the required calculations related to the refinancing of GA. More specifically, the proposed regulation would implement the reduction in rates for the typical residential consumer effective July 1, 2017.

2. Social Programs and Bill Presentment:

The ministry is proposing three new regulations under the OFHPA and the OEBA and amendments to existing regulations under the OEBA and ORECA to support implementation and clarify program details of the social programs, as well as support transparency and communication of the changes made under the OFHP.

To fully implement the required regulations for the OFHP, the ministry will be seeking approvals of three additional regulations in late June 2017.

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. Since the OFHP was announced there has been increased media attention and public pressure for the government to take the necessary steps to enact the commitments made in the plan. The *Fair Hydro Act, 2017,* identifies a July 1 implementation date for the various price mitigation initiatives contained within. Pending approval of the regulations, the OEB will recalculate rates to be implemented for July 1, 2017.

Effective May 1, 2017, the OEB reduced electricity prices for eligible households and small businesses. At the time, the OEB also announced, upon passage of the Act, that it would further adjust Regulated Price Plan (RPP) prices as needed so that RPP customers receive the full rate relief as legislated.

What is the expected cost to government?

The estimate for the combined impact of the social programs in this proposal is expected to be $359M in 2017-18, growing in 2018-19 once annualized. The ministry will return to TB/MBC with updated out-year figures following program implementation. This investment has been factored into the fiscal plan in the 2017 Ontario Budget. These estimates are based on variable inputs such as program uptake, future energy consumption of various consumer groups and future distribution rates, and are therefore subject to change.

TABLE 1: Fiscal Impact ($M) of Social Programs	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344
On-Reserve First Nations Delivery Credit	15

Note: As approved in the TB/MBC submission of Mach 1, 2017, and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31, 2018.

What are the key steps to deliver this proposal?

- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of OFHP.
- July 1, 2017- the remaining reductions and initiatives associated with the OFHP would take effect. Programs that are not established on this day for technical implementation issues will allow benefits to be retroactively applied to customers once programs are reflected in bills by individual LDCs.

How will the changes be communicated?

The proposed changes will be communicated via a news release or backgrounder in late June.

Cabinet Office Analysis

The proposed new regulations under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and the regulatory amendments under the *Ontario Energy Board Act, 1998* (OEBA) allow for the implementation of the key elements of Ontario's Fair Hydro Plan (OFHP) announced on March 2, 2017 and are consistent with Cabinet direction [TBC].

1. Partial Refinancing of the Global Adjustment:

The ministry is proposing a new regulation under Part II of the OFHPA that would support the implementation of the refinancing of GA, including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board (OEB) to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the OFHPA. If approved, the OEB is targeting June 22 to announce changes to rates for the July 1 effective date.

Critics of the OFHP may see the implementation of this component of the plan as compromising the independence of the OEB. This is mitigated by the fact that the government has always, through legislation and regulation, established the parameters

within which the OEB operates, and has no control over the day to day operations of the Board.

2. Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

Rural or Remote Rate Protection (RRRP) helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The Fair Hydro Act, 2017 amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments to O. Reg. 442/01 moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, under O. Reg. 442/01, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, as provisions under the new section 79.3 under the OEBA provides benefits beyond RRRP, making the escalating factor unnecessary.

The ministry is proposing a new regulation under the OEBA to create a government funded distribution rate protection (DRP) program. The regulation establishes a mechanism for the OEB to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs, as authorized under the OEBA, and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up of provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same

reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances related to lands affected by energy infrastructure.

The OFHPA amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program. The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate. The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. There is a risk that some eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements. The following LDCs would be prescribed as responsible for delivering the program:

Commented [EK1]: Should the LDCs be listed after this?

The proposed regulation relies upon definitions of key terms such as “member of a band” and “reserve” from the *Indian Act* (Canada). This approach is defensible and relatively straightforward, but may be criticised as not taking into account lands that are considered as roughly analogous to reserve land, but that do not meet the strict

definitions of the *Indian Act.* For example, many communities have lands within the federal Additions to Reserve (ATR) process that would be excluded from this program until the lands are officially recognized as reserve. This risk is mitigated by the fact that many of these parcels of land will have few if any residences on them, so the impact is expected to be minor. The legislation provides sufficient flexibility to expand application to these kinds of lands if appropriate in the future.

The ministry is also proposing amendments to O. Reg. 363/16 under the ORECA to provide clarity that FNDC should be included in the base amount used to calculate the 8% rebate. This is consistent with how other support programs have been treated for the purposes of applying the 8% rebate to customer's bills.

3. Bill Presentment

The ministry is proposing to create new regulations under the OFHPA that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments to O. Reg. 275/04 that would remove invoicing requirements related to the Debt Retirement Charge (DRC) exemption message, per s. 8.2. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017.

In anticipation of these new OFHP invoicing requirements, the ministry has amended O. Reg. 364/16 (Minister's order) to revoke the "8% provincial rebate" messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an "8% Provincial Rebate" line item remains.

Risks

Fiscal

The social programs do not have a scheduled end date and represent an ongoing fiscal pressure, which will likely increase over time. These estimates are based on variable inputs such as program uptake, electricity market conditions, future energy consumption

Commented [GH2]: From OFA: Suggest a mention of accounting risks in the Fiscal subsection, particularly given the AG's stated position at Committee on this. May want to seek input from OPCD/TBS.

Suggest including on page 6, as part of the objectives of the proposed regulations:
- Details on how the interest on the Trust debt will be managed; and
- The Clean Energy Adjustment as it relates to repayment from 2027 onwards.

of various consumer groups and future distribution rates, and are therefore subject to change.

Perception

It is expected that there will be some criticism of the OFHP messaging and bill presentment changes as being political in nature and not strictly necessary for transparency or program implementation.

Legal

In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets present only a low risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the asset, but rather is doing so in order to lower the price in the short term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period.

Under the FNDC program “non-status” Indigenous communities without reserves (e.g. certain members of the Algonquins of Ontario (AOO), Mocreebec etc.) and Métis will not be eligible as they do hold reserve lands. There is a risk that these communities could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter (equality rights). This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change. This risk is mitigated by phase in implementation provisions in the enabling legislation that allows for LDCs to provide retroactive payments to July 1, 2017 if they are, for technical reasons, unable to have the required program changes implemented by this date.

Linkages

Commented [EK3]: The Fair Hydro Plan also included changes to the Ontario Electricity Support Program (OESP). Should those changes be included in this note?

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer 2017. The LTEP identifies needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The *Ontario Rebate for Electricity for Electricity Consumers Act, 2016*, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) – Was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB program ended on December 31, 2015.

Debt Retirement Charge – On January 1, 2016, the government ended the electricity DRC on residential users earlier than planned. For all other consumers the DRC will be removed by April 2018.

Industrial Conservation Initiative (ICI) – Implemented in January 2011 to help large industrial consumers reduce electricity costs by reducing consumption in peak periods. As part of OFHP, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – Approved as part of OFHP, and under development, the Affordability Fund is intended to provide energy efficiency measures to Ontarians who are not eligible for low income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings. Funding electricity social programs through government funds rather than the rate base will also provide saving to all electricity consumers (i.e. Class A and B).

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON) - is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and,
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed that the government consult on and develop options to mitigate the impact of carbon pricing and resulting increased utility costs on residential tenants. The mitigation is proposed because tenants do not usually have the opportunity to make changes to their building envelope (e.g. windows, insulation) or major appliances that would allow them to address utility costs themselves. On April 24, 2017, the government introduced the *Rental Fairness Act, 2017* which, if passed, would remove above-guideline rent increases for utilities, to protect tenants from carbon costs and encourage landlords to make their buildings more energy efficient.

Delivery

The proposed regulations are required under the major components of the *Fair Hydro Act, 2017* in order to fully implement the initiative and clarify program details.

1. Partial Refinancing of the Global Adjustment:

The ratepayer benefit of the OFHP will be in place as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the June 1, 2017 Royal Assent of the *Fair Hydro Act, 2017*.

The act includes transition provisions in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Using the methodology outlined in the OFHPA and the Part II regulations, the OEB will calculate the electricity rates that consumers will pay as of July 1, 2017.

2. Social Programs:

<u>DRP and RRRP</u>

The programs will take advantage of existing LDC and IESO processes. The regulatory amendments also enable payment flows to prescribed LDC to allow recovery of RRRP and DRP payments made to customers.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the DRP in time for the prescribed effective date. In this case, the regulation dictates the eligibility of July 1st and gives until October 1, 2017 for LDCs to get their systems in place. The LDCs would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program.

<u>On-Reserve First Nations Delivery Credit (FNDC)</u>

The ministry is consulting with affected LDCs, the OEB, the IESO and Chiefs of Ontario (COO) on implementation. FNDC will take advantage of existing LDC, IESO, and community-LDC relationships to implement the program. The regulatory amendments also enable payment flows to prescribed LDCs to allow recovery of FNDC payments made to customers.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the prescribed July 1, 2017 effective date. OFHPA includes transitional provisions that would ensure customers remain eligible for the delivery credit from the prescribed date. Once available, the rebate would appear on the eligible customer's electricity bills as a credit for their delivery line. FNDC line item, demonstrating the savings by eliminating the delivery line costs on the bill.

STAKEHOLDER AND PARTNER CONSIDERATIONS

General Public (including residential and small businesses) – Likely support a proposal that is projected to provide 25% in average rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but there has been public discussion of the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications. There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral on the rest of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to cap and trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. Funding electricity support programs through government funding rather than the rate base will provide some saving to both Class A and B consumers.

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NGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generators as part of the clean energy costs.

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- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:
  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable per unit charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates for residential customers are moving to a fully-fixed charge by 2019 for most LDCs. Some LDCs, such as Hydro One and Algoma Power are transitioning over a longer period.
  - Line Loss: The costs to recover electricity that is lost when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay

for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.

- **Customer classification for Hydro One –** Customer service classes are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. Lower customer density increases the cost to serve. Residential class R1 customers are considered 'medium density' customers and residential class R2 are considered 'low density customers.' Hydro One also served urban residential customers, considered "high density" through its UR class. Hydro One also has urban and non-urban general service classes.
- **Ontario Power Generation (OPG) –** A business corporation owned by the Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to participate in quasi-judicial proceedings and formal stakeholder consultations.
- **Independent Electricity System Operator (IESO) –** An independent corporation established under the *Electricity Act, 1998* that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Affordable Housing- *Residential Tenancies Act, 2006* amendments –** To mitigate the costs of carbon pricing on tenants, who are not able to control major building features that impact energy use (like insulation and windows) or major appliances, the government has amended regulations under the Residential Tenancies Act, 2006 to remove the ability for landlords to increase rents above the guideline based on extraordinary increases in utility costs.

From:	Gavin He
To:	Ronald Kwan
Cc:	John Kim; Bruno Amara; Emily Kerr; Karim Javeri
Subject:	RE: URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 12:10:36 PM

Hi Ron,

DMO doesn't have a copy of the draft regs but will see if they can get a copy. In addition, they will share this with Legal and TBS as well.

Regards,
Gavin He

From: Gavin He
Sent: Thursday, June 08, 2017 11:47 AM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi Ron,

Sure, I will ask DMO to see if they have the draft regs. And I will check if MOF Legal and TBS staff are reviewing this as well.

Regards,
Gavin He

From: Ronald Kwan
Sent: Thursday, June 08, 2017 11:40 AM
To: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi,

Can we get copies of the proposed draft regs too.

Do we need to check with MOF Legal on any components? And see if TBS staff are reviewing and commenting too.

Thanks,

Ron

From: Gavin He
Sent: June-08-17 10:44
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: URGENT: CBN Fact Check

Hi all,

Please find attached the CO note on the first part of the implementation of the Ontario Fair Hydro Plan. Could you please review ASAP and provide your edits to Ron by noon today?

Comments are due back to DMO by 1:30 p.m. today. Sorry for the short turnaround time.

Thanks,
Gavin He

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, June 08, 2017 10:38 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Cc: Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
Subject: CBN Fact Check

Hi Anna and Gavin,

Attached is the latest CBN for Energy's OESP reg. It is tracking to June 27th as part of the first of two bundles of regulations required for the implementation of the Ontario Fair Hydro Plan.

CO has a hard deadline of 2:00 today, so I'm wondering if you guys can please have your teams review and provide comments (if any) to me by 1:30?

Thanks,
Dave

From:	Gavin He
To:	John Kim; Bruno Amara
Subject:	RE: URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 12:09:45 PM
Attachments:	REG-11477_ID49242_LRC_CBN- DRAFT- OFHP regulations v5_CEFD_v1.docx

Hi John/Bruno,

I saved my edits and SPFB's comments under below folder:

S:\Users\CEF\Hydro 2017\Electricity Prices\OFHP\CBN

Thanks,
Gavin He

From: Gavin He
Sent: Thursday, June 08, 2017 10:44 AM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: URGENT: CBN Fact Check

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Sent: Thursday, June 08, 2017 10:38 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Cc: Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
Subject: CBN Fact Check

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Thanks,
Dave

Ontario

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy
Fair Hydro Plan Regulations

Cabinet (info) Feb 15, 2017	TB/MBC and Cabinet March 1, 2017	Announcement March 2, 2017	TB/MBC May 9, 2017	Cabinet May 10, 2017	Introduction May 11, 2017
Royal Assent June 1, 2017	TB/MBC June 13, 2017	Cabinet June 14, 2017	Program Effective Date July 1, 2017		

Summary of Proposal

The proposed regulations are consistent with Cabinet direction. [TBC]

Context for Decision:

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. OFHP includes some benefits for all consumer classes as well as targeted benefits to those identified as having the greatest need, and includes the following major components:

- Refinancing a portion of the Global Adjustment (GA);
- Helping vulnerable electricity consumers ("social programs");
- Expanding the Industrial Conservation Initiative (ICI);
- Improving sector efficiency; and
- Modernizing Ontario's electricity market.

The *Fair Hydro Act, 2017,* ~~was~~ introduced on May 11, 2017, was passed on May 31, 2017 and received Royal Assent June 1, 2017.

Proposal

This proposal is the next step in the implementation of the OFHP and would establish most of the necessary regulations under the *Ontario Energy Board Act, 1998* (OEBA), *Ontario Rebate for Electricity Consumers Act, 2016,* (ORECA) and the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) related to:

1. Partial Refinancing of the Global Adjustment (GA):

The ministry is proposing a new regulation under Part II of the OFHPA that would support the required calculations related to the refinancing of GA. More specifically, the proposed regulation would implement the reduction in rates for the typical residential consumer effective July 1, 2017.

2. Social Programs and Bill Presentment:

The ministry is proposing three new regulations under the OFHPA and the OEBA and amendments to existing regulations under the OEBA and ORECA to support implementation and clarify program details of the social programs, as well as support transparency and communication of the changes made under the OFHP.

To fully implement the required regulations for the OFHP, the ministry will be seeking approvals of three additional regulations in late June 2017.

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. Since the OFHP was announced there has been increased media attention and public pressure for the government to take the necessary steps to enact the commitments made in the plan. The *Fair Hydro Act, 2017,* identifies a July 1 implementation date for the various price mitigation initiatives contained within. Pending approval of the regulations, the OEB will recalculate rates to be implemented for July 1, 2017.

In addition, the OEB has announced that electricity prices dropping for households and small businesses effective May 1, 2017. Upon the approval of the OFHP, the OEB also announced that it would further adjust Regulated Price Plan (RPP) prices as needed so that RPP customers receive the full rate relief as legislated.

What is the expected cost to government?

The estimate for the combined impact of the social programs in this proposal is expected to be $359M in 2017-18, growing in 2018-19 once annualized. The ministry will return to TB/MBC with updated out-year figures following program implementation. This investment has been factored into the fiscal plan in the 2017 Ontario Budget. These estimates are based on variable inputs such as program uptake, future energy consumption of various consumer groups and future distribution rates, and are therefore subject to change.

TABLE 1: Fiscal Impact ($M) of Social Programs	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344
On-Reserve First Nations Delivery Credit	15

Note: As approved in the TB/MBC submission of Mach 1, 2017, and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31, 2018.

What are the key steps to deliver this proposal?

- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of OFHP.
- July 1, 2017- the remaining reductions and initiatives associated with the OFHP would take effect. Programs that are not established on this day for technical implementation issues will allow benefits to be retroactively applied to customers once programs are reflected in bills by individual LDCs.

How will the changes be communicated?

The proposed changes will be communicated via a news release or backgrounder in late June.

Cabinet Office Analysis

The proposed new regulations under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and the regulatory amendments under the *Ontario Energy Board Act, 1998* (OEBA) allow for the implementation of the key elements of Ontario's Fair Hydro Plan (OFHP) announced on March 2, 2017 and are consistent with Cabinet direction [TBC].

1. Partial Refinancing of the Global Adjustment:

The ministry is proposing a new regulation under Part II of the OFHPA that would support the implementation of the refinancing of GA, including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board (OEB) to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the OFHPA. If approved, the OEB is targeting June 22 to announce changes to rates for the July 1 effective date.

