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Analysis – Ministry of Energy GA Smoothing Proposal

February 28, 2017
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February 27 Ministry Proposal

- On February 27th, the Ministry of Energy proposed a new scenario for reducing electricity bills.
  - Under the proposal, the initial 25% bill reduction will be maintained, with increases limited to 2% above inflation for the next 4 years.
  - In order to limit the recovery charge to 10% of bills, bills are allowed to increase more quickly relative to the previous proposal causing bill reductions to end in 2025 rather than 2029. This decreases borrowing and creates a longer amortization period.

- Key figures and interest rates for the Ministry's two proposals are displayed in the table below. Interest payments outweigh the total ratepayer savings (borrowing for rate reductions) at both 5% and 7% interest.

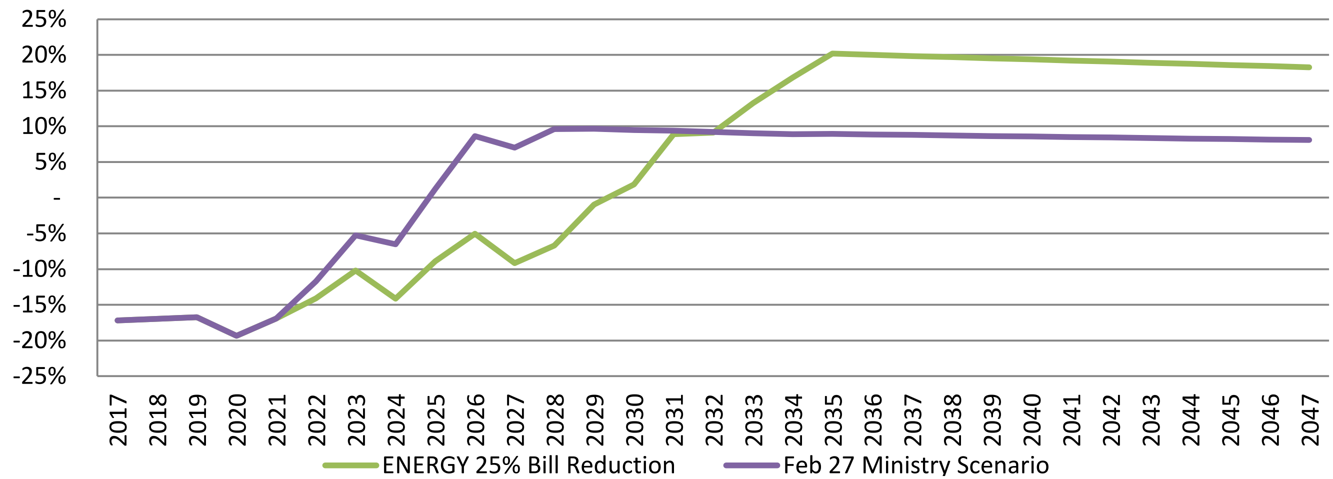
$ billions	ENERGY 25% Bill Reduction			Feb 27 Ministry Scenario		
Interest Rate	4%	5%	7%	4%	5%	7%
Total Borrowing for Rate Reductions	25.0	25.0	25.0	17.1	17.1	17.1
Total Borrowing to Fund Interest	10.1	13.5	20.8	3.9	4.8	7.5
Total Debt	35.1	38.5	45.8	21.0	21.9	24.6
Total Interest Paid (Cost for Deferral Program)	23.2	35.7	51.2	14.1	20.7	28.7

Ministry Feb 27 Proposal

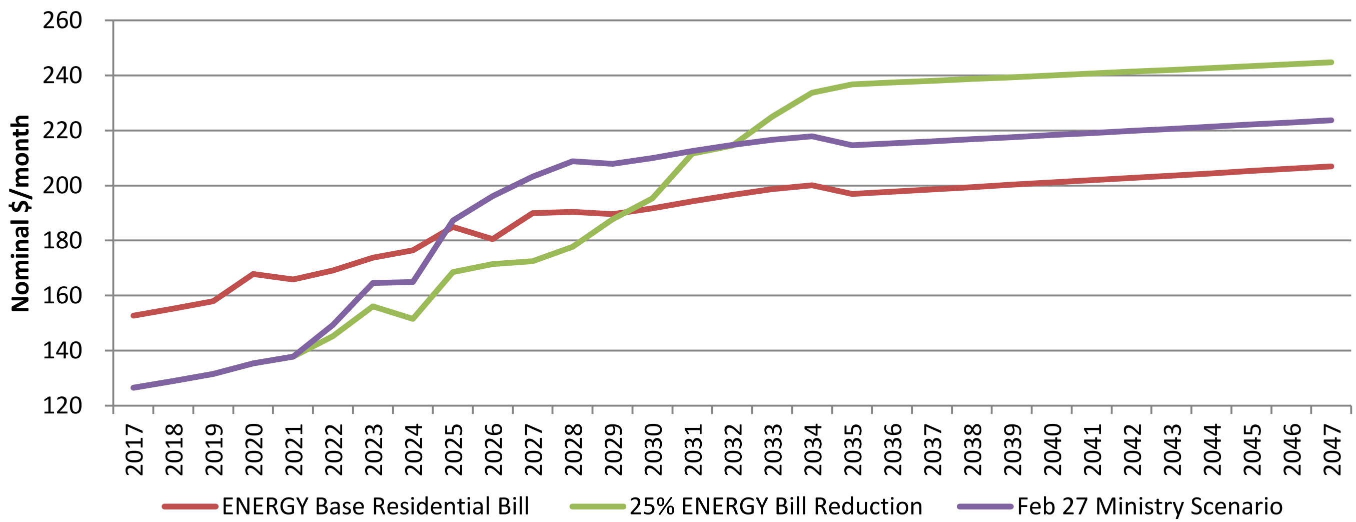
- The Ministry's updated proposal is similar to OPG's previous sensitivity which capped ratepayer savings at 6 years.

- Limiting borrowing and repaying debt over a longer period limit the regulatory recovery charge to 10% of bills in the future.