Critics of the OFHP may see the implementation of this component of the plan as compromising the independence of the OEB. This is mitigated by the fact that the government has always, through legislation and regulation, established the parameters

within which the OEB operates, and has no control over the day to day operations of the Board.

2. Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

Rural or Remote Rate Protection (RRRP) helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The Fair Hydro Act, 2017 amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments to O. Reg. 442/01 moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, under O. Reg. 442/01, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, as provisions under the new section 79.3 under the OEBA provides benefits beyond RRRP, making the escalating factor unnecessary.

The ministry is proposing a new regulation under the OEBA to create a government funded distribution rate protection (DRP) program. The regulation establishes a mechanism for the OEB to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs, as authorized under the OEBA, and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up of provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same

reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances related to lands affected by energy infrastructure.

The OFHPA amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program. The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate. The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. There is a risk that some eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements. The following LDCs would be prescribed as responsible for delivering the program:

Commented [EK1]: Should the LDCs be listed after this?

The proposed regulation relies upon definitions of key terms such as “member of a band” and “reserve” from the *Indian Act* (Canada). This approach is defensible and relatively straightforward, but may be criticised as not taking into account lands that are considered as roughly analogous to reserve land, but that do not meet the strict

definitions of the *Indian Act.* For example, many communities have lands within the federal Additions to Reserve (ATR) process that would be excluded from this program until the lands are officially recognized as reserve. This risk is mitigated by the fact that many of these parcels of land will have few if any residences on them, so the impact is expected to be minor. The legislation provides sufficient flexibility to expand application to these kinds of lands if appropriate in the future.

The ministry is also proposing amendments to O. Reg. 363/16 under the ORECA to provide clarity that FNDC should be included in the base amount used to calculate the 8% rebate. This is consistent with how other support programs have been treated for the purposes of applying the 8% rebate to customer's bills.

3. Bill Presentment

The ministry is proposing to create new regulations under the OFHPA that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments to O. Reg. 275/04 that would remove invoicing requirements related to the Debt Retirement Charge (DRC) exemption message, per s. 8.2. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017.

In anticipation of these new OFHP invoicing requirements, the ministry has amended O. Reg. 364/16 (Minister's order) to revoke the "8% provincial rebate" messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an "8% Provincial Rebate" line item remains.

Risks

Fiscal

The social programs do not have a scheduled end date and represent an ongoing fiscal pressure, which will likely increase over time. These estimates are based on variable inputs such as program uptake, electricity market conditions, future energy consumption

of various consumer groups and future distribution rates, and are therefore subject to change.

Perception

It is expected that there will be some criticism of the OFHP messaging and bill presentment changes as being political in nature and not strictly necessary for transparency or program implementation.

Legal

In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets present only a low risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the asset, but rather is doing so in order to lower the price in the short term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period.

Under the FNDC program “non-status” Indigenous communities without reserves (e.g. certain members of the Algonquins of Ontario (AOO), Mocreebec etc.) and Métis will not be eligible as they do hold reserve lands. There is a risk that these communities could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter (equality rights). This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change. This risk is mitigated by phase in implementation provisions in the enabling legislation that allows for LDCs to provide retroactive payments to July 1, 2017 if they are, for technical reasons, unable to have the required program changes implemented by this date.

Linkages

Commented [EK2]: The Fair Hydro Plan also included changes to the Ontario Electricity Support Program (OESP). Should those changes be included in this note?

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer 2017. The LTEP identifies needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The *Ontario Rebate for Electricity for Electricity Consumers Act, 2016*, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) – Was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB program ended on December 31, 2015.

Debt Retirement Charge – On January 1, 2016, the government ended the electricity DRC on residential users earlier than planned. For all other consumers the DRC will be removed by April 2018.

Industrial Conservation Initiative (ICI) – Implemented in January 2011 to help large industrial consumers reduce electricity costs by reducing consumption in peak periods. As part of OFHP, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – Approved as part of OFHP, and under development, the Affordability Fund is intended to provide energy efficiency measures to Ontarians who are not eligible for low income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings. Funding electricity social programs through government funds rather than the rate base will also provide saving to all electricity consumers (i.e. Class A and B).

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON) - is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and,
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed that the government consult on and develop options to mitigate the impact of carbon pricing and resulting increased utility costs on residential tenants. The mitigation is proposed because tenants do not usually have the opportunity to make changes to their building envelope (e.g. windows, insulation) or major appliances that would allow them to address utility costs themselves. On April 24, 2017, the government introduced the *Rental Fairness Act, 2017* which, if passed, would remove above-guideline rent increases for utilities, to protect tenants from carbon costs and encourage landlords to make their buildings more energy efficient.

Delivery

The proposed regulations are required under the major components of the *Fair Hydro Act, 2017* in order to fully implement the initiative and clarify program details.

1. Partial Refinancing of the Global Adjustment:

The ratepayer benefit of the OFHP will be in place as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the June 1, 2017 Royal Assent of the *Fair Hydro Act, 2017*.

The act includes transition provisions in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Using the methodology outlined in the OFHPA and the Part II regulations, the OEB will calculate the electricity rates that consumers will pay as of July 1, 2017.

2. Social Programs:

<u>DRP and RRRP</u>

The programs will take advantage of existing LDC and IESO processes. The regulatory amendments also enable payment flows to prescribed LDC to allow recovery of RRRP and DRP payments made to customers.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the DRP in time for the prescribed effective date. In this case, the regulation dictates the eligibility of July 1st and gives until October 1, 2017 for LDCs to get their systems in place. The LDCs would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program.

<u>On-Reserve First Nations Delivery Credit (FNDC)</u>

The ministry is consulting with affected LDCs, the OEB, the IESO and Chiefs of Ontario (COO) on implementation. FNDC will take advantage of existing LDC, IESO, and community-LDC relationships to implement the program. The regulatory amendments also enable payment flows to prescribed LDCs to allow recovery of FNDC payments made to customers.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the prescribed July 1, 2017 effective date. OFHPA includes transitional provisions that would ensure customers remain eligible for the delivery credit from the prescribed date. Once available, the rebate would appear on the eligible customer's electricity bills as a credit for their delivery line. FNDC line item, demonstrating the savings by eliminating the delivery line costs on the bill.

STAKEHOLDER AND PARTNER CONSIDERATIONS

General Public (including residential and small businesses) – Likely support a proposal that is projected to provide 25% in average rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but there has been public discussion of the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications. There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral on the rest of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to cap and trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. Funding electricity support programs through government funding rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being ineligible for the delivery charge relief.

NGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generators as part of the clean energy costs.

Solar PV sector – May react negatively to price relief as it can be seen to undercut the economics of net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price in order to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.) LDCs recover their costs through distribution rates. LDCs are licensed to serve a specific geographic area by the Ontario Energy Board (OEB). An LDC must receive Ontario Energy Board approval to charge a distribution rate.
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:
  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable per unit charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates for residential customers are moving to a fully-fixed charge by 2019 for most LDCs. Some LDCs, such as Hydro One and Algoma Power are transitioning over a longer period.
  - Line Loss: The costs to recover electricity that is lost when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay

for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.

- **Customer classification for Hydro One –** Customer service classes are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. Lower customer density increases the cost to serve. Residential class R1 customers are considered 'medium density' customers and residential class R2 are considered 'low density customers.' Hydro One also served urban residential customers, considered "high density" through its UR class. Hydro One also has urban and non-urban general service classes.
- **Ontario Power Generation (OPG) –** A business corporation owned by the Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to participate in quasi-judicial proceedings and formal stakeholder consultations.
- **Independent Electricity System Operator (IESO) –** An independent corporation established under the *Electricity Act, 1998* that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Affordable Housing- *Residential Tenancies Act, 2006* amendments –** To mitigate the costs of carbon pricing on tenants, who are not able to control major building features that impact energy use (like insulation and windows) or major appliances, the government has amended regulations under the Residential Tenancies Act, 2006 to remove the ability for landlords to increase rents above the guideline based on extraordinary increases in utility costs.

From:	Gavin He
To:	Ronald Kwan
Cc:	John Kim; Bruno Amara; Emily Kerr; Karim Javeri
Subject:	RE: URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 11:47:11 AM

Hi Ron,

Sure, I will ask DMO to see if they have the draft regs. And I will check if MOF Legal and TBS staff are reviewing this as well.

Regards,
Gavin He

From: Ronald Kwan
Sent: Thursday, June 08, 2017 11:40 AM
To: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
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Thanks,
Ron

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Sent: June-08-17 10:44
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
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From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, June 08, 2017 10:38 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Cc: Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
Subject: CBN Fact Check

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Thanks,
Dave

From:	Ronald Kwan
To:	John Kim
Subject:	RE: URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 11:42:40 AM

Both.

Ron

From: John Kim
Sent: June-08-17 11:42
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

PEMD….did you mean OPCD?

From: Ronald Kwan
Sent: Thursday, June 08, 2017 11:42 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi,

At PEMD and OPCD?

Ron

From: John Kim
Sent: June-08-17 11:41
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi Ron,

TBS appears to be low on resource….with vacation, etc.

John

From: Ronald Kwan
Sent: Thursday, June 08, 2017 11:40 AM
To: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
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From:	Ronald Kwan
To:	John Kim
Subject:	RE: URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 11:41:46 AM

Hi,

At PEMD and OPCD?

Ron

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To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
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From:	Ronald Kwan
To:	Gavin He
Cc:	John Kim; Bruno Amara; Emily Kerr; Karim Javeri
Subject:	RE: URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 1:15:57 PM

Thanks Gavin.

Ron

From: Gavin He
Sent: June-08-17 13:13
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi Ron,

Thanks! I will remove that comment and send it back to DMO then.

Regards,
Gavin He

From: Ronald Kwan
Sent: Thursday, June 08, 2017 1:13 PM
To: Gavin He <Gavin.He@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi Gavin, et al,

Thanks.

My comment on "Would this suggest a potential Energy request to the OFA for an MOU like the ORECA one?" is more an internal one to reach out to Energy staff to ask. It doesn't need to go back to CO.

Ron

From: Gavin He
Sent: June-08-17 13:00
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>

Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi Ron,

Please see attached the consolidated version with your edits for your review.

Thanks,
Gavin He

From: Gavin He
Sent: Thursday, June 08, 2017 12:34 PM
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Karim Javeri <Karim.Javeri@ofina.on.ca>
Subject: RE: URGENT: CBN Fact Check

Hi Ron,

Please find attached the comments from CEFD for your review. In addition, I added the comment from OFA in the attached version as well.

The document is also saved under below folder:
\\ofina.on.ca\ofadfs\Users\CEF\Hydro 2017\Electricity Prices\OFHP\CBN

Please note that comments are due back to DMO by 1:30 p.m. today.

Thanks,
Gavin He

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Thanks,
Dave

From:	Ronald Kwan
To:	John Kim
Cc:	Gavin He; Bruno Amara; Shajee Kathirgamanathan
Subject:	RE: Updated forecast for OREC
Date:	Wednesday, May 03, 2017 2:47:47 AM

That's okay, I see it's in the CBN, as per the March CabSub.

Ron

From: Ronald Kwan
Sent: May-03-17 2:24 AM
To: 'John Kim' <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
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Hi John,

In addition to 17-18. would you also be able to get the component breakdown between RRRP, OESP, and ONFNDC for the OFHP for the out-years as well.

Thanks,
Ron

From: John Kim
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To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
Subject: FW: Updated forecast for OREC

Fyi, answering your question earlier. They know about the 104M on OESP but wanted to deal with it at FES.

John

From: Fung, Felix (TBS) [mailto:Felix.Fung@ontario.ca]
Sent: Wednesday, April 19, 2017 11:49 AM
To: John Kim <John.Kim@ofina.on.ca>
Subject: FW: Updated forecast for OREC

Hey John,

Thanks again for dropping by - please find attached the document that Energy shared with us on the revised numbers for OREC and also on the updated numbers for the

electricity support programs.

Thanks,
Felix

From: Katona, Keley (ENERGY)
Sent: March-24-17 5:35 PM
To: Strang, James (TBS)
Cc: Morgenstern, Madeleine (TBS); An, Tai (ENERGY); Gounden, Pratima (ENERGY); Chatterjee, Jeet (ENERGY); Fung, Felix (TBS)
Subject: FW: Updated forecast for OREC

Attached is a revised note. Let us know if you have any further questions.

From: Strang, James (TBS)
Sent: March 22, 2017 9:54 AM
To: Katona, Keley (ENERGY)
Cc: Morgenstern, Madeleine (TBS); An, Tai (ENERGY); Gounden, Pratima (ENERGY); Chatterjee, Jeet (ENERGY); Fung, Felix (TBS)
Subject: RE: Updated forecast for OREC

The Energy note shared includes the following table. Is it possible to get the $499M in 2017-18 split into the three TPs (RRRP, OESP, ONFNDC)?

	2017-2018	2018-2019	2019-2020	2020-2021
Cost of Expanded Electricity Support Programs in OFHP ($m)	499**	753	829	892

****Note:** Value adjusted from $665 million to account for deferral of implementation to July 2017.

From: Strang, James (TBS)
Sent: March 22, 2017 8:39 AM
To: Katona, Keley (ENERGY)
Cc: Morgenstern, Madeleine (TBS); An, Tai (ENERGY); Gounden, Pratima (ENERGY); Chatterjee, Jeet (ENERGY); Fung, Felix (TBS)
Subject: RE: Updated forecast for OREC

Good Morning,

Please provide a revised OREC forecast for 2020-21. PRRT is looking at a four year planning window out to 2020-21. Can this be provided this morning?

James

From: Katona, Keley (ENERGY)
Sent: March 21, 2017 12:14 PM
To: Fung, Felix (TBS)

Cc: Morgenstern, Madeleine (TBS); An, Tai (ENERGY); Gounden, Pratima (ENERGY); Strang, James (TBS); Chatterjee, Jeet (ENERGY)
Subject: FW: Updated forecast for OREC

Hi Felix,
See attached in response to the below.
Keley

From: Fung, Felix (TBS) <Felix.Fung@ontario.ca>
Sent: Saturday, March 4, 2017 3:14 PM
To: Katona, Keley (ENERGY); An, Tai (ENERGY); Gounden, Pratima (ENERGY)
Cc: Morgenstern, Madeleine (TBS); Strang, James (TBS)
Subject: Updated forecast for OREC

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Thanks
Felix

Sent from my BlackBerry 10 smartphone on the Rogers network.

From:	Shajee Kathirgamanathan
To:	John Kim; Bruno Amara; Gavin He
Subject:	RE: Updated forecast for OREC
Date:	Wednesday, May 03, 2017 12:20:05 PM

Sure. I saved a shortcut to these files in this folder:

S:\Users\CEF\Hydro 2017\Branch_EFB\For Reference\Resources\Ministry of Energy Reference Documents

For this file, please see: *Shortcut - Fiscal Impacts of Electricity Support Programs [QA - Revised Rebate Cost Post FHP - to DMO_ESPD ADM Approved_ESP_v0.2 - ....docx]*

Thanks,
Shajee

Shajee Kathirgamanathan
Office: 416-325-1402 | Mobile: 647-294-3359
shajee.kathirgamanathan@ofina.on.ca

From: John Kim
Sent: Wednesday, May 03, 2017 7:49 AM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: Updated forecast for OREC

Could we have the backup in the branch reference folder pls? No rush but would like to have it as a resource and tracked over time.

John

From: Ronald Kwan
Sent: Wednesday, May 03, 2017 2:48 AM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>
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From: John Kim
To: Bruno Amara; Shajee Kathirgamanathan; Salman Qadir
Subject: Rate Mitigation - OPG and Province Financing Consideration v8.pptx
Date: Friday, May 05, 2017 3:46:54 PM
Attachments: Rate Mitigation - OPG and Province Financing Consideration v8.pptx

---

Another…

DRAFT

GA Financing Considerations

- Under Energy's proposed structure, the financing of the deferred GA costs would be effectively done in part by each of the OPG Trust, the Province, and OPG: the OPG Trust would borrow 51%, the Province 44%, and OPG 5% of the required GA amounts needed to be financed.
- In the alternative, the Province (through the OFA/OEFC) could borrow the required amounts each year, likely at a lower cost. However, the target for an arms-length trust and potential risk transfer would not be achieved.