Regulatory Charge as % of Bill



RPP Bill Forecast



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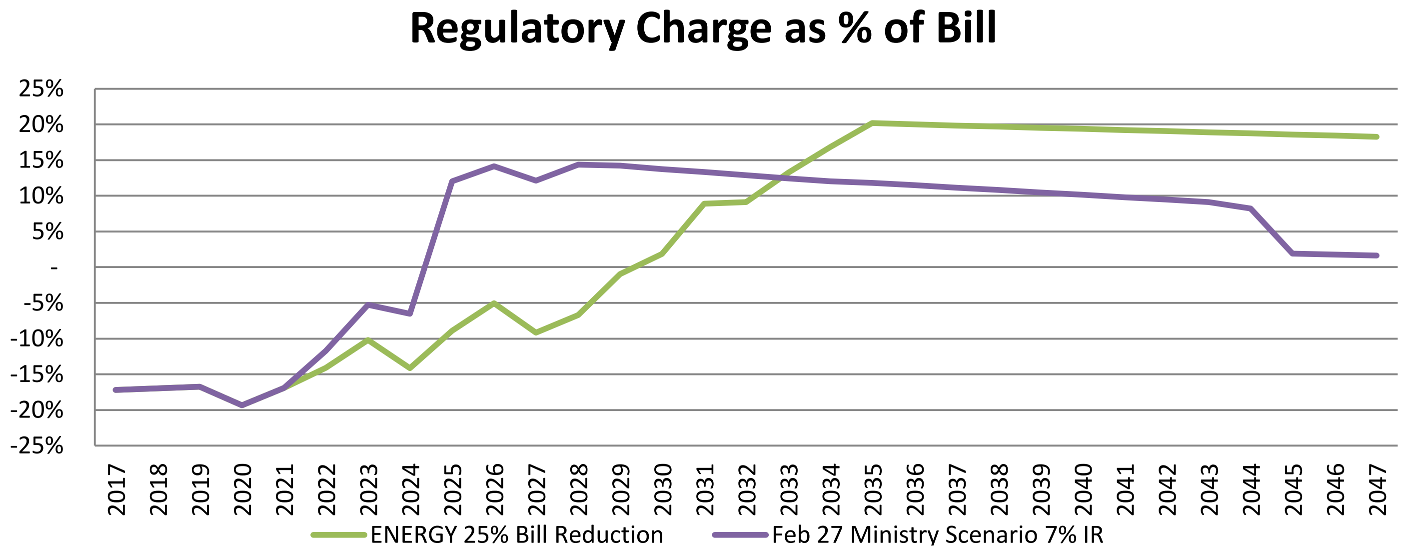
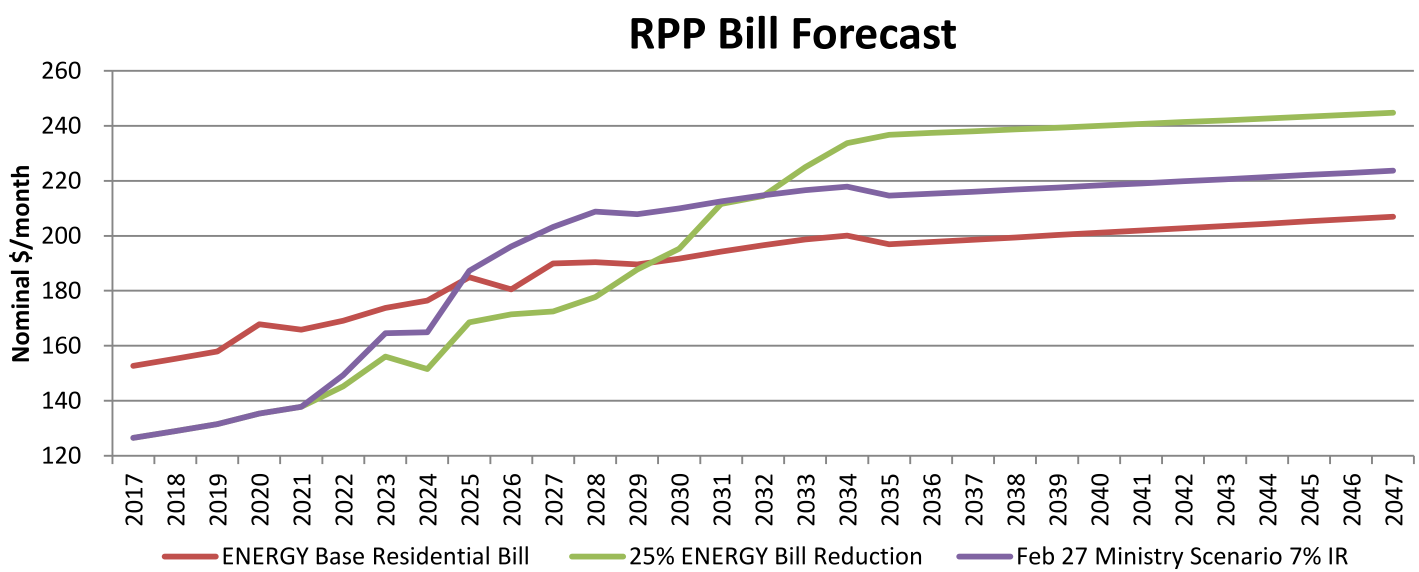
7% Interest Rate Sensitivity

- However, an increase in interest rates would have a negative impact on the February 27 proposal.
- At 7% interest, the recovery charge would make up about 15% of bills at its peak.
- Lenders may require a limited provincial guarantee related to legislative change to help mitigate risk.