	OPG Structured Financing	OFA/OEFC/Provincial Financing

Financing Considerations	• As the OPG Trust would be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing.
	• This would increase the cost of GA smoothing and the ultimate rate impact on future consumers.
	• Availability of debt financing may also be limited, depending on the overall amount of deferral, and the subsequent rate impact during the recovery period. OPG has cited examples of a 10% threshold on overall rate impacts of the deferral recovery amounts.
	• The Trust would be exposed to interest rate changes.
	• With a potential guarantee from the Province for the borrowings of the OPG Trust, OPG could see borrowing costs closer to the Province. However, this would redirect the risk back to the Province, removing the intended benefits of using this particular structure, and could add risk to the targeted accounting treatment.
	• With, or potentially even without a provincial guarantee, OPG Trust's borrowings could be seen as debt effectively supported by the Province by credit rating agencies and included in their analysis and determination of the Province's ratings.
	• If a Provincial guarantee ~~endangers the targeted accounting treatment~~ [~~and a guarantee~~ is not provided, it may be hard to justify the higher cost borrowing by the Trust to be passed through to ratepayers.
		• Province's borrowing from the public markets would add to the borrowing program and the Province's gross debt.
		• The Province would expect to be able to finance the GA deferral at a lower financing cost than an OPG Trust, but would likely not achieve the targeted accounting treatment based on OPG's analysis.
		• Net debt would not increase, to the extent supported by increased equity in OPG under that model, or if the accounting treatment is achieved as backed by a GA-related asset.
		• The Province's IOD cost would need to be effectively recovered through the GA.
		  • E.g., an OPG equity return to cover the cost of borrowing for the equity injection.
		  • Or more directly if the Province is providing financing directly to the GA entity.
		• The cost of borrowing for the Province could change:
		  1. The Province's credit rating could be at risk of being re-evaluated by Rating Agencies, which may negatively impact the cost at which the Province borrows and
		  2. An increase in the Province`s borrowing rates, as a result of increased borrowing. The market may not have adequate demand for the Province to carry-out these borrowings without increasing the interest rate on the debt issues for GA financing and for all of the Province's borrowings.
		• The interest cost of GA deferral would be exposed to changes in the interest rate environment generally.

From: Ronald Kwan
To: John Kim
Subject: Re: 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc
Date: Thursday, May 04, 2017 8:51:50 AM

Hi John,

And did you fix the table in the appendix as per the slide?

Ron

On May 4, 2017, at 8:22 AM, John Kim <John.Kim@ofina.on.ca> wrote:

> Great, thanks. Bruno and I, along with another staff or two, will be there.
>
> ---
>
> **From:** Strang, James (TBS) [mailto:James.Strang@ontario.ca]
> **Sent:** Thursday, May 04, 2017 8:19 AM
> **To:** John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
> **Cc:** Felix Fung (MOF) <Felix.Fung@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> **Subject:** 5 2017-05-09 RAN OPG Business Plan v5 OFA Edits Pre-Chairs.doc
>
> Morning John, Bruno:
>
> Attached is the note for Chair's briefing usual place.
>
> Two Energy items, OFA should be in attendance (Items are at the front on the agenda, items 3 &4):
>
> <!--[if !supportLists]-->• <!--[endif]-->Ontario Fair Hydro Plan 1:20pm (Draft note pending)
> <!--[if !supportLists]-->• <!--[endif]-->Ontario Power Generation Business Plan 1:30pm (Note attached)
>
> James

From: Salman Qadir
To: John Kim
Cc: Bruno Amara
Subject: Re: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017
Date: Tuesday, May 02, 2017 8:24:39 PM

I just tried to use terms they used for consistency.

We could put springing in quotes. We could actually just call it guarantee agreement.

Sent from my iPhone

On May 2, 2017, at 7:25 PM, John Kim <John.Kim@ofina.on.ca> wrote:

> Thanks…..on the chart slide, is it necessary that it be limited to "springing" guarantee? Is credit guarantee be a part of that term?
>
> ---
>
> **From:** Salman Qadir
> **Sent:** May-02-17 4:19 PM
> **To:** John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
> **Cc:** Shajee Kathirgamanathan <Shajee.Kathirgamanathan@ofina.on.ca>; Adam Prokop <Adam.Prokop@ofina.on.ca>
> **Subject:** RE: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017
>
> Hi Bruno/John,
>
> Initial comments as attached.
>
> Saved here:
> Z:\Users\CEF\Hydro 2017\Electricity Prices\Mitigation Proposals\Debt Financing the GA\GA Structure\FPC Deck
>
> Salman
>
> ---
>
> **From:** John Kim
> **Sent:** Tuesday, May 02, 2017 12:21 PM
> **To:** Salman Qadir <Salman.Qadir@ofina.on.ca>
> **Subject:** FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017
>
> ---
>
> **From:** Ronald Kwan
> **Sent:** Tuesday, May 02, 2017 10:19 AM
> **To:** John Kim <John.Kim@ofina.on.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Emily Kerr <Emily.Kerr@ofina.on.ca>; Bruno Amara

<Bruno.Amara@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: Fwd: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

Hi,

Please review.

Comments?

Ron

Begin forwarded message:

> **From:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>
> **Date:** May 2, 2017 at 10:10:24 AM EDT
> **To:** Ronald Kwan <Ronald.Kwan@ofina.on.ca>, Mike Manning <Mike.Manning@ofina.on.ca>, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Cc:** Anna Strathy <Anna.Strathy@ofina.on.ca>, Deena Padamadan <Deena.Padamadan@ofina.on.ca>
> **Subject: FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017**
>
> Any thoughts?
>
> ---
>
> **From:** Anna Strathy
> **Sent:** Tuesday, May 02, 2017 9:16 AM
> **To:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>
> **Cc:** Hresa Gavaris <Hresa.Gavaris@ofina.on.ca>
> **Subject:** FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017
>
> FYI, materials for FPC tomorrow attached.
>
> ---
>
> **From:** Young, Gwendolynne (MOF) [mailto:Gwendolynne.Young@ontario.ca]
> **Sent:** Tuesday, May 02, 2017 9:12 AM
> **To:** Anna Strathy <Anna.Strathy@ofina.on.ca>; Colleen Waddell (ENERGY) <Colleen.Waddell@ontario.ca>
> **Cc:** Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
> **Subject:** FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017
>
> Hi Anna and Colleen,
>
> Tomorrow at Fiscal Prep (1015-1145), ENERGY is presenting on their

submission for the Fair Hydro Plan Act. Attached is the agenda and deck.

Could you please line up Gadi and Scott to attend with the Deputy? Please let me know if there are any issues.

Thanks!
Gwen.

Gwen Young
p: 416.325.0741 | bb: 647.982.2419

From: McLean, David (MOF)
Sent: May 2, 2017 8:37 AM
To: Kim, Minzi (MOF); Clarke-Darshanand, Jamille (MOF); Young, Gwendolynne (MOF); Tekle, Jonathan (MOF)
Subject: FW: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

FYI

From: Bosco, Pina (CAB)
Sent: May 2, 2017 8:36 AM
To: Angus, Helen (TBS); Betzner, Lynn (CAB); Bevan, Andrew (OPO); Bossin, Bryan (OPO); Bromm, William (CAB); Davidson, Steven (CAB); Ghiassi, Ali (MOF); Greenberg, Martha (CAB); Hughes, Karen (TBS); Jackson, Kelly (MOF); Jancik, Mike (TBS); MacKenzie, Rebecca (OPO); Madhany, Shamira (CAB); McEachern, Gillian (OPO); McIntyre, Moira (OPO); Mendes, Elizabeth (MOF); Mksyartinian, Jacob (OPO); Orsini, Steve (CAB); Pichelli, Jason (TBS); Rowe, Mary (OPO); Schuurman, Tim (MOF); Thompson, Scott (MOF); Tomney, Genevieve (OPO); Zegarac, George (MOI)
Cc: An, Derrick (OPO); Baird, Natasha (MOF); Borges, Judy (OPO); Bosco, Pina (CAB); Corluka, Marijana (CAB); Farrow, Alicia (CAB); Foster, Robert (CAB); Hartog, Erika (TBS); Kwamena, Boafoa (CAB); Laughton, Patrick (TBS); MacIntyre, Kyle (TBS); Marangoni, Emily (OPO); Matela, Angelo (CAB); McLean, David (MOF); Noursi-Scott, Diana (OPO); Roach, Jackie (CAB); Tinkler, Tanya (CAB)
Subject: AGENDA & MATERIAL: Fiscal Prep Committee, May 3, 2017

Good morning everyone,

Attached is the agenda and resending the material for tomorrow's Fiscal Prep Committee meeting.

Have a good day,

Pina

Pina Bosco
Executive Advisor (Acting)
Office of the Secretary of the Cabinet
416-325-7641

From: Bosco, Pina (CAB)
Sent: May-01-17 9:06 PM
To: Angus, Helen (TBS); Betzner, Lynn (CAB); Bevan, Andrew (OPO); Bossin, Bryan (OPO); Bromm, William (CAB); Davidson, Steven (CAB); Ghiassi, Ali (MOF); Greenberg, Martha (CAB); Hughes, Karen (TBS); Jackson, Kelly (MOF); Jancik, Mike (TBS); MacKenzie, Rebecca (OPO); Madhany, Shamira (CAB); McEachern, Gillian (OPO); McIntyre, Moira (OPO); Mendes, Elizabeth (MOF); Mksyartinian, Jacob (OPO); Orsini, Steve (CAB); Pichelli, Jason (TBS); Rowe, Mary (OPO); Schuurman, Tim (MOF); Thompson, Scott (MOF); Tomney, Genevieve (OPO); Zegarac, George (MOI)
Cc: An, Derrick (OPO); Baird, Natasha (MOF); Borges, Judy (OPO); Bosco, Pina (CAB); Corluka, Marijana (CAB); Farrow, Alicia (CAB); Foster, Robert (CAB); Hartog, Erika (TBS); Kwamena, Boafoa (CAB); Laughton, Patrick (TBS); MacIntyre, Kyle (TBS); Marangoni, Emily (OPO); Matela, Angelo (CAB); McLean, David (MOF); Noursi-Scott, Diana (OPO); Roach, Jackie (CAB); Tinkler, Tanya (CAB)
Subject: MATERIAL: Fiscal Prep Committee, May 3, 2017

Hello everyone,

Attached is material for this week's Fiscal Prep Committee mtg which is scheduled to take place on Wednesday, May 3rd from 10:15 – 11:45 in Boardroom 6501.

Thank you,

Pina

Pina Bosco
Executive Advisor (Acting)
Office of the Secretary of the Cabinet
(416) 325-7641

From: John Kim
To: Gavin He; Bruno Amara
Subject: Re: CBN Fact Check
Date: Thursday, June 08, 2017 12:33:46 PM

Not sure how they commented without knowing or having them

On Jun 8, 2017, at 12:30 PM, John Kim <John.Kim@ofina.on.ca> wrote:

> Do you mind asking Anna if she has copies of the draft regulations mentioned in her comments?
>
> ---
>
> **From:** Gavin He
> **Sent:** Thursday, June 08, 2017 12:26 PM
> **To:** John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
> **Subject:** FW: CBN Fact Check
>
> Hi John/Bruno,
>
> FYI – comments from OFA.
>
> Regards,
> Gavin He
>
> ---
>
> **From:** Anna Strathy
> **Sent:** Thursday, June 08, 2017 12:23 PM
> **To:** David McLean (MOF) <David.McLean@ontario.ca>
> **Cc:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
> **Subject:** FW: CBN Fact Check
>
> Hi David,
>
> A few comments from us:
>
> <!--[if !supportLists]-->• <!--[endif]-->Suggest a mention of accounting risks in the Fiscal subsection, particularly given the AG's stated position at Committee on this. May want to seek input from OPCD/TBS.
> <!--[if !supportLists]-->• <!--[endif]-->Suggest including on page 6, as part of the objectives of the proposed regulations:
> <!--[if !supportLists]-->o <!--[endif]-->Details on how the interest on the Trust debt will be managed; and
> <!--[if !supportLists]-->o <!--[endif]-->The Clean Energy Adjustment as it

relates to repayment from 2027 onwards.

Comments from CEFD will be relayed separately by Gavin.

Thanks, Anna

From: Ken Kandeepan
Sent: Thursday, June 08, 2017 11:34 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: RE: CBN Fact Check

Anna/Gadi

Agree with Gadi's point re accounting risks. No need for regulations for both the guarantee and the new credit facility to IESO(confirmed with Malle). I would also suggest that the objectives of the proposed regulations spelled out on page 6 include:

- <!--[if !supportLists]-->• <!--[endif]-->Details on how the interest on the Trust debt will be managed and
- <!--[if !supportLists]-->• <!--[endif]-->The Clean Energy Adjustment as it relates to repayment from 2027 onwards.

Thanks

Ken k

From: Gadi Mayman
Sent: Thursday, June 08, 2017 11:04 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Re: CBN Fact Check

I find it interesting that in the Risks section there is a lengthy description of the constitutional risk in the Legal subsection, but there is no mention of the accounting risks in the Fiscal subsection, in spite of the AG's stated position at Committee on this. I think that it's a gap that needs to be at least mentioned in the CBN, doesn't it?

I'm assuming, because it isn't mentioned anywhere in the CBN, that there are no regs required for the guarantees that Mike has been working on with Blakes and OPG? Also, our direction on the $2 billion line of credit for the IESO can be done independently of these regs?

Thanks,

Gadi

On Jun 8, 2017, at 10:46 AM, Anna Strathy <Anna.Strathy@ofina.on.ca> wrote:

> Latest CBN for review and fact check. Dave is looking for our comments by 1:30pm. Ron is also reviewing.
>
> ---
>
> **From:** McLean, David (MOF) [mailto:David.McLean@ontario.ca]
> **Sent:** Thursday, June 08, 2017 10:38 AM
> **To:** Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
> **Cc:** Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
> **Subject:** CBN Fact Check
>
> Hi Anna and Gavin,
>
> Attached is the latest CBN for Energy's OESP reg. It is tracking to June 27th as part of the first of two bundles of regulations required for the implementation of the Ontario Fair Hydro Plan.
>
> CO has a hard deadline of 2:00 today, so I'm wondering if you guys can please have your teams review and provide comments (if any) to me by 1:30?
>
> Thanks,
> Dave
>
> <REG-11477_ID49242_LRC_CBN- DRAFT- OFHP regulations v5.docx>

From: John Kim
To: Gavin He
Cc: Bruno Amara
Subject: Re: CBN Fact Check
Date: Thursday, June 08, 2017 12:44:29 PM

Ok got it. No need to ask for regs

On Jun 8, 2017, at 12:37 PM, Gavin He <Gavin.He@ofina.on.ca> wrote:

> Hi John/Bruno,
>
> FYI – see Ron's response to Gadi's question below.
>
> Regards,
> Gavin He
>
> ---
>
> **From:** Ronald Kwan
> **Sent:** Thursday, June 08, 2017 12:34 PM
> **To:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Cc:** David McLean (MOF) <David.McLean@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
> **Subject:** RE: CBN Fact Check
>
> Hi Gadi,
>
> As a comment, yes, no reg is needed for the OFA-IESO credit facility, but you've seen the OIC package to expand the OFA's borrowing room from the Province under CIPA to allow for the expanded credit facility. That's still tracking for the 27th.
>
> And I had understood from the Energy weekly that the Energy regs would not all be ready at once (note the list from the materials Energy sent yesterday, as attached, where only some are listed as ready – though I did not see the IESO borrowing one mentioned in the CBN, though listed as "ready"), so this would just be the first set (not that I have yet to see any of the actual proposed regs, just this CBN).
>
> Ron
>
> ---
>
> **From:** Anna Strathy
> **Sent:** June-08-17 12:23
> **To:** David McLean (MOF) <David.McLean@ontario.ca>
> **Cc:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gavin He

<Gavin.He@ofina.on.ca>
Subject: FW: CBN Fact Check

Hi David,

A few comments from us:

- Suggest a mention of accounting risks in the Fiscal subsection, particularly given the AG's stated position at Committee on this. May want to seek input from OPCD/TBS.
- Suggest including on page 6, as part of the objectives of the proposed regulations:
  - Details on how the interest on the Trust debt will be managed; and
  - The Clean Energy Adjustment as it relates to repayment from 2027 onwards.

Comments from CEFD will be relayed separately by Gavin.

Thanks, Anna

From: Ken Kandeepan
Sent: Thursday, June 08, 2017 11:34 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: RE: CBN Fact Check

Anna/Gadi

Agree with Gadi's point re accounting risks. No need for regulations for both the guarantee and the new credit facility to IESO(confirmed with Malle). I would also suggest that the objectives of the proposed regulations spelled out on page 6 include:

- Details on how the interest on the Trust debt will be managed and
- The Clean Energy Adjustment as it relates to repayment from 2027 onwards.

Thanks

Ken k

From: Gadi Mayman
Sent: Thursday, June 08, 2017 11:04 AM

To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Re: CBN Fact Check

I find it interesting that in the Risks section there is a lengthy description of the constitutional risk in the Legal subsection, but there is no mention of the accounting risks in the Fiscal subsection, in spite of the AG's stated position at Committee on this. I think that it's a gap that needs to be at least mentioned in the CBN, doesn't it?

I'm assuming, because it isn't mentioned anywhere in the CBN, that there are no regs required for the guarantees that Mike has been working on with Blakes and OPG? Also, our direction on the $2 billion line of credit for the IESO can be done independently of these regs?

Thanks,
Gadi

On Jun 8, 2017, at 10:46 AM, Anna Strathy <Anna.Strathy@ofina.on.ca> wrote:

> Latest CBN for review and fact check. Dave is looking for our comments by 1:30pm. Ron is also reviewing.
>
> ---
>
> **From:** McLean, David (MOF) [mailto:David.McLean@ontario.ca]
> **Sent:** Thursday, June 08, 2017 10:38 AM
> **To:** Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
> **Cc:** Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
> **Subject:** CBN Fact Check
>
> Hi Anna and Gavin,
>
> Attached is the latest CBN for Energy's OESP reg. It is tracking to June 27th as part of the first of two bundles of regulations required for the implementation of the Ontario Fair Hydro Plan.
>
> CO has a hard deadline of 2:00 today, so I'm wondering if you guys can please have your teams review and provide comments (if any) to me by 1:30?
>
> Thanks,
> Dave
>
> <REG-11477_ID49242_LRC_CBN- DRAFT- OFHP regulations v5.docx>

<Regulations 6 June 2017.docx>

From: John Kim
To: James Strang (MOF)
Subject: Re: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date: Wednesday, May 03, 2017 10:04:56 PM

Ok thanks. I think we have the info we need for now. I will touch base if need anything further. Leave this with me. I think it was a case of OFA legal. But will see.

From: Strang, James (TBS) <James.Strang@ontario.ca>
Sent: May 3, 2017 9:53:10 PM
To: John Kim
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

John, keeping you in the loop. TBS legal to MOF legal, they're not aware as yet.

From: Kaufman, Paul (TBS)
Sent: May 3, 2017 4:59 PM
To: Strang, James (TBS)
Cc: Graham, Helen (TBS)
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

I heard back from MoF Legal on this – they aren't clear on what potential OIC the IESO is referring to either, and they haven't been engaged by anyone in connection with this. Sorry that's not helpful.

Paul Kaufman
Counsel
Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat
9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3
Phone: 416-327-7012 Fax: 416-325-9404

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From: Kaufman, Paul (TBS)
Sent: May-03-17 4:05 PM
To: Strang, James (TBS)
Cc: Graham, Helen (TBS)
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Thanks, James. I have a call into MoF Legal to see if they know what the OFA is referring to. I'll let you know if I hear anything back, but for my part I'm not entirely clear on why the OFA thinks they might need an OIC approval. I agree with what you say below re: the OFA needing to engage MOF legal on this to get their input.

Paul Kaufman
Counsel
Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat
9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3
Phone: 416-327-7012 Fax: 416-325-9404

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error, please notify the sender immediately by return email and permanently delete the copy you received. Thank you.

From: Strang, James (TBS)
Sent: May-03-17 4:00 PM
To: Kaufman, Paul (TBS)
Cc: Graham, Helen (TBS)
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Paul, below OFA indicates potentially needing an OIC.

I also indicated the ask needs to come through the TB submission with a requested minute…versus added the minute further down into the TB note directly.

James

From: Strang, James (TBS)
Sent: May 3, 2017 12:26 PM
To: Kim, John (OFA)
Cc: Bruno Amara; Fung, Felix (TBS); Salman Qadir
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

I would suggest engaging Legal. I know for the OIC's I've dealt with involve getting a recommendation from TB/MBC before LGIC approves. Not sure what applies for finance related OICs.

James

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 3, 2017 11:58 AM
To: Strang, James (TBS)
Cc: Bruno Amara; Fung, Felix (TBS); Salman Qadir
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

So along this line, we were doing more digging and we will try to arrive at what approvals are needed….

If an OIC is required, what would be the process? For one of the current facilities, it is put in place under the authority of an OIC as we currently understand it. Just looking for your guidance on the OIC process.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Wednesday, May 03, 2017 11:50 AM
To: John Kim <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca<mailto:Bruno.Amara@ofina.on.ca>>; Felix Fung (MOF) <Felix.Fung@ontario.ca<mailto:Felix.Fung@ontario.ca>>
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

This should be included in Energy's TB/MBC submission with a requested minute. The submission should speak to size of the credit facility and fiscal plan implications.

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 2, 2017 2:38 PM
To: Strang, James (TBS)
Cc: Bruno Amara
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

While I don't see why we wouldn't facilitate the request, we would require Minister's authorization of some sort and staff level, we view that TB/MBC should be made aware of the request/requirement.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Tuesday, May 02, 2017 2:34 PM
To: John Kim <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

CO has a question below. Is this an OFA decision, or is a TB/MBC decision needed?

From: Hindmarch-Watson, Tim (CAB)
Sent: May 2, 2017 1:58 PM
To: Strang, James (TBS)
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Thanks James.

At a few points in the OFA comments they say “The IESO has requested a backstop credit facility from the OFA.” Do you know if the plan is to grant this request?

Thanks!

Tim Hindmarch-Watson
416-325-4618

From: Strang, James (TBS)
Sent: May-02-17 12:43 PM
To: Hindmarch-Watson, Tim (CAB)
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Tim, just got some feedback from Ontario Financing Authority.

James

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 2, 2017 12:39 PM
To: Strang, James (TBS)
Cc: Bruno Amara
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Hi James,

I sense we missed the boat and there’s new information but see attached comments/edits.

John

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Monday, May 01, 2017 8:51 AM
To: Didem Proulx (MTCU) <Didem.Proulx@ontario.ca<mailto:Didem.Proulx@ontario.ca>>; Helen Graham (MOF) <Helen.Graham@ontario.ca<mailto:Helen.Graham@ontario.ca>>; Paul Kaufman (MOHLTC) <Paul.Kaufman@ontario.ca<mailto:Paul.Kaufman@ontario.ca>>; Nick Smook (MOF) <Nick.Smook@ontario.ca<mailto:Nick.Smook@ontario.ca>>; John Kim <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
Cc: Felix Fung (MOF) <Felix.Fung@ontario.ca<mailto:Felix.Fung@ontario.ca>>; Chris Skubel (MGS) <Chris.Skubel@ontario.ca<mailto:Chris.Skubel@ontario.ca>>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca<mailto:Nina.Arbabzadeh@ontario.ca>>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca<mailto:Patrick.Laughton@ontario.ca>>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca<mailto:Sarah.Hosick@ontario.ca>>; Sandy Luk (MOHLTC) <Sandy.Luk@ontario.ca<mailto:Sandy.Luk@ontario.ca>>

Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

Draft note from Cabinet Office. They're looking for feedback by EOD today (May 1).

I'm happy to coordinate any responses.

James

From: Hindmarch-Watson, Tim (CAB)
Sent: April 28, 2017 3:46 PM
To: Fung, Felix (TBS); Skubel, Chris (TBS)
Cc: Strang, James (TBS); Moore, Karen (CAB)
Subject: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Importance: High

Hi Felix and Chris:

As mentioned earlier in the week, please find attached the draft CBN re the rate mitigation legislation for the TBS' review (password same as previous materials). This has been prepared with no materials and should be reviewed closely. I have left comments in the margin where I am looking for specific review or confirmation of particular details. I am interested in ensuring alignment in how we are characterizing the proposal and its risks.

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Please try to have any comments to me by EOD on Monday so I can get it to my DM and the Secretary on Tuesday.

Have a great weekend,

Tim Hindmarch-Watson
Policy Advisor
Justice, Resource and Environmental Policy
Policy and Delivery Division
Cabinet Office
416-325-4618

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From: Ronald Kwan
To: John Kim
Subject: Re: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date: Tuesday, May 02, 2017 3:08:22 PM

Hi John,

I think it might be nice to have in the Minute something like "Note that the IESO has requested a credit facility from the OFA to manage liquidity issues between the time IESO requires financing for monthly settlements to meet the requirements of the FHP, and the time when OPG's SPV purchases the IESO regulatory asset, or as a backstop in the case of the regulatory asset not being purchased for a period of time. Note that the Minister of Finance will provide a directive to the OFA to provide a new or expanded credit facility for this purpose."

Very open to better wording, or jargon tied to the draft legislation terminology.

Ron

From: John Kim
Sent: May 2, 2017 2:46:54 PM
To: Ronald Kwan
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Yes, we did.

We don't have a revised version yet but James shared the same FPC deck we have checking in.

Pls. see attached.

John

From: Ronald Kwan
Sent: Tuesday, May 02, 2017 2:43 PM
To: John Kim <John.Kim@ofina.on.ca>
Subject: Re: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Hi John,

Do you have the final markup version we sent on the CBN? And a revised version?

Also, did we get it through TBS?

I'd like to keep the DMO in the loop on this.

Thanks,

Ron

From: John Kim
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To: Ronald Kwan
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Fyi, pls. note the CO inquiry.

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Sent: Tuesday, May 02, 2017 2:38 PM
To: James Strang (MOF) <James.Strang@ontario.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

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Sent: May 2, 2017 1:58 PM
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Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

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Tim Hindmarch-Watson
416-325-4618

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Sent: May-02-17 12:43 PM
To: Hindmarch-Watson, Tim (CAB)
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

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Cc: Felix Fung (MOF) <Felix.Fung@ontario.ca>; Chris Skubel (MGS) <Chris.Skubel@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sandy Luk (MOHLTC) <Sandy.Luk@ontario.ca>
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
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I'm happy to coordinate any responses.

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To: John Kim
Subject: Re: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
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Tim Hindmarch-Watson
416-325-4618

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Cc: Felix Fung (MOF) <Felix.Fung@ontario.ca>; Chris Skubel (MGS) <Chris.Skubel@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sandy Luk (MOHLTC) <Sandy.Luk@ontario.ca>
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Justice, Resource and Environmental Policy
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From: Salman Qadir
To: John Kim
Cc: Bruno Amara
Subject: Re: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
Date: Thursday, May 04, 2017 7:48:01 AM

I will go and speak with Sarah Harris.

This would have nothing to do with IESO, so not sure why Paul before is speaking of them. This is really about OFA needing to lend to IESO and the OIC is needed to ensure the OFA can.

Will reconfirm with both Sarah's today.

Sent from my iPhone

On May 4, 2017, at 7:41 AM, John Kim <John.Kim@ofina.on.ca> wrote:

> Hi Salman,
>
> I'm a bit stretched until today.....could you run with this subject matter? I should be able to look at it more closely starting end of day today.
>
> I didn't necessarily want James to have their legal contact MOF Legal until we were more certain.
>
> John
>
> ---
>
> **From:** John Kim
> **Sent:** Wednesday, May 03, 2017 10:05 PM
> **To:** James Strang (MOF) <James.Strang@ontario.ca>
> **Subject:** Re: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
>
> Ok thanks. I think we have the info we need for now. I will touch base if need anything further. Leave this with me. I think it was a case of OFA legal. But will see.
>
> ---
>
> **From:** Strang, James (TBS) <James.Strang@ontario.ca>
> **Sent:** May 3, 2017 9:53:10 PM
> **To:** John Kim
> **Subject:** FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st
>
> John, keeping you in the loop. TBS legal to MOF legal, they're not aware as yet.
>
> ---
> From: Kaufman, Paul (TBS)
> Sent: May 3, 2017 4:59 PM
> To: Strang, James (TBS)
> Cc: Graham, Helen (TBS)

Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

I heard back from MoF Legal on this – they aren't clear on what potential OIC the IESO is referring to either, and they haven't been engaged by anyone in connection with this. Sorry that's not helpful.

Paul Kaufman
Counsel
Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat
9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3
Phone: 416-327-7012 Fax: 416-325-9404

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From: Kaufman, Paul (TBS)
Sent: May-03-17 4:05 PM
To: Strang, James (TBS)
Cc: Graham, Helen (TBS)
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Thanks, James. I have a call into MoF Legal to see if they know what the OFA is referring to. I'll let you know if I hear anything back, but for my part I'm not entirely clear on why the OFA thinks they might need an OIC approval. I agree with what you say below re: the OFA needing to engage MOF legal on this to get their input.

Paul Kaufman
Counsel
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From: Strang, James (TBS)
Sent: May-03-17 4:00 PM
To: Kaufman, Paul (TBS)
Cc: Graham, Helen (TBS)
Subject: FW: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

Paul, below OFA indicates potentially needing an OIC.

I also indicated the ask needs to come through the TB submission with a requested minute…versus added the minute further down into the TB note directly.

James

From: Strang, James (TBS)
Sent: May 3, 2017 12:26 PM
To: Kim, John (OFA)
Cc: Bruno Amara; Fung, Felix (TBS); Salman Qadir

Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

I would suggest engaging Legal. I know for the OIC's I've dealt with involve getting a recommendation from TB/MBC before LGIC approves. Not sure what applies for finance related OICs.

James

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 3, 2017 11:58 AM
To: Strang, James (TBS)
Cc: Bruno Amara; Fung, Felix (TBS); Salman Qadir
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

So along this line, we were doing more digging and we will try to arrive at what approvals are needed….

If an OIC is required, what would be the process? For one of the current facilities, it is put in place under the authority of an OIC as we currently understand it. Just looking for your guidance on the OIC process.

From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
Sent: Wednesday, May 03, 2017 11:50 AM
To: John Kim <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca<mailto:Bruno.Amara@ofina.on.ca>>; Felix Fung (MOF) <Felix.Fung@ontario.ca<mailto:Felix.Fung@ontario.ca>>
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

This should be included in Energy's TB/MBC submission with a requested minute. The submission should speak to size of the credit facility and fiscal plan implications.

From: John Kim [mailto:John.Kim@ofina.on.ca]
Sent: May 2, 2017 2:38 PM
To: Strang, James (TBS)
Cc: Bruno Amara
Subject: RE: DRAFT CBN For Review- Rate Mitigation- Due EOD May 1st

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Cc: Felix Fung (MOF) <Felix.Fung@ontario.ca<mailto:Felix.Fung@ontario.ca>>; Chris Skubel (MGS) <Chris.Skubel@ontario.ca<mailto:Chris.Skubel@ontario.ca>>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca<mailto:Nina.Arbabzadeh@ontario.ca>>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca<mailto:Patrick.Laughton@ontario.ca>>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca<mailto:Sarah.Hosick@ontario.ca>>; Sandy Luk (MOHLTC) <Sandy.Luk@ontario.ca<mailto:Sandy.Luk@ontario.ca>>
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From: Mike Manning
To: John Kim
Cc: Carlos Yep; Bruno Amara; Ken Kandeepan
Subject: Re: Draft GA Sub debt term sheet - Performance Fee Recommendations
Date: Friday, June 02, 2017 5:06:13 PM

Hi John:
We didn't get a chance to meet today, but would be happy to meet to discuss Monday or Tuesday. We are having a meeting on Monday from 11:00 to 12:30 at OPG to discuss some of these issues and would be happy to have you & any colleagues you see fit attending. I think in the hurry to set up a meeting you were accidentally not invited. Anyway, let's talk on Monday morning.
Regards, Mike

Sent from my iPad

On Jun 2, 2017, at 2:27 PM, John Kim <John.Kim@ofina.on.ca> wrote:

> Hi Carlos, Mike,
>
> I would appreciate a bit of a debrief on the meeting and may organize a short meeting Tuesday or so next week for a small group to that end.
>
> I don't have an interest in terms of the benchmark, etc. per se but do have an interest looking it from the electricity sector perspective.
>
> John
>
> ---
>
> **From:** Ken Kandeepan
> **Sent:** Friday, June 02, 2017 1:29 PM
> **To:** Carlos Yep <Carlos.Yep@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>
> **Cc:** Graham Monroe <Graham.Monroe@ofina.on.ca>; Connie Chen <Connie.Chen@ofina.on.ca>; Opal Kandelas <Opal.Kandelas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; 'Montgomery, Kaitlin (MOF)' <Kaitlin.Montgomery@ontario.ca>
> **Subject:** RE: Draft GA Sub debt term sheet - Performance Fee Recommendations
>
> Carlos, Mike and Jim
>
> Since I will not be available for the meeting this afternoon here is my single comment.
>
> I have concerns with the weighted average calculation of both the benchmark and actual issuance including the debt issued to the Trust by OPG funded by the 44% equity injection given that there are no market forces in play with regard both issuance and

funding of this tranche, at least from an OPG perspective.

The only way in which this tranche is acceptable for performance inclusion is by OPG linking the yield on this debt to what was issued to the markets by the Trust. For example the debt from the equity injection is X bps above or below what was issued in the markets for equal tenors. Even so a linked component in the benchmark, in my opinion, adds limited value.

Thanks

Ken k

From: Carlos Yep
Sent: Wednesday, May 31, 2017 9:06 AM
To: Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>; Opal Kandelas <Opal.Kandelas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>; 'Montgomery, Kaitlin (MOF)' <Kaitlin.Montgomery@ontario.ca>
Subject: FW: Draft GA Sub debt term sheet - Performance Fee Recommendations

fyi

From: LIU Sheen -TREASURY [mailto:sheen.liu@opg.com]
Sent: Wednesday, May 31, 2017 9:03 AM
To: Carlos Yep <Carlos.Yep@ofina.on.ca>
Cc: LEE John -TREASURY <john.s.lee@opg.com>; RYFA Ken -TREASURY <ken.ryfa@opg.com>; PRESTON Stuart -TREASURY <stuart.preston@opg.com>; HAHN PARKER Janet -TREASURY <j.hahnparker@opg.com>
Subject: RE: Draft GA Sub debt term sheet

Carlos,

Attached for your review please also find the recommended structure of variable performance fee and benchmark relating to GA financing. We can discuss it at our meeting with OFA as well.