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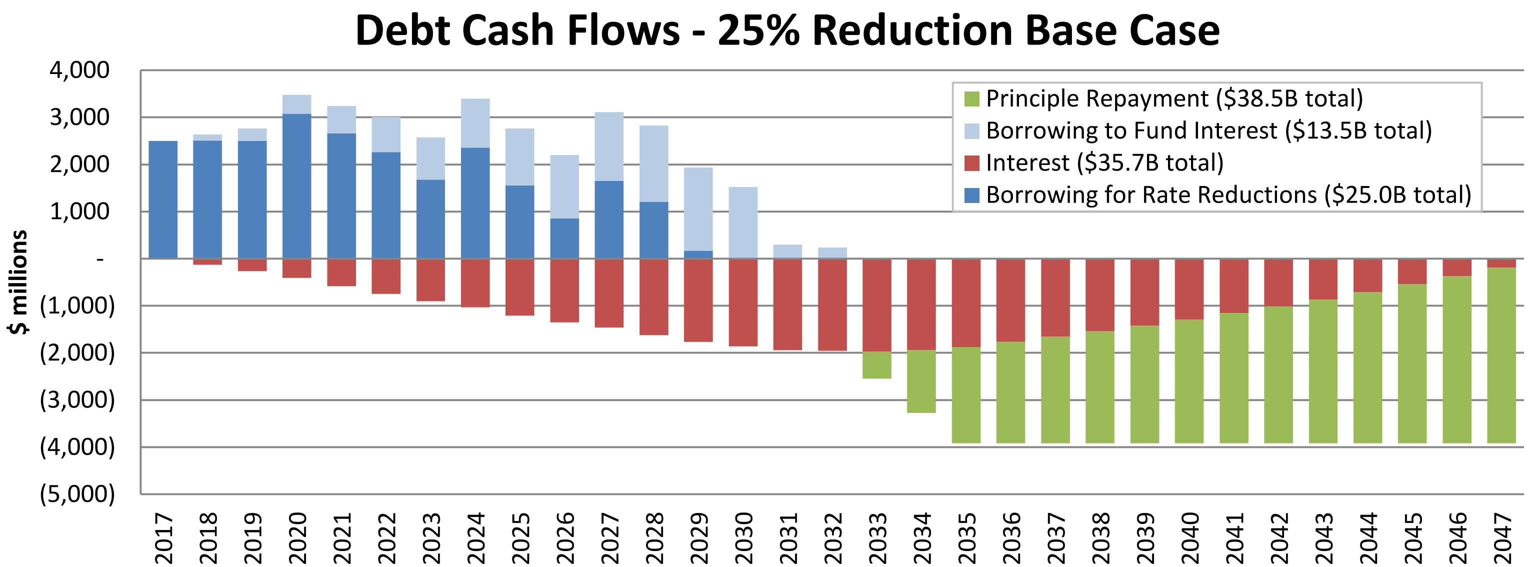
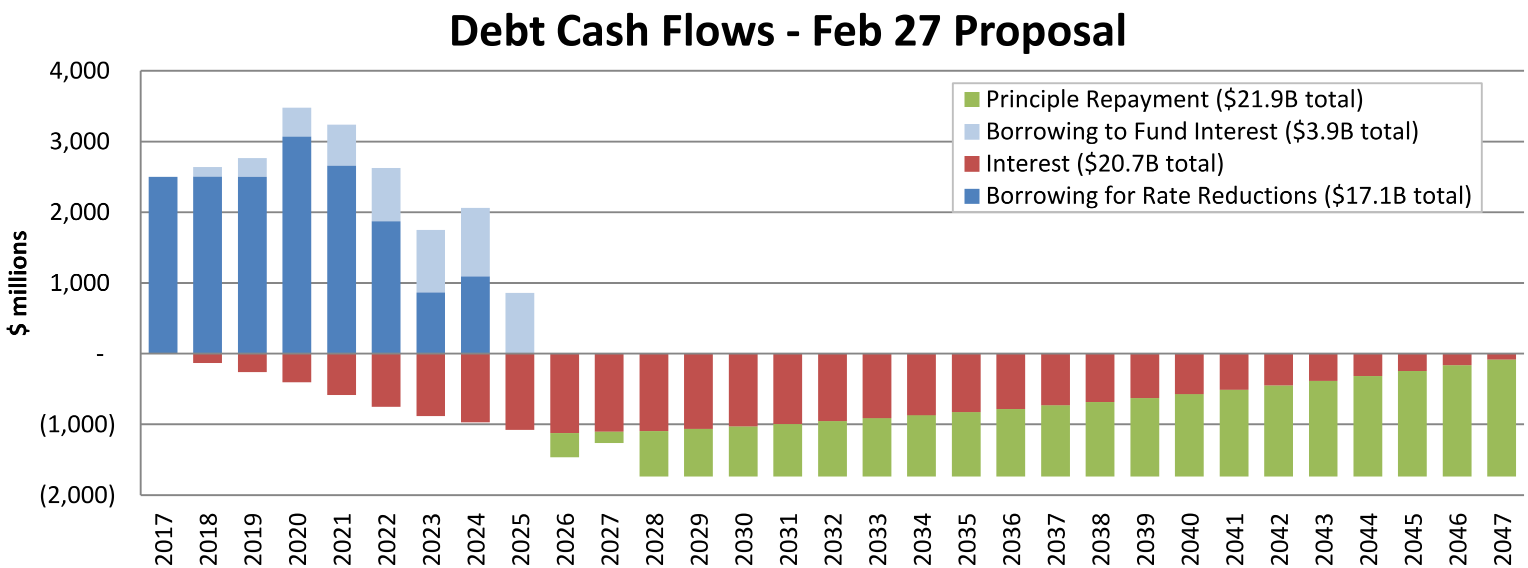
Debt Cash Flows