Sheen

From: LIU Sheen -TREASURY
Sent: Tuesday, May 30, 2017 4:26 PM
To: 'Carlos Yep'
Cc: LEE John -TREASURY; RYFA Ken -TREASURY; PRESTON Stuart -TREASURY; HAHN

PARKER Janet -TREASURY
Subject: Draft GA Sub debt term sheet

Carlos,

Further to our discussions re establishing GA financing benchmark. Attached please find the draft term sheet of the subordinated debt (from Province equity injection). Could you please review and circulate it to the appropriate contacts/group on your side. We'd also like to set up a meeting with OFA, at your earliest convenience, to go over the document and get your feedback. Please let us know your availability.

Thanks

Sheen

<< File: Draft Subordianted Debt Term Sheet.doc >>

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From: John Kim
To: Bruno Amara
Subject: Re: EXTERNAL - Benchmarking and Performance for the Trust manager - Accounting example Gain/Loss
Date: Monday, May 15, 2017 8:16:34 AM

This reminded me.....has the transition steps been taken for Adam with disabling of network, etc?

> On May 15, 2017, at 8:11 AM, Carlos Yep <Carlos.Yep@ofina.on.ca> wrote:
>
> FYI
>
> -----Original Message-----
> From: LIU Sheen -TREASURY [mailto:sheen.liu@opg.com]
> Sent: Friday, May 12, 2017 4:16 PM
> To: Carlos Yep <Carlos.Yep@ofina.on.ca>
> Subject: RE: EXTERNAL - Benchmarking and Performance for the Trust manager
>
> Carlos,
>
> As requested, attached please find the examples. Please review and let me know if you have any question.
>
> Sheen
>
>
>
>
>
> -----Original Message-----
> From: Carlos Yep [mailto:Carlos.Yep@ofina.on.ca]
> Sent: Friday, May 12, 2017 3:01 PM
> To: LIU Sheen -TREASURY
> Subject: RE: EXTERNAL - Benchmarking and Performance for the Trust manager
>
> Sheen
> When you get a chance can you give some examples - assuming 2 scenarios with immediate rate shocks (1)rates +50bps and (2) rates -50bps
>
> -how the benchmark would be applied
> -how are any gains or losses calculated for OPG, trust and the rate payer levels -how performance would be calculated
>
> thanks
> Carlos
>
>
> -----Original Message-----
> From: LIU Sheen -TREASURY [mailto:sheen.liu@opg.com]
> Sent: Thursday, May 04, 2017 4:45 PM
> To: Carlos Yep <Carlos.Yep@ofina.on.ca>
> Subject: FW: EXTERNAL - Benchmarking and Performance for the Trust manager
> Importance: High
>
> Hi Carlos,
>
> John Lee wants to discuss the benchmark concept with our CFO late today. Can you please confirm that Mike is

ok with the higher level concept, i.e. the section before your comments in yellow?
>
> Thanks
>
> Sheen
>
> -----Original Message-----
> From: Carlos Yep [mailto:Carlos.Yep@ofina.on.ca]
> Sent: Monday, April 24, 2017 1:49 PM
> To: LIU Sheen -TREASURY
> Subject: EXTERNAL - Benchmarking and Performance for the Trust manager
>
> *** Exercise caution. This is an EXTERNAL email. DO NOT open attachments or click links from unknown senders or unexpected email. ***
>
> Sheen
> I have attached some of my comments on your initial variable return benchmark note.
> Regards
> Carlos
>
> _____
>
> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
>
>
> ----------
>
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>
>
> ----------
>
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> <Example to OFA.xls>

From:	Ronald Kwan
To:	Ann Langleben (MOF)
Cc:	Michael Waterston (MOF); Robin Lewis (MOF); Daniela Klassen (MOF); John Kim
Subject:	Re: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
Date:	Monday, June 12, 2017 3:12:38 PM

Hi Ann,

I'm in a meeting right now. Not sure about a comfort letter's impact. I'd need to consult. And the view and experience of our IR folks may not reflect the particularities of this planned financing entity.

Ron

On Jun 12, 2017, at 2:55 PM, Langleben, Ann (MOF) <Ann.Langleben@ontario.ca> wrote:

> Hi Michael, not sure if this has been forwarded to you or someone in your Branch. I just wanted you to be aware.
>
> CCTB involvement in this issue relates to a potential exemption for the entity. We are hindered in our ability to create one, since the structure has not been finalized and the options are still quite broad.
>
> Ron, we met with Sriram and he has asked me to contact you about whether a "comfort letter" regarding the tax issue would be sufficient for the credit rating agencies. If you have a minute later today, perhaps we can connect by phone (unless there is a straightforward answer).
>
> ---
>
> **From:** RYFA Ken -TREASURY [mailto:ken.ryfa@opg.com]
> **Sent:** June-12-17 12:22 PM
> **To:** Nelms, Scott (MOF); LEE John -TREASURY; WONG Leslie -LAWDIV; SHAH Ameet -FIN & C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA); MAUTI John -FIN & C CTRL; JORDA Jenny -FIN & C CTRL
> **Subject:** RE: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
>
> During today's call there was a general reference to potential credit rating agency concerns. That concern may not have come across clearly enough and here is some perspective on the specific concern. Given that this structure is very unique in the Canadian environment the credit rating agency will likely request a legal opinion – tax neutrality or run flat for tax – establishing that any activity of the financing entity will not result in a tax liability that would rank ahead of security holders.
>
> -----Original Appointment-----
> **From:** Nelms, Scott (MOF) [mailto:Scott.Nelms@ontario.ca]
> **Sent:** Wednesday, June 07, 2017 3:09 PM
> **To:** Nelms, Scott (MOF); LEE John -TREASURY; RYFA Ken -TREASURY; WONG Leslie -LAWDIV; SHAH Ameet -FIN & C CTRL; Wortsman, Jerald; Watson, Gwen; Hill, Krista; Kwan, Ronald (OFA); Lewis, Robin (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF);

Patel, Lesley (MOF); Subrahmanyan, Sriram (MOF); Montgomery, Kaitlin (MOF); Waddell, Colleen (MOF); He, Gavin (OFA)
Subject: EXTERNAL - Conference Call MOF, OPG and Torys | Fair Hydro Plan
When: Monday, June 12, 2017 11:00 AM-12:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: 416-212-8013 Passcode 4075747# (SN MC 6665#)

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-PILs Exemptions

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From:	Ronald Kwan
To:	John Kim; Bruno Amara
Cc:	Deena Padamadan; Salman Qadir; Gavin He
Subject:	Re: GA - IESO Role and Financing v4 - extract v6.pptx
Date:	Tuesday, May 02, 2017 12:10:32 PM
Attachments:	GA - IESO Role and Financing v4 - extract v11.pptx

Hi,

I beefed up the fiscal risk bullet.

Ron

From: Ronald Kwan
Sent: May 1, 2017 6:45 PM
To: Bruno Amara
Cc: Deena Padamadan; Salman Qadir; Gavin He; John Kim
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Thanks Bruno. I saved a clean copy.

Ron

From: Bruno Amara
Sent: May-01-17 18:40
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>
Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx

Ron

Looked good to me. I had a couple of minor wording suggestions slide 1 and 2.

Bruno

From: Ronald Kwan
Sent: Monday, May 01, 2017 6:21 PM
To: John Kim <John.Kim@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi John,

How about this?

Ron

From: John Kim
Sent: May-01-17 17:42
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Bruno Amara <Bruno.Amara@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron,

Some edits. As discussed, I am not sure if we can say definitively what OPG Trust is expected to do.

John

From: Ronald Kwan
Sent: Friday, April 28, 2017 3:18 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Thanks Bruno.

I changed it to Energy's PW.

Ron

From: Bruno Amara
Sent: April-28-17 15:14
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron

We're fine with additional edits. See attached.

Thanks
Bruno

From: Ronald Kwan
Sent: Friday, April 28, 2017 2:53 PM
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi,

I made a few more edits.

Ron

From: Ronald Kwan
Sent: April-28-17 14:11
To: Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Bruno,

I had been thinking, to make it easier for Energy, to simply work with their version of the flow chart from the March CabSub.

That said, their version may have been updated since then anyways, but they could take out suggestions in.

I also added reworked some parts of the text slide, and dropped some detail, as it was rather dense – may still be!

Thanks,
Ron

From: Bruno Amara
Sent: April-28-17 11:28
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: John Kim <John.Kim@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>
Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron

Attached are the updated slides per you request.

Thanks
Bruno

DRAFT

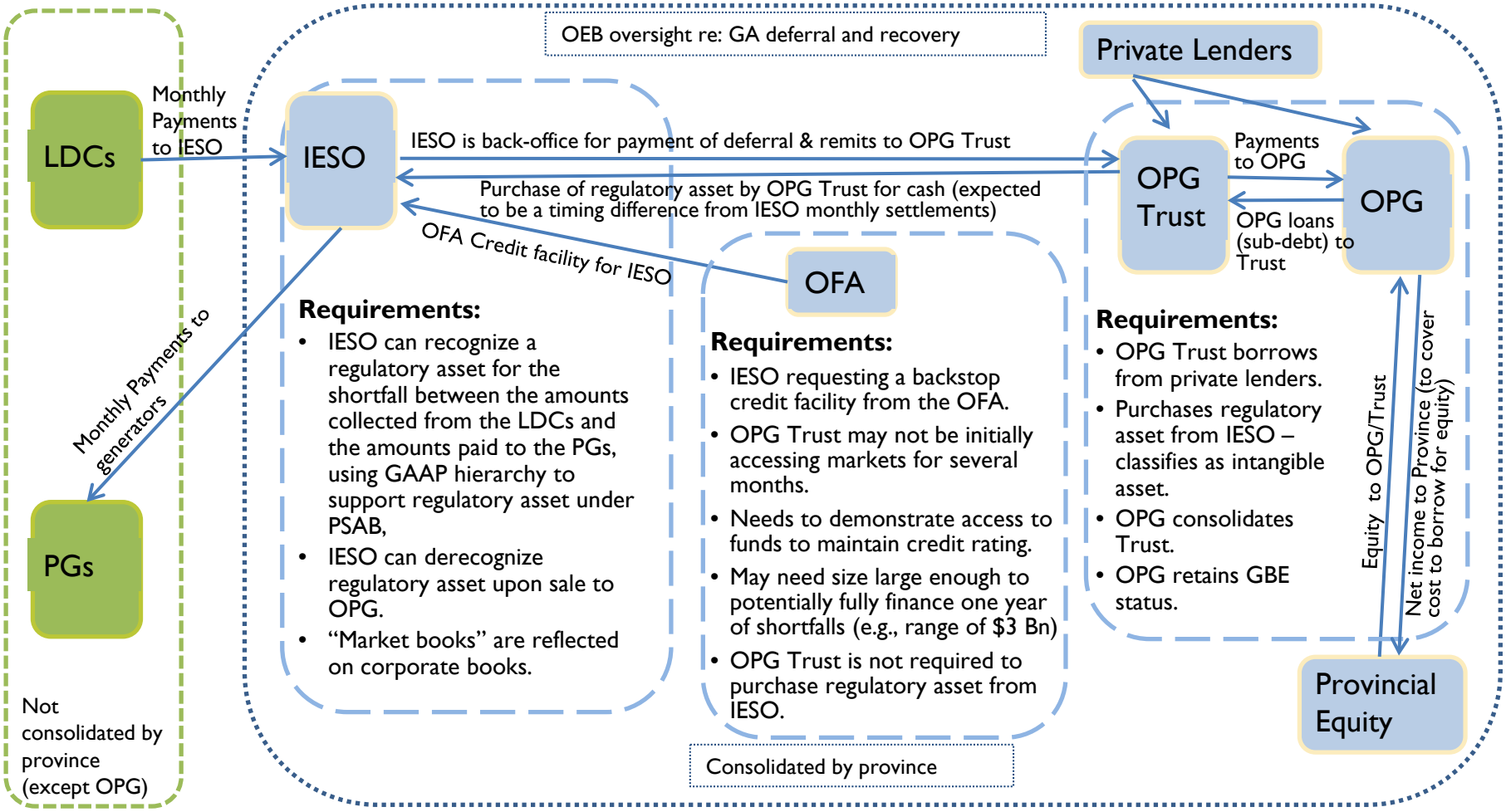
GA Financing Plan: Role of IESO

Corporate and Electricity Finance Division
May 1, 2017

DRAFT

GA Smoothing – Proposed Structure

- The following diagram provides an overview of the proposed GA smoothing structure, as well as interactions between sector entities and elements required to meet accounting objectives.



Note: Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

IESO Financing Requirements

- IESO will need to ensure that it continues to have the funds available to provide payments to generators on a monthly basis as part of the IESO settlements process, while recoveries from LDCs for Regulated Price Plan (RPP) / Fair Hydro Plan eligible customers will be lower.
- IESO has an existing credit facility from the OFA; however, a new or expanded facility is being requested.
- IESO would require financing to compensate generators should it be required to hold any portion of the unpurchased Regulatory Asset beyond each monthly settlement period.
  - OPG Trust is not expected to access public capital markets for several months after the start of the FHP, and may be purchasing the asset with a lag vs monthly settlements. Also, OPG Trust is not required to purchase the regulatory asset.
  - IESO will need a credit facility for interim financing.
  - IESO may require longer-term financing to maintain the deferral financing plan, should the OPG Trust not be able to access debt markets on a timely basis for purchase of some or all of the regulatory asset.
- Based on Ministry of Energy's GA deferral plan, it is estimated that approximately $2.5-3.0 billion need to be deferred per year for over first 10 years, equal to approximately $200-250 million per month, on average.[1]
  - The size of the credit facility required to backstop IESO could be $2.5 to $3.0 billion. [TBC]
- There is a fiscal impact and accounting risk on OFA financing of the IESO requirements if it were to be more than temporary borrowing to cover timing differences on when the OPG SPV buys the regulatory asset vs the timing of IESO monthly settlements.
  - Even if IESO is allowed to recognized the Regulatory Asset, on consolidation into Public Accounts, the regulatory asset would not be expected to be recognised, so that the deferral amount and associated financing costs would be expected to have a fiscal impact..
- The monthly and annual amount being deferred and the resulting monthly amounts can be substantially different than forecast based on various factors, such as seasonality or electricity usage, as well as potential changes to electricity costs from OEB rate decisions, with IESO estimating deferral amounts as high as $400 million per month.
- Other factors that may increase IESO's financing requirements:
  - IESO will also incur financing charges that will need to be refinanced.
  - The financing and administration costs that OPG Trust incurs will need to be paid.

[1] Based on Ministry of Energy's annual GA deferral amounts, assuming the monthly deferral is equally-weighted.

From:	Ronald Kwan
To:	John Kim
Cc:	Deena Padamadan; Salman Qadir; Gavin He; Bruno Amara
Subject:	Re: GA - IESO Role and Financing v4 - extract v6.pptx
Date:	Tuesday, May 02, 2017 1:59:37 PM

Thanks John. Gadi wanted to be more direct -- though "risk" is still in the sentence. Energy may want to tweak too.

Ron

From: John Kim
Sent: May 2, 2017 12:34:09 PM
To: Ronald Kwan
Cc: Deena Padamadan; Salman Qadir; Gavin He; Bruno Amara
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Minor edits. Looks good.

John

From: Ronald Kwan
Sent: Tuesday, May 02, 2017 12:11 PM
To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Salman Qadir <Salman.Qadir@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: Re: GA - IESO Role and Financing v4 - extract v6.pptx

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From: Ronald Kwan
Sent: May 1, 2017 6:45 PM
To: Bruno Amara
Cc: Deena Padamadan; Salman Qadir; Gavin He; John Kim
Subject: RE: GA - IESO Role and Financing v4 - extract v6.pptx

Thanks Bruno. I saved a clean copy.

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Sent: May-01-17 18:40
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I changed it to Energy's PW.

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Subject: FW: GA - IESO Role and Financing v4 - extract v6.pptx

Hi Ron

Attached are the updated slides per you request.

Thanks
Bruno

From:	John Kim
To:	Ken Kandeepan
Cc:	Gavin He; Francisco Chinchon
Subject:	Re: Ken"s cellphone
Date:	Tuesday, May 23, 2017 9:41:02 PM

No worries.....we had a response with a caveat to check with you or Mike's group.

From: Ken Kandeepan
Sent: May 23, 2017 9:39:30 PM
To: John Kim
Cc: Gavin He; Francisco Chinchon
Subject: Re: Ken's cellphone

Thanks John, the issue is more capital markets and borrowing costs as opposed to the electricity program so the response should come from either Mike or me.

Ken k

On May 23, 2017, at 6:37 PM, John Kim <John.Kim@ofina.on.ca> wrote:

> Hi Ken,
>
> I understand you're preparing edits to this bullet. We can provide suggested edits if you'd like.
>
> Thanks,
>
> John
>
> **From:** Gavin He
> **Sent:** Tuesday, May 23, 2017 5:39 PM
> **To:** John Kim <John.Kim@ofina.on.ca>
> **Subject:** FW: Ken's cellphone
>
> **From:** Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
> **Sent:** Tuesday, May 23, 2017 5:38 PM
> **To:** Gavin He <Gavin.He@ofina.on.ca>
> **Subject:** RE: Ken's cellphone
>
> Hi Gavin,
>
> That would be appreciated. I'm including the relevant section below.

Thanks,
Ryan

From: Esmail, Selena (MOF)
Sent: May-23-17 4:54 PM
To: Kandeepan, Ken (OFA)
Cc: Strathy, Anna (OFA); John Psinas
Subject: RE: BN - FAO Fair Hydro Plan Report_Summary - v9.docx

Ken – thanks for this. Re the bullet below - I noticed that you didn't make any edits to the borrowing costs of 6.2% for the OPG but the report has a borrowing cost of 5.4% for the OPG which is a 90bps spread. Think we need to reflect? and would the unrealistically high wording still hold true? Sorry for just catching this. Thanks.

<!--[if !supportLists]-->o <!--[endif]-->**Financing Costs and Interest Rate Spread Assumptions** – the FAO's estimates are based on an illustrative assumed 3 to 5 per cent interest rate, while actual financing costs may differ. The high end of this range of 5 per cent, is assumed by the FAO report to be a weighted average of Provincial (at 3.5 %) and OPG Trust borrowing costs (at 6.2%). The differential of assumed 270 basis points interest rate spread between the two borrowing rates, used to calculate the FAO's borrowing cost estimates is unrealistically high, overstating the high end of the range provided as the total cost of borrowing through the OPG Trust.

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: May-23-17 3:33 PM
To: Esmail, Selena (MOF)
Cc: Strathy, Anna (OFA); John Psinas
Subject: BN - FAO Fair Hydro Plan Report_Summary - v9.docx

Hi Selana

Pls see suggested edits in the second bullet of the flagged section.

Thanks

Ken k

From: Gavin He [mailto:Gavin.He@ofina.on.ca]
Sent: May-23-17 5:36 PM
To: Birks, Ryan (MOF)
Subject: RE: Ken's cellphone

Hi Ryan,

Could you send me an excert of the changes? CEFD can take a look and see if that's something we can comment on.

Regards,
Gavin He

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Tuesday, May 23, 2017 5:33 PM
To: Gavin He <Gavin.He@ofina.on.ca>
Subject: RE: Ken's cellphone

Thanks very much, Gavin!

From: Gavin He [mailto:Gavin.He@ofina.on.ca]
Sent: May-23-17 5:32 PM
To: Birks, Ryan (MOF)
Subject: Ken's cellphone

Hi Ryan,

Here's Ken's work cellphone: (647) 202-4373.

Regards,
Gavin He

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From: Ronald Kwan
To: James Strang (MOF)
Cc: John Kim
Subject: Re: Latest version of the ENE - OFHP note
Date: Tuesday, May 09, 2017 11:09:27 AM

> Hi Janes,

> Subsection (iii) of the proposed minute notes that the IESO is seeking a new credit facility, but it doesn't mention that it will be from us. Should the OFA be added in to the minute to make that clear?
>
>> Ron
>>
>> From: "Strang, James (TBS)" <James.Strang@ontario.ca<mailto:James.Strang@ontario.ca>>
>> To: "John Kim" <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
>> Cc: "Ronald Kwan" <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
>> Subject: FW: Latest version of the ENE - OFHP note
>>
>> Latest version..
>>
>> From: Fung, Felix (TBS)
>> Sent: May 8, 2017 6:41 PM
>> To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
>> Cc: Strang, James (TBS); Dutton, Andrea (TBS); George-Harris, Judy (TBS)
>> Subject: RE: Latest version of the ENE - OFHP note
>>
>> Sorry! The file didn't work in my previous email. Please find attached the note again.
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>> From: Fung, Felix (TBS)
>> Sent: May-08-17 6:34 PM
>> To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Graham, Helen (TBS); Petsche, Nadine (TBS); Proulx, Didem (TBS); Wuschnakowski, Gary (TBS); Marcos, Helder (TBS)
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>> And many thanks to OCPD and COE for all your help and support on this.
>>
>> Felix
>>
>> <3 RAN Ontario Fair Hydro Plan Proposed Leg v5.doc>

From: John Kim
To: James Strang (MOF)
Cc: Ronald Kwan; Bruno Amara
Subject: Re: Latest version of the ENE - OFHP note
Date: Monday, May 08, 2017 10:00:28 PM

I am off tomorrow but can ask my capital markets colleagues Wednesday.

From: John Kim
Sent: May 8, 2017 9:58:09 PM
To: James Strang (MOF)
Cc: Ronald Kwan; Bruno Amara
Subject: Re: Latest version of the ENE - OFHP note

Hi James,

I cannot say I know what Karen was referring to unfortunately.

John

From: Strang, James (TBS) <James.Strang@ontario.ca>
Sent: May 8, 2017 6:50 PM
To: John Kim
Cc: Ronald Kwan
Subject: RE: Latest version of the ENE - OFHP note

Karen mentioning Gadi providing financing assessment? I think in the new format, easier for OFA Staff Comments to appear alongside TBS Staff Comments.

From: Strang, James (TBS)
Sent: May 8, 2017 6:49 PM
To: Kim, John (OFA)
Cc: Kwan, Ronald (OFA) (Ronald.Kwan@ofina.on.ca)
Subject: FW: Latest version of the ENE - OFHP note

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Felix

From: Bruno Amara
To: John Kim
Subject: Re: Latest version of the ENE - OFHP note
Date: Monday, May 08, 2017 8:57:15 PM

Ok thx

Sent from my iPhone

On May 8, 2017, at 8:55 PM, John Kim <John.Kim@ofina.on.ca> wrote:

> No, I don't think so. So not an actionable item, as far as I can see.
>
> ---
>
> **From:** Bruno Amara
> **Sent:** May-08-17 8:39 PM
> **To:** John Kim <John.Kim@ofina.on.ca>
> **Subject:** Re: Latest version of the ENE - OFHP note
>
> Been on the road. I'll take a look when I get home. Do we need to do anything with this version?
>
> Sent from my iPhone
>
> On May 8, 2017, at 8:34 PM, John Kim <John.Kim@ofina.on.ca> wrote:
>
> > Fyi.
> >
> > ---
> >
> > **From:** Strang, James (TBS) [mailto:James.Strang@ontario.ca]
> > **Sent:** May-08-17 6:51 PM
> > **To:** John Kim <John.Kim@ofina.on.ca>
> > **Cc:** Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> > **Subject:** RE: Latest version of the ENE - OFHP note
> >
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> >
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> > **Sent:** May 8, 2017 6:49 PM
> > **To:** Kim, John (OFA)
> > **Cc:** Kwan, Ronald (OFA) (Ronald.Kwan@ofina.on.ca)
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Thanks - let us know if there are any concerns. Patrick - we will wait for your ok before we share the note with Energy.

And many thanks to OCPD and COE for all your help and support on this.

Felix

From: Ronald Kwan
To: James Strang (MOF)
Cc: John Kim; Bruno Amara
Subject: Re: Latest version of the ENE - OFHP note
Date: Tuesday, May 09, 2017 11:57:01 AM

Hi James,

Would "finance" be more accurate than "cover" -- at least at this time as per the intent? Cover might suggest funding, vs financing.

Also, the OIC we think would go to LRC. And the authority would be under CIPA.

I'd need to check with staff, and your advice, if such an OIC would need to go to TB.

Ron

> On May 9, 2017, at 11:38 AM, Strang, James (TBS) <James.Strang@ontario.ca> wrote:
>
> Does this work...essentially the same.
>
> iii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.
>
> Does the OIC come to TB?
>
>
> -----Original Message-----
> From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
> Sent: May 9, 2017 11:35 AM
> To: Strang, James (TBS)
> Cc: Kim, John (OFA)
> Subject: RE: Latest version of the ENE - OFHP note
>
> Hi James,
>
> How about this?
>
> iii)Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time or for a period of time, does not purchase any portion of the deferred Global Adjustment amounts payments. Note that an OIC to allow the OFA to provide an expanded credit facility will be requested.
>
> Ron
>
> -----Original Message-----
> From: Strang, James (TBS) [mailto:James.Strang@ontario.ca]
> Sent: May-09-17 11:11 AM
> To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> Cc: John Kim <John.Kim@ofina.on.ca>
> Subject: RE: Latest version of the ENE - OFHP note
>
> Please, you tell me - what is the minute you want to see.

>
> -----Original Message-----
> From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
> Sent: May 9, 2017 11:09 AM
> To: Strang, James (TBS)
> Cc: Kim, John (OFA)
> Subject: Re: Latest version of the ENE - OFHP note
>
>> Hi Janes,
>
>> Subsection (iii) of the proposed minute notes that the IESO is seeking a new credit facility, but it doesn't mention that it will be from us. Should the OFA be added in to the minute to make that clear?
>>
>>> Ron
>>>
>>> From: "Strang, James (TBS)" <James.Strang@ontario.ca<mailto:James.Strang@ontario.ca>>
>>> To: "John Kim" <John.Kim@ofina.on.ca<mailto:John.Kim@ofina.on.ca>>
>>> Cc: "Ronald Kwan" <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
>>> Subject: FW: Latest version of the ENE - OFHP note
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>>> Felix
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>>> <3 RAN Ontario Fair Hydro Plan Proposed Leg v5.doc>
>
> _____
>
> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
>
>

From: Bruno Amara
To: John Kim
Subject: Re: OPG
Date: Monday, June 12, 2017 6:40:25 PM

Ok

Sent from my iPhone

On Jun 12, 2017, at 6:20 PM, John Kim <John.Kim@ofina.on.ca> wrote:

> Could we take a look tomorrow?
>
> Begin forwarded message:
>
> **From:** Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> **Date:** June 12, 2017 at 6:11:28 PM EDT
> **To:** John Kim <John.Kim@ofina.on.ca>
> **Subject: FW: OPG**
>
> Hi John,
>
> Do you think you could draft something high-level, consulting with CMD and Legal?
>
> Thanks,
> Ron
>
> -----Original Message-----
> From: Subrahmanyan, Sriram (MOF)
> [mailto:Sriram.Subrahmanyan@ontario.ca]
> Sent: June-12-17 18:10
> To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Daniela Klassen (MOF) <Daniela.Klassen@ontario.ca>
> Subject: RE: OPG
>
> Thanks. Can you provide some language on this to Rob and Daniela? We're writing a summary of our position for the MO in case OPG approaches them.
>
> From: Ronald Kwan

<Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
Date: Monday, Jun 12, 2017, 5:25 PM
To: Subrahmanyan, Sriram (MOF)
<Sriram.Subrahmanyan@ontario.ca<mailto:Sriram.Subrahmanyan@ontario.ca>>

Cc: Lewis, Robin (MOF)
<Robin.Lewis@ontario.ca<mailto:Robin.Lewis@ontario.ca>>
Subject: RE: OPG

Hi Sriram,

A Provincial support agreement (or agreements) is being worked on, and there are services or performance guarantee portions discussed but a tax or PILs component does not sound familiar to me. I'll enquire.

It's more about a Provincial payment guarantee to bondholders of the financing entity under certain circumstances.

Ron

From: Subrahmanyan, Sriram (MOF)
[mailto:Sriram.Subrahmanyan@ontario.ca]
Sent: June-12-17 12:58
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Robin Lewis (MOF) <Robin.Lewis@ontario.ca>
Subject: OPG

Ron, no sure if you were on the call this morning. OPG mentioned a provincial guarantee to negate tax or (I think) other liabilities, and that they're working on the wording. Do you have a copy of this, or any detail?

thanks

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From: John Kim
To: Ronald Kwan
Cc: Bruno Amara
Subject: Re: Rate Mitigation Implementation Meeting - June 8, 2017
Date: Thursday, June 08, 2017 7:58:44 AM

Hi Ron,

We have inquired to TBS and they don't have any materials.....we are on them to follow up. In terms of the envelope, it is unquantifiable so we have inquired on that as well. Unfortunately, the key staff there are either not there or left.

John

> On Jun 8, 2017, at 7:56 AM, Ronald Kwan <Ronald.Kwan@ofina.on.ca> wrote:
>
> Hi,
>
> And is there a TB report back that approves the appropriation for the indemnities? Is the statement by Energy that they can cover it in the existing Energy envelope okay, so that no new line is needed or supplementary estimates? But does the potential expenditure still need to be approved by TB, or just the s28 by MoF?
>
> Ron
>
>> On Jun 8, 2017, at 7:43 AM, John Kim <John.Kim@ofina.on.ca> wrote:
>>
>> Hi Ron,
>>
>> I'm okay with the outstanding issues piece. If you're attending this morning, it would be helpful to gauge the level of support and the timing of the requested indemnities.
>>
>> Likely, we will received merged set of questions and comments from MOF Legal and be in a position to send over to Energy policy shops (EIGS included?), Energy Legal, etc. We will run it by you beforehand.
>>
>> Thanks,
>>
>> John
>>
>> -----Original Message-----
>> From: Ronald Kwan
>> Sent: Wednesday, June 07, 2017 9:43 PM
>> To: John Kim <John.Kim@ofina.on.ca>; Bruno Amara <Bruno.Amara@ofina.on.ca>
>> Subject: FW: Rate Mitigation Implementation Meeting - June 8, 2017
>>
>> Hi,
>>
>> Any comments, before the meeting, such as on the revised version of the outstanding business issues?
>>
>> Ron
>>
>> -----Original Message-----
>> From: Gadi Mayman
>> Sent: June-07-17 9:30 PM
>> To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
>> Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>

>> Subject: Fw: Rate Mitigation Implementation Meeting - June 8, 2017
>>
>> Here's the material for your meeting tomorrow.
>>
>> Gadi
>>
>> Original Message
>> From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
>> Sent: Wednesday, June 7, 2017 8:02 PM
>> To: Steen Hume (CAB); Kaili Sermat-Harding (ENERGY); Michael Reid (ENERGY); Carolyn Calwell (MCSS); Scott Nelms (ENERGY); "jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken - FINANCE (ken.hartwick@opg.com)'; 'Rosemaire Leclair'; 'Mary Anne Aldred (maryanne.aldred@ontarioenergyboard.ca)'; 'Kim Marshall (Kim.Marshall@ieso.ca)'; Scott Thompson (CAB); Helen Angus (MOHLTC); Steven Davidson (MTCS); 'Martine Band'; 'CROZZOLI Carlo -CBUSDEV&STRT'; Gadi Mayman; 'LEE John -TREASURY'; Karen Hughes (MGS); Veinot, Cindy (TBS)
>> Cc: Serge Imbrogno (ENERGY); Andrew Teliszewsky (ENERGY); Matt Whittington (ENERGY); Baker, Carys (ENERGY); Kyle MacIntyre (MOF); David McLean (MOF); Robert Foster (MOF); 'jordan.penic@ieso.ca'; 'sarah.branco@ontarioenergyboard.ca'; 'Turnevicius, Lorraine'; 'catriona.king@opg.com'; Francesca Bungaro-Yemec (ENERGY); Feather, Adam (ENERGY); Hilary Cox (ENE); Matthew Kitchen (ENERGY); Patrick Laughton (MOF); David Barrett
>> Subject: RE: Rate Mitigation Implementation Meeting - June 8, 2017
>>
>>
>> Good evening,
>>
>> Please find attached the material for discussion tomorrow morning.
>>
>> Thanks,
>> Martin
>>
>>
>>
>>
>>

From: John Kim
To: Salman Qadir
Subject: Record 3- FA1710-01 Fair Hydro Plan - Request 2.xlsx
Date: Tuesday, May 16, 2017 3:36:47 PM
Attachments: Record 3- FA1710-01 Fair Hydro Plan - Request 2.xlsx

---

What Bruno created…

Projected Annual Global Adjustment (GA) Deferral and Repayment Amount Cash Flows

	$ million	**2017**	**2018**	**2019**
A	IESO forecast GA cost*	12095	11835	11552
	GA payment from ratepayer**	9595	9327	9051
	Amount borrowed/paid-back in given year**	-2501	-2508	-2501
	Interest on accumulated debt from previous year**		-128	-263
	Accumulated Debt**	2501	5136	7900

B	8% Rebate (from FAO report)	1000	900	900
C	Program funding (from FAO report)	500	800	800
D	svgs from record 3	2501	2508	2501
	Savings Costs (B+C+D)	4001	4208	4201

	2017-2027	**2028-2047**
Savings Costs (B+C+D)	**34,696**	**(12,331)**

B	8% Rebate (from FAO report)	1000	900	900
C	Program funding (from FAO report)	500	800	800
D	svgs from record 16	1250	2508	2501
	Savings Costs (B+C+D)	2750	4208	4201

	2017-2027	**2028-2045**
Savings Costs (B+C+D)	**33,447**	**(10,131)**

2020	2021	2022	2023	2024	2025	2026	2027	2028
12168	10844	10634	10243	11128	10527	10033	11043	10819
9094	8184	8180	8206	9743	9316	10236	11476	13061
-3075	-2660	-2454	-2038	-1386	-1211	203	433	2242
-404	-582	-748	-912	-1063	-1188	-1311	-1367	-1415
11379	14621	17823	20773	23221	25620	26727	27662	26836