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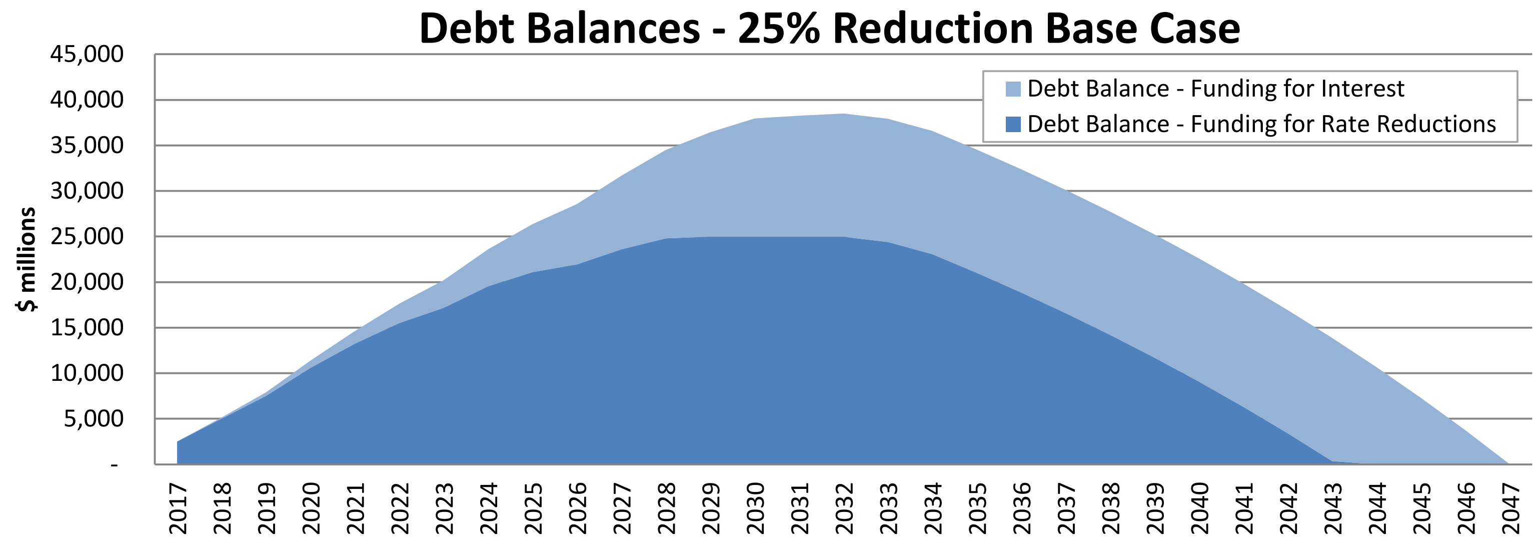
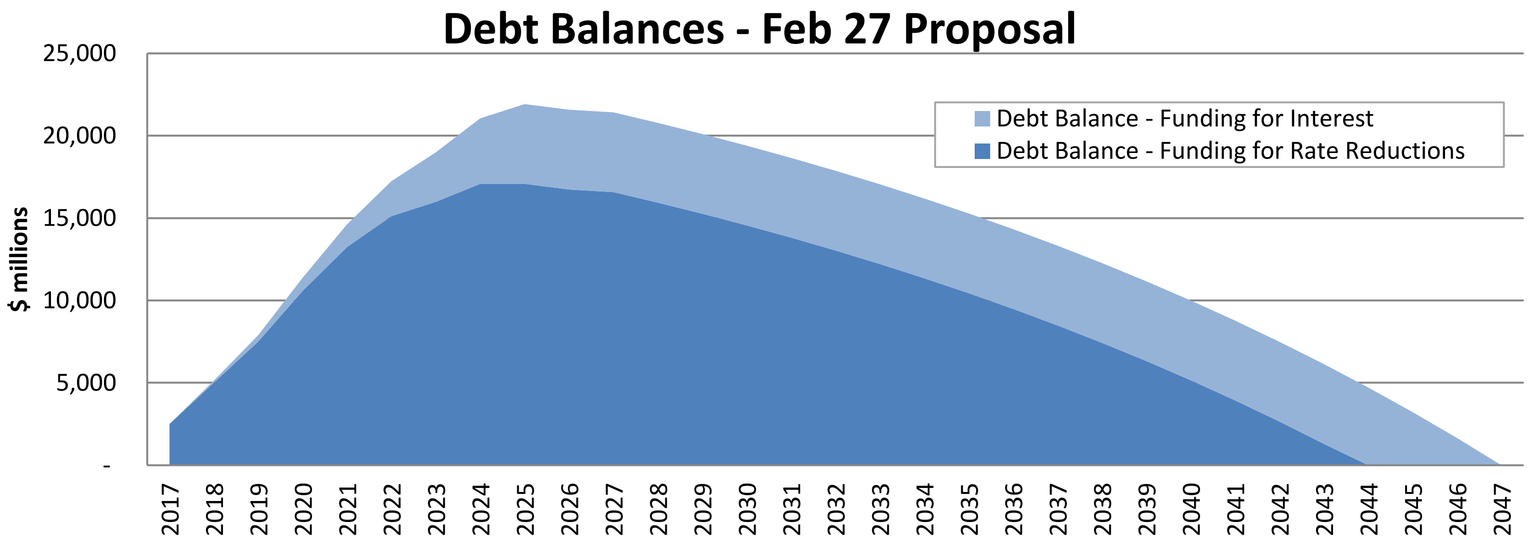
Debt Balances



Note: Debt used to fund rate reductions assumed to be paid down first.



Note: Debt used to fund rate reductions assumed to be paid down first.

High Demand Sensitivity (IESO Outlook D)

- Increasing demand for electricity will help mitigate some of the impact of recovering the regulatory charge.
- Spreading the debt recovery over a larger amount of consumption will lower the cost per unit of electricity ($/MWh).
- In order for electricity demand to reach this level, significant electrification must occur including 2.4 million electric vehicles by 2035 and 50% conversion of gas space and water heating to electric.