900	1000	1000	1100	1200	1300	1300	1400	1600
900								
3075	2660	2454	2038	1386	1211	-203	-433	-2242
4875	3660	3454	3138	2586	2511	1097	967	-642

900	1000	1000	1100	1200	1300	1300	1400	1600
900								
3075	2660	2454	2038	1386	1211	-203	-433	-2242
4875	3660	3454	3138	2586	2511	1097	967	-642

2029	2030	2031	2032	2033	2034	2035	2036	2037
10009	9721	8654	8820	8238	7756	5662	5389	5129
12250	11963	10896	11061	10480	9998	7904	7630	7370
2242	2242	2242	2242	2242	2242	2242	2242	2242
-1373	-1328	-1282	-1233	-1181	-1127	-1070	-1010	-947
25967	25054	24094	23085	22025	20910	19738	18506	17212

1600	1600	1600	1600	1600	1600	1600	1600	1600
-2242	-2242	-2242	-2242	-2242	-2242	-2242	-2242	-2242
-642	-642	-642	-642	-642	-642	-642	-642	-642

1600	1600	1600	1600	1600	1600	1600	1600	1600
-2242	-2242	-2242	-2242	-2242	-2242	-2242	-2242	-2242
-642	-642	-642	-642	-642	-642	-642	-642	-642

2038	2039	2040	2041	2042	2043	2044	2045	2046
4881	4645	4421	4207	4004	3811	3627	3451	3285
7122	6887	6662	6449	6246	6052	5868	5693	5526
2242	2242	2242	2242	2242	2242	2242	2242	2242
-881	-811	-738	-661	-580	-495	-406	-312	-213
15851	14420	12916	11335	9674	7927	6091	4161	2132

1600	1600	1700	1700	1700	1700	1700	1600	1600
-2242	-2242	-2242	-2242	-2242	-2242	-2242	-2242	-2242
-642	-642	-542	-542	-542	-542	-542	-642	-642

1600	1600	1700	1700	1700	1700	1700	1600	1600
-2242	-2242	-2242	-2242	-2242	-2242	-2242	-1317	
-642	-642	-542	-542	-542	-542	-542	283	

[redacted]

2047	2048
3126	2975
5368	2975
2242	0
-109	0
0	0

1600

-2242

-642

1600

0

From:	Gavin He
To:	John Kim; Bruno Amara; Emily Kerr; Karim Javeri
Cc:	Ronald Kwan
Subject:	URGENT: CBN Fact Check
Date:	Thursday, June 08, 2017 10:43:41 AM
Attachments:	REG-11477_ID49242_LRC_CBN- DRAFT- OFHP regulations v5.docx

Hi all,

Please find attached the CO note on the first part of the implementation of the Ontario Fair Hydro Plan. Could you please review ASAP and provide your edits to Ron by noon today?

Comments are due back to DMO by 1:30 p.m. today. Sorry for the short turnaround time.

Thanks,
Gavin He

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, June 08, 2017 10:38 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Cc: Jonathan Tekle (CAB) <Jonathan.Tekle@ontario.ca>
Subject: CBN Fact Check

Hi Anna and Gavin,

Attached is the latest CBN for Energy's OESP reg. It is tracking to June 27th as part of the first of two bundles of regulations required for the implementation of the Ontario Fair Hydro Plan.

CO has a hard deadline of 2:00 today, so I'm wondering if you guys can please have your teams review and provide comments (if any) to me by 1:30?

Thanks,
Dave

Ontario

CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy
Fair Hydro Plan Regulations

Cabinet (info) Feb 15, 2017	TB/MBC and Cabinet March 1, 2017	Announcement March 2, 2017	TB/MBC May 9, 2017	Cabinet May 10, 2017	Introduction May 11, 2017
Royal Assent June 1, 2017	TB/MBC June 13, 2017	Cabinet June 14, 2017	Program Effective Date July 1, 2017		

Summary of Proposal

The proposed regulations are consistent with Cabinet direction. [TBC]

Context for Decision:

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. OFHP includes some benefits for all consumer classes as well as targeted benefits to those identified as having the greatest need, and includes the following major components:

- Refinancing a portion of the Global Adjustment (GA);
- Helping vulnerable electricity consumers ("social programs");
- Expanding the Industrial Conservation Initiative (ICI);
- Improving sector efficiency; and
- Modernizing Ontario's electricity market.

The *Fair Hydro Act, 2017,* was introduced on May 11, 2017 and received Royal Assent June 1, 2017.

Proposal

This proposal is the next step in the implementation of the OFHP and would establish most of the necessary regulations under the *Ontario Energy Board Act, 1998* (OEBA), *Ontario Rebate for Electricity Consumers Act, 2016,* (ORECA) and the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) related to:

1. Partial Refinancing of the Global Adjustment (GA):

The ministry is proposing a new regulation under Part II of the OFHPA that would support the required calculations related to the refinancing of GA. More specifically, the proposed regulation would implement the reduction in rates for the typical residential consumer effective July 1, 2017.

2. Social Programs and Bill Presentment:

The ministry is proposing new regulations under the OFHPA and the OEBA and amendments to existing regulations under the OEBA and ORECA to support implementation and clarify program details of the social programs, as well as support transparency and communication of the changes made under the OFHP.

To fully implement the required regulations for the OFHP, the ministry will be seeking approvals of three additional regulations in late June 2017.

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. Since the OFH was announced there has been increased media attention and public pressure for the government to take the necessary steps to enact the commitments made in the plan. The *Fair Hydro Act, 2017,* identifies a July 1 implementation date for the various price mitigation initiatives contained within. Pending approval of the regulations, the OEB will recalculate rates to be implemented for July 1, 2017.

What is the expected cost to government?

The estimate for the combined impact of the social programs in this proposal is expected to be $359M in 2017-18, growing in 2018-19 once annualized. The ministry will return to TB/MBC with updated out-year figures following program implementation. This investment has been factored into the fiscal plan in the 2017 Ontario Budget. These estimates are based on variable inputs such as program uptake, future energy consumption of various consumer groups and future distribution rates, and are therefore subject to change.

TABLE 1: Fiscal Impact ($M) of Social Programs	2017-18 Budget
Rural or Remote Rate Protection / Distribution Rate Protection	344
On-Reserve First Nations Delivery Credit	15

Note: As approved in the TB/MBC submission of Mach 1, 2017, and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31, 2018.

What are the key steps to deliver this proposal?

- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, OFA and LDCs on the implementation of OFHP.
- July 1, 2017- the remaining reductions and initiatives associated with the OFHP would take effect. Programs that are not established on this day for technical

implementation issues will allow benefits to be retroactively applied to customers once programs are reflected in bills by individual LDCs.

How will the changes be communicated?

The proposed changes will be communicated via a news release or backgrounder in late June.

Cabinet Office Analysis

The proposed new regulations under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and the regulatory amendments under the *Ontario Energy Board Act, 1998* (OEBA) allow for the implementation of the key elements of Ontario's Fair Hydro Plan (OFHP) announced on March 2, 2017 and are consistent with Cabinet direction [TBC].

1. Partial Refinancing of the Global Adjustment:

The ministry is proposing a new regulation under Part II of the OFHPA that would support the implementation of the refinancing of GA, including:

- defining the typical consumer upon which the OFHPA calculations to achieve the 25% reduction will be based;
- the methodology required for OEB to apply rate reductions under the OFHPA for regulated rate consumers;
- the methodology required for OEB to determine adjustments to be made in respect of specified consumers as defined in the OFHPA who are not regulated rate consumers;
- the methodology for setting electricity rates and adjustments to GA costs for the year beginning April 30, 2018 to limit increases to inflation; and
- the flow-through of rates and adjustments in circumstances involving unit sub-metering.

The new regulation is required for the Ontario Energy Board (OEB) to recalculate electricity rates in advance of the July 1 implementation deadline outlined in the OFHPA. If approved, the OEB is targeting June 22 to announce changes to rates for the July 1 effective date.

Critics of the OFHP may see the implementation of this component of the plan as compromising the independence of the OEB. This is mitigated by the fact that the government has always, through legislation and regulation, established the parameters within which the OEB operates, and has no control over the day to day operations of the Board.

2. Social Programs

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

Rural or Remote Rate Protection (RRRP) helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province.

The Fair Hydro Act, 2017 amended the *Ontario Energy Board Act, 1998* to enable the funding of existing RRRP for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The proposed amendments to O. Reg. 442/01 moves a portion of RRRP costs used to support Hydro One R2 customers from electricity rates to be government funded. This is the majority of the cost associated with RRRP.

Currently, under O. Reg. 442/01, the amount of RRRP available to Hydro One's R2 customers is capped at a fixed annual amount of $241.6 million – which amounts to a monthly subsidy of $60.50 for R2 customers. Proposed amendments will replace the existing prescribed annual amount with a fixed monthly credit of $60.50, and will remove the escalating factor, as provisions under the new section 79.3 under the OEBA provides benefits beyond RRRP, making the escalating factor unnecessary.

The ministry is proposing a new regulation under the OEBA to create a government funded distribution rate protection (DRP) program. The regulation establishes a mechanism for the OEB to calculate a maximum monthly distribution charge for prescribed consumers by calculating the fully-fixed base distribution rates, using approved 2017 rates for the prescribed residential rate classes of a prescribed group of distributors, having regards to the costs of service for the LDCs.

The following LDCs and residential rate classes would be prescribed as eligible for DRP: Hydro One Networks Inc. (low and medium density classified customers), Algoma Power Inc. (R1, residential), Atikokan Hydro Inc., InnPower Corporation, Chapleau Public Utilities Corporation, Sioux Lookout, Lakeland Power Distribution Inc.-Parry Sound Rate Zone, Northern Ontario Wires Inc.

The OEB would continue its usual rate setting activities for prescribed LDCs, as authorized under the OEBA, and prescribed LDCs would continue to collect the revenue to which they are entitled. However, eligible customers (~800,000) of prescribed LDCs would pay no more than the maximum charge determined by the OEB. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up of provincial funds. The regulations would enable payment flows to prescribed LDCs to allow recovery from the province of DRP payments made to customers. Planned payment flows will follow the same reimbursement process under the ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements.

If the required regulations are approved, the program would be in effect July 1, 2017.

On-Reserve First Nations Delivery Credit (FNDC)

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances related to lands affected by energy infrastructure.

The OFHPA amended the *Ontario Energy Board Act, 1998* to enable the creation of a government funded delivery credit program for on-reserve customers. The proposed regulations provide the details of the program. The program will be available to on-reserve customers serviced by licensed distributors (LDCs: Algoma, Attawapiskat, Bluewater, Cat Lake, Cornwall, Fort Albany, Kashechewan, Hydro One, Hydro One Remote Communities, PUC (Sault Ste. Marie), Thunder Bay.), would eliminate the delivery charge for all on-reserve residential customers who are First Nation members, and eliminate the monthly service charge for customers that charge a bundled rate. The ministry has been working with the Chiefs of Ontario (COO) on the implementation details and are moving forward with consensus recommendations from the implementation working group.

Eligible recipients would be automatically enrolled in the program through existing LDC processes for recognizing First Nation consumers with tax exempt status. The OEB estimates that, on average, customers would receive a monthly benefit of $85. The program will cost approximately $15M annually and be implemented by the prescribed July 1, 2017 effective date. The program would not limit any eligibility for existing rate relief programs that mitigate total bill such as the Low Income Energy Program (LEAP) or OESP. There is a risk that some eligible recipients may not be currently registered with their LDCs as tax exempt, which would mean that they would not receive the benefits under the program they are entitled to. To mitigate this risk, Energy is working with COO and LDCs on a communications approach to make sure eligible customers self-identify for tax exempt status.

The regulations will also enable payment flows to prescribed LDCs to allow recovery from the province of FNDC payments made to customers. Planned payment flows will follow the same reimbursement process under ORECA, including requirements to provide information for reimbursement purposes, duty to provide information, records, and invoicing requirements. The following LDCs would be prescribed as responsible for delivering the program:

The proposed regulation relies upon definitions of key terms such as “member of a band” and “reserve” from the *Indian Act* (Canada). This approach is defensible and relatively straightforward, but may be criticised as not taking into account lands that are considered as roughly analogous to reserve land, but that do not meet the strict definitions of the *Indian Act.* For example, many communities have lands within the federal Additions to Reserve (ATR) process that would be excluded from this program until the lands are officially recognized as reserve. This risk is mitigated by the fact that many of these parcels of land will have few if any residences on them, so the impact is

expected to be minor. The legislation provides sufficient flexibility to expand application to these kinds of lands if appropriate in the future.

The ministry is also proposing amendments to O. Reg. 363/16 under the ORECA to provide clarity that FNDC should be included in the base amount used to calculate the 8% rebate. This is consistent with how other support programs have been treated for the purposes of applying the 8% rebate to customer's bills.

3. Bill Presentment

The ministry is proposing to create new regulations under the OFHPA that would:

- require electricity vendors and unit sub-meter providers (USMPs) to include messaging related to OFHP and the resultant bill impacts on invoices.
- require electricity vendors and USMPs to accompany paper invoices with a descriptive bill insert to be issued once every quarter within a specific 12-month period, beginning with the first invoice issued on or after July 1, 2017.
- require electricity vendors identified in regulation as servicing customers on-reserve to include a "First Nations Delivery Credit" as a visible line item on invoices and demonstrate the associated savings, as applicable.

The ministry is also proposing amendments to O. Reg. 275/04 that would remove invoicing requirements related to the Debt Retirement Charge (DRC) exemption message, per s. 8.2. LDCs would no longer have to include informational messaging about the DRC on or with invoices, but the requirement to include a DRC line item on electricity invoices would remain (even for charges of $00.00). The proposed amendments would also exempt Hydro One from the application of this regulation, allowing them to move forward with their planned bill redesign in Fall 2017.

In anticipation of these new OFHP invoicing requirements, the ministry has amended O. Reg. 364/16 (Minister's order) to revoke the "8% provincial rebate" messaging requirements from invoices and envelopes to free-up space on the bill and avoid confusion amongst consumers. However, the requirement to include an "8% Provincial Rebate" line item remains.

Risks

<u>Fiscal</u>

The social programs do not have a scheduled end date and represent an ongoing fiscal pressure, which will likely increase over time. These estimates are based on variable inputs such as program uptake, electricity market conditions, future energy consumption of various consumer groups and future distribution rates, and are therefore subject to change.

<u>Perception</u>

It is expected that there will be some criticism of the OFHP messaging and bill presentment changes as being political in nature and not strictly necessary for transparency or program implementation.

Legal

In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets present only a low risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the asset, but rather is doing so in order to lower the price in the short term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period.

Under the FNDC program “non-status” Indigenous communities without reserves (e.g. certain members of the Algonquins of Ontario (AOO), Mocreebec etc.) and Métis will not be eligible as they do hold reserve lands. There is a risk that these communities could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter (equality rights). This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change. This risk is mitigated by phase in implementation provisions in the enabling legislation that allows for LDCs to provide retroactive payments to July 1, 2017 if they are, for technical reasons, unable to have the required program changes implemented by this date.

Linkages

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer 2017. The LTEP identifies needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance

the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The *Ontario Rebate for Electricity for Electricity Consumers Act, 2016*, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) – Was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB program ended on December 31, 2015.

Debt Retirement Charge – On January 1, 2016, the government ended the electricity DRC on residential users earlier than planned. For all other consumers the DRC will be removed by April 2018.

Industrial Conservation Initiative (ICI) – Implemented in January 2011 to help large industrial consumers reduce electricity costs by reducing consumption in peak periods. As part of OFHP, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – Approved as part of OFHP, and under development, the Affordability Fund is intended to provide energy efficiency measures to Ontarians who are not eligible for low income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings. Funding electricity social programs through government funds rather than the rate base will also provide saving to all electricity consumers (i.e. Class A and B).

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON) - is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and,

- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed that the government consult on and develop options to mitigate the impact of carbon pricing and resulting increased utility costs on residential tenants. The mitigation is proposed because tenants do not usually have the opportunity to make changes to their building envelope (e.g. windows, insulation) or major appliances that would allow them to address utility costs themselves. On April 24, 2017, the government introduced the *Rental Fairness Act, 2017* which, if passed, would remove above-guideline rent increases for utilities, to protect tenants from carbon costs and encourage landlords to make their buildings more energy efficient.

Delivery

The proposed regulations are required under the major components of the *Fair Hydro Act, 2017* in order to fully implement the initiative and clarify program details.

1. Partial Refinancing of the Global Adjustment:

The ratepayer benefit of the OFHP will be in place as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the June 1, 2017 Royal Assent of the *Fair Hydro Act, 2017*.

The act includes transition provisions in circumstances where for technical or operational reasons invoices cannot be adapted in time for the issuance of the first invoices under the program. In these cases, adaptation of invoices must be implemented by August 1, 2017, followed by a subsequent lump sum credit to the consumer once the invoice is adapted.

Using the methodology outlined in the OFHPA and the Part II regulations, the OEB will calculate the electricity rates that consumers will pay as of July 1, 2017.

2. Social Programs:

<u>DRP and RRRP</u>

The programs will take advantage of existing LDC and IESO processes. The regulatory amendments also enable payment flows to prescribed LDC to allow recovery of RRRP and DRP payments made to customers.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the DRP in time for the prescribed effective date. In this case, the regulation dictates the eligibility of July 1st and gives until October 1, 2017 for LDCs to get their systems in place. The LDCs would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program.

<u>On-Reserve First Nations Delivery Credit (FNDC)</u>

The ministry is consulting with affected LDCs, the OEB, the IESO and Chiefs of Ontario (COO) on implementation. FNDC will take advantage of existing LDC, IESO, and community-LDC relationships to implement the program. The regulatory

amendments also enable payment flows to prescribed LDCs to allow recovery of FNDC payments made to customers.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the prescribed July 1, 2017 effective date. OFHPA includes transitional provisions that would ensure customers remain eligible for the delivery credit from the prescribed date. Once available, the rebate would appear on the eligible customer's electricity bills as a credit for their delivery line. FNDC line item, demonstrating the savings by eliminating the delivery line costs on the bill.

STAKEHOLDER AND PARTNER CONSIDERATIONS

General Public (including residential and small businesses) – Likely support a proposal that is projected to provide 25% in average rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but there has been public discussion of the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications. There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral on the rest of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to cap and trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. Funding electricity support programs through government funding rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being ineligible for the delivery charge relief.

NGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generators as part of the clean energy costs.

Solar PV sector – May react negatively to price relief as it can be seen to undercut the economics of net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

Terms you need to know

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price in order to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.) LDCs recover their costs through distribution rates. LDCs are licensed to serve a specific geographic area by the Ontario Energy Board (OEB). An LDC must receive Ontario Energy Board approval to charge a distribution rate.
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:
  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable per unit charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates for residential customers are moving to a fully-fixed charge by 2019 for most LDCs. Some LDCs, such as Hydro One and Algoma Power are transitioning over a longer period.
  - Line Loss: The costs to recover electricity that is lost when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One –** Customer service classes are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line.

Lower customer density increases the cost to serve. Residential class R1 customers are considered 'medium density' customers and residential class R2 are considered 'low density customers.' Hydro One also served urban residential customers, considered "high density" through its UR class. Hydro One also has urban and non-urban general service classes.

- **Ontario Power Generation (OPG) –** A business corporation owned by the Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to participate in quasi-judicial proceedings and formal stakeholder consultations.
- **Independent Electricity System Operator (IESO) –** An independent corporation established under the *Electricity Act, 1998* that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Affordable Housing- *Residential Tenancies Act, 2006* amendments –** To mitigate the costs of carbon pricing on tenants, who are not able to control major building features that impact energy use (like insulation and windows) or major appliances, the government has amended regulations under the Residential Tenancies Act, 2006 to remove the ability for landlords to increase rents above the guideline based on extraordinary increases in utility costs.

From: John Kim
To: John Kim
Subject: files
Date: Monday, June 05, 2017 10:19:46 AM
Attachments: Draft Subordianted Debt Term Sheet.doc
Financing Trust - Performance Fee Recommendation.doc
GA Flow Chart May 2.ppt
Term Sheet_Master Subscription_draftMay26.docx

Y. John Kim
Director, Electricity Finance Branch
Corporate & Electricity Finance Division
Ontario Financing Authority
Ph: 416-212-6996
Email: john.kim@ofina.on.ca

Fair Hydro Plan – Subordinated Debt Loan Arrangement
Term Sheet

- Parties: OPG, Fair Hydro Trust, OFA

- In accordance with the Master Subscription Agreement among OPG, OFA and Ministry of Energy, the Province agrees to inject 44% of total funding of GA asset by way of equity subscriptions in OPG, and OPG agrees to use the equity subscription amounts solely for funding the Fair Hydro Trust's subordinated debt (Equity Injection Plan) requirements as part of the Fair Hydro Plan

- OPG will lend the equity injection from the Province to Fair Hydro Trust by way of subordinated debt (one or more mezzanine level)

- Initial credit rating will be assigned to the subordinated debt of Fair Hydro Trust

- Based on monthly funding requirement of GA asset, the Trust will use short term financing, such as bank facilities, and take out bonds once accumulative short term funding reaches certain levels.

- The mechanism to implement Equity Injection Plan will be based on monthly equity injections reflecting funding requirements of GA asset

- Interest rates on the subordinated debt will be established as follows:

    - During the Trust short term financing period when bank facilities are used as funding vehicles, the interest rate on subordinated debt will be the sum of (1) funding rate on senior debt, and (2) additional spread margin of [xx], reflecting the credit rating difference between the senior and subordinated debt

    - At the time when senior bonds are being issued to take out (term out) the short term financing, OPG will seek indicative coupon rates on the subordinated debt from dealers, reflecting the sum of underlying Government of Government of Canada yield of equivalent term and the appropriate credit spread. The average indicative coupon rate from dealers will be calculated and set as the subordinated debt rate. The process will be similar to the one established for pricing of OPG debt drawn from OEFC facilities.

FINANCING TRUST – PERFORMANCE FEE TO OPG

BACKGROUND

Ontario Power Generation Inc. (OPG) has been appointed the Financial Services Manager under the Fair Hydro Plan Act, 2017 to, among other things evaluate whether funding obligations should be incurred by the Trust for the purpose of acquiring and financing an investment interest. A performance fee relating to the funding obligations will be meaningful and allow OPG to make decisions that will significantly impact its return. The Act as drafted enables OPG to achieve its accounting objective of consolidation of the Trust with OPG, and the ability to earn a return and take on risk, through its control of the Trust.. The objective therefore is to recommend a reasonable variable performance fee structure for OPG to earn a return from the Trust, and meet the accounting requirement.

ANALYSIS OF ACCOUNTING REQUIREMENT

To support the accounting consolidation, OPG's variable performance return will be accomplished through the followings:

a. The cash flow from the investment asset shall include interest determined based on a relevant benchmark that is appropriate relative to the investment asset, plus an appropriate margin consistent with the relevant market and other risks
b. OPG shall have the authority to determine the financing strategy, which will vary the financing costs with the objective of enabling the Trust to achieve a more favorable return compared to the benchmark for interest on the investment asset
c. The Trust shall establish different classes of debt (senior, subordinated and the most subordinated). The classes would allow the Trust to delineate financing of lower risk investment and investment that would bear higher residual risk. The delineation would limit OPG's self-funded investment to a reasonable level in order to allow OPG to remain a self-sustaining entity.
d. OPG shall, through its ownership of the most subordinated liability, be able to capture and retain the pricing difference between cost of financing and benchmark for interest on the investment asset, or any residual risk of investment asset. The targeted return of the subordinated debt should be reflective of the underlying risks and compensate holders for active management that would be required.

PERFORMANCE FEE ANALYSIS

Based on the accounting requirements, the recommendation is for OPG to establish a variable performance fee structure as follows:

As the Trust may issue both long term bonds and medium term notes, benchmarks based on various terms, will be established on an annual basis, subject to the following methodology:

- Benchmarks will be established as the sum of (1) reference rate, and (2) spread
    - Both reference rate and spread will be term dependant

- For bond/note issuance, reference rate will be GOC rate of equivalent term
- Reference rate will be based on consensus forecast provided by various financial institutions

- Benchmarks will be established based on the weighted average rate of incremental debt issuance at the Trust level
- If the actual weighted average rate is lower than the corresponding benchmark, OPG will realize a gain, otherwise a loss
- Variable performance fee, i.e. gain/loss, is applicable only to OPG's investment in the Trust (5% of the funding requirement), and is capped at benchmark weighted average rate +/-1%

An example illustrating this structure is detailed in Appendix 1

APPENDIX 1

The illustration is based on the expected Trust debt structure as follows:

	Risk Profile	Source	% of Total Funding Requirement
Tranche A Senior Debt	the least risky	Capital Markets	51%
Tranche B Sub Debt	In between A&C	OPG via OEFC	39%
Tranche C Sub Debt	the most risky	OPG via OEFC	5%
		OPG via Capital Markets	5%

1. Benchmark is to be established at each year end for Trust issuance next year. In this example, assuming the following benchmark is established as of end of Yr 1

		Benchmark
Tranche A	51%	4.25%
Tranche B Sub Debt	39%	5.50%
Tranche C Sub Debt	10%	6.50%
Weighted Average Rate		**5.0%**

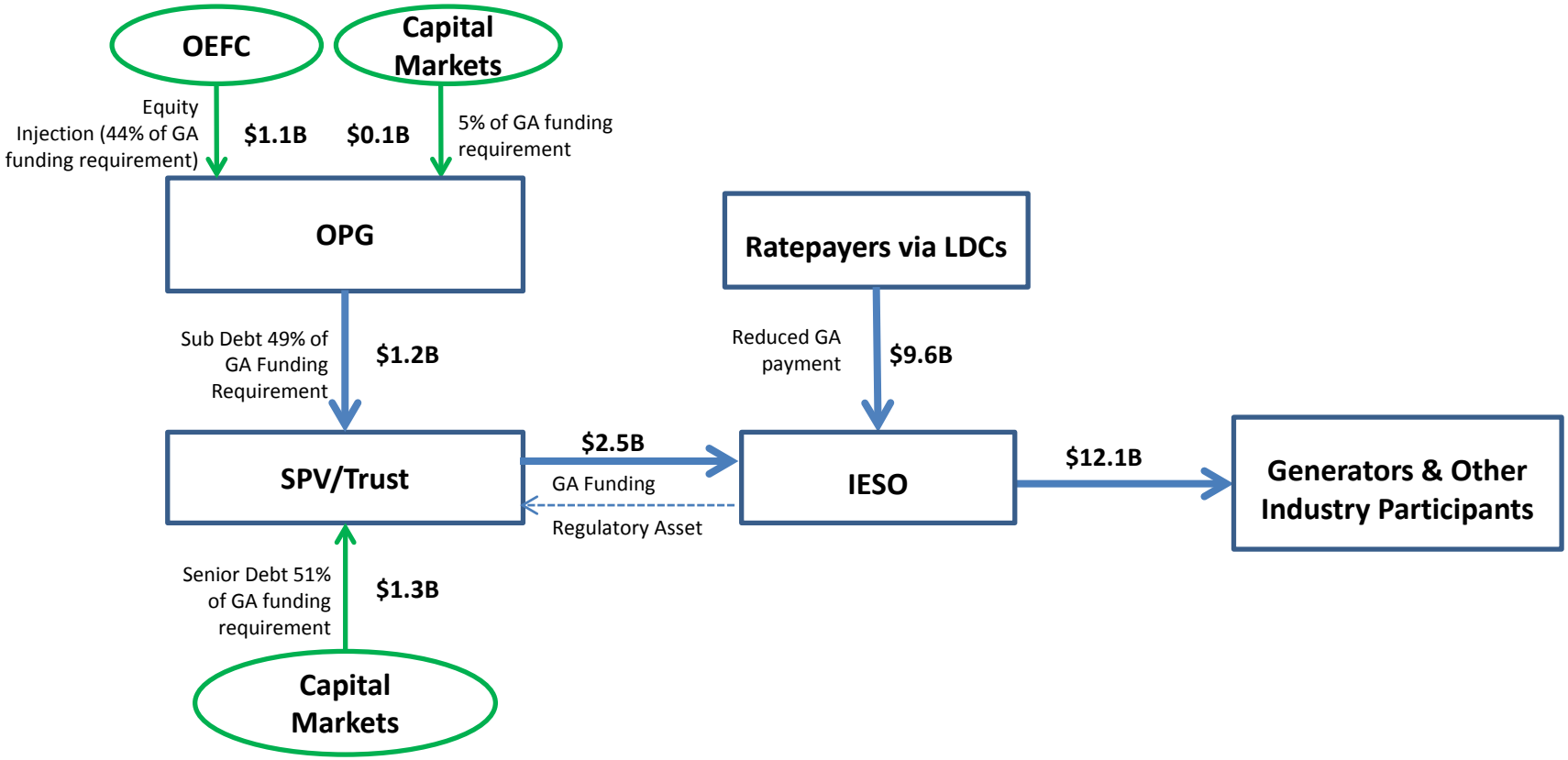
2. By the end of Yr 2, OPG will calculate the actual weighted average rate for all incremental issuance for the year. If the actual weighted average rate is lower than the corresponding benchmark, OPG will realize a gain, otherwise a loss.

	Allocation	Benchmark	Actual
Tranche A	51%	4.25%	5.0%
Tranche B Sub Debt	39%	5.50%	5.60%
Tranche C Sub Debt	10%	6.50%	6.60%
Weighted Average Rate		**5.0%**	5.4%
		Loss	0.4%

3. Variable management fee, i.e. gain/loss, is applicable only to OPG's investment (5% of the Trust funding requirement), and is capped at benchmark weighted average rate +/-1%.

   Based on the example above and assume incremental Trust issuance is $2B, OPG will realize loss of variable performance fee of 0.4M ($2B*5%*0.4%)

Illustration based on $2.5B GA Funding



Fair Hydro Plan –Master Subscription Agreement
Term Sheet

- Parties: OPG, OFA, Ministry of Energy

- The Province agrees to inject 44% of total funding of GA asset by way of equity subscription in OPG, which amount OPG in turn will invest in the Fair Hydro Trust as subordinated debt (**Equity Injection Plan**)

- Minister of Energy/Province approves Equity Injection Plan, and initial equity injection amount for 2017/18 fiscal year, and delegates to appropriate ministry staff authority to implement Equity Injection Plan (**Delegated Authority**)

- Long term, OPG equity requirements will form part of the business planning process in place between OPG and Ministry of Energy, ie, annually OPG to include forecasts of its equity requirements for the upcoming 3 years in its business plan submission -- NOTE: this portion of the business plan is not subject to concurrence by the shareholder

- Ministry of Energy will seek appropriation on an annual basis through PRRT for the amounts requested by OPG for its equity requirements-- NOTE: amount of annual appropriation to cover OPG multi year forecasts

- OPG agrees use the equity subscription amounts solely for funding the Fair Hydro Trust's subordinated debt requirements as part of the Fair Hydro Plan

- OPG will amend its Articles to create an additional class of shares – Class A Shares – which will be non-voting and redeemable at OPG's option

- OPG will issue Class A Shares to the Province monthly at a value per share equal to book value, as determined from OPG's last approved quarterly financial statements -- Value of first Class A shares issued to Province will be based on book value of OPG common shares – ie, existing shareholder's equity

- OPG will have the right to repay equity to the Province, through exercise of its right to redeem the Class A Shares, as principal repayment of the subordinated debt is made commencing in 2027

- Redemption value of the Class A Shares to be based on book value on the redemption date, ie, the equity value per Class A share at the end of the prior financial quarter as set out in OPG's approved financial statements

Monthly Process/Mechanics of Share Subscriptions:

a) OPG notifies OFA and Ministry of Energy of required equity injection and number of shares

   Timing: [same day as notice from Fair Hydro Trust]

   Documents/steps:

   (i) share subscription form,
   (ii) supporting documentation/invoice from Fair Hydro Trust, confirming amount of GA asset purchase for the month

b) OFA and OPG settle equity injection amounts

Timing: [five] business days from notice to OFA to payment/settlement with OPG [NOTE: timing to be confirmed based on IESO/Trust process requirements]

Documents/steps:
(i) completed/signed share subscription form from OFA/Province to OPG
(ii) funds transfer from OFA to OPG account)
(iii) OPG receipt, together with secretary's certificate confirming issue of shares/update of share register

Longer term Process/Approvals:

1. Equity Requirements Estimates:
    a. Business Plan Submissions
    b. OPG Board Approvals
        - [Bi-annual] Board of Directors' resolutions authorizing equity requirement for period
        - [Bi-annual Shareholder's resolutions authorizing equity requirement for period][NOTE: TBD if needed]

    c. Ministry of Energy appropriations
    [describe annual process]

Share Redemption Process

- TBD -- process to be determined at a later date and appended as Appendix to Master Subscription Agreement

From: Bruno Amara
To: John Kim
Subject: re: higher cost
Date: Tuesday, May 16, 2017 3:20:41 PM

The higher costs was under assumption that "Province funds the cost of the FHP (i.e. the HST Rebate and the electricity relief programs) through debt. For example, if the Province funds the HST rebate and electricity relief programs by borrowing over the 29-year period, it could increase costs by $24 to $48 billion, assuming an effective cost of borrowing between 3.0% and 5.0%.

So they are essentially speculating on higher interest costs if 8% rebate and transfer to tax base is , above the balanced budget plan. Not the other case iof financing structure failing the sniff test and costs being on Province's books.

I'll see if I can verify the interest costs they assume

Bruno Amara
Sr. Manager, Financial and Regulatory Analysis
Electricity Finance Branch
Corporate and Electricity Finance Division
Ontario Financing Authority

Tel: 416-325-1489
Email: bruno.amara@ofina.on.ca