Ontario Ministry of Energy

Review / Approval Log

Title/Subject	
TB/MBC Submission	Date Due 17 Jun 2013

Originated by	Telephone No.	Branch/Division
RASP		

Submission Type

☑ MB20		☐ Communications Product	
☐ Cabinet Submission		☐ Minister's letter/memo	
☐ Briefing Note		☐ Deputy's letter/memo	
☐ Meeting Note		☐ Contract/Procurement	

☐ Other (specify)

Additional Information re document (flag critical timing considerations, whether this is a revision to a previous note, etc.)

Reviewed by (if applicable) *Comments attached* ▾

Division/Branch	Name	Signature	Date In	Date Out	Yes	No
☐ Legal					☐	☐
☐ Communications					☐	☐
☑ Corporate Development	Robert Burns	R Burns			☐	☐
☐ ADM (other Division)					☐	☐
☐ Other (e.g. other ministries) A/m	LOURDES VALENTON	Lourdes Valenton			☐	☐

Approved by (indicate required approvals with √ *Comments attached*

Approving Official	Name	Signature	Date In	Date Out	Yes	No
☐ Manager						
☐ Director						
☐ ADM	Michael Reid					
☐ DM for	Serge Imbrogno	[signature]		July 17		
☐ MO Staff						
☐ Minister	Hon. Bob Chiarelli			July 17		

Distribution

Minister's Office
- ☐ Andrew Teliszewsky
- ☐ David Salter
- ☐ Julie Cousins
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Divisions/Branches
- ☐ Renewables and Energy Efficiency
- ☐ Energy Supply, Transmission and Distribution Policy
- ☐ Regulatory Affairs and Strategic Policy
- ☐ Corporate Development
- ☐ Communications Branch
- ☐ Legal Services

Ontario

Application and Report to Treasury Board/Management Board of Cabinet

(Refer to instructions on next page)

1. MINISTRY ENERGY	2. MINISTRY LOG #	3. TB/MBC LOG #

4. TYPE OF REQUEST: Non-financial request

5. PURPOSE OF REQUEST:
The Ministry of Energy is requesting that TB/MBC (1) Approve the ministry moving forward with a regulation to prescribe OPG's unregulated hydroelectric generating facilities. (2) Approve a strategy to reinstate funding to the Ontario Clean Energy Benefit program. (3) Direct the ministry to submit a funding request for the OCEB of $400 million in 2014-15 and $330 million in 2015-16 as part of its 2014-15 RbP submission. (4) Note the receipt of the OPG and Hydro One business plans. (5) Note that the ministry will issue a shareholder resolution and shareholder declaration to Hydro One to require that all services performed under its existing Inergi outsourcing contract be performed in Ontario. (6) Note the ministry will issue a shareholder's declaration to OPG to require all services performed under its existing New Horizon System Solutions outsourcing contract be performed in Ontario.

6. FINANCIAL DETAILS		($ Millions)							
		Current Year		Year 2		Year 3		Matures In	
		2013/2014		2014/2015		2015/2016		2016/2017	
		Operating	Capital	Operating	Capital	Operating	Capital	Operating	Capital
A. Program Current Base	Expense	1,040.0000		740.0000		560.0000			
	Asset								
B. Program Request (change from existing base)	Expense			400.0000		330.0000			
	Asset								
C. Available for Offset	Expense								
	Asset								
D. Net Impact On Program Allocation (B-C)	Expense			400.0000		330.0000			
	Asset								
E. OPG rate regulation fiscal impact for OCEB request				300.0000		300.0000			

7. IMPACT ON FTE LIMIT	Current Year 2013/2014	Year 2 2014/2015	Year 3 2015/2016	Mature In 2016/2017
A. Program Current Base FTE Limit				
B. Program FTEs Request				
C. Available FTE Offset				
D. Net Impact on FTE Limit (B-C)				
E. Change to Ministry Salaries & Wages Allocation (included in the Program Request ($ Millions)				

8. OTHER DECISION FACTORS	Y/N	EXPLANATION
A. Consistent with Government Priorities and Results (If Yes identify key Results) - include details in submission)	Y	
B. Policy approval (if yes identify policy committee and date approved)	N	
C. Key Performance Risks (If yes provide details in submission)	N	
D. Impact on other Ministries (if yes - include sign-off date. Include resources impact in submission)	N	
E. Impact on the Fiscal Plan (if yes provide details in submission)	Y	

9. AUTHORIZATION /DATE

Signature of Minister	17/07/13 Day/Month/Year	Rick Jennings for Serge Imbrogno Signature of Deputy Minister	17 July 2013 Day/Month/Year

Application and Report to Treasury Board/Management Board of Cabinet

This is a general purpose form. Use it for all requests submitted to Treasury Board and Management Board of Cabinet including items delegated to the Chair of Treasury Board/Management Board of Cabinet. If the submission would result in a change in approved financial appropriations and/or full time equivalent (FTE) limits please complete Sections 6 and/or 7.

Instructions for completing the TB/MBC Submission Template

1. Ministry	State name (or names if it is a joint submissions).
2. Ministry Log #	Insert your Ministry Tracking log # for the submissions.
3. TB/MBC Log #	For use by TB/MBC Coordinaton Office only.
4. Type of Request	Choices may include any or a combination of the following: Financial Transaction, TBO, General, Procurement, legislation, Regulation, Order-in-Council.
5. Purpose of Request	In no more than two sentences, describe the objective of the request.
6. Financial Details	Provide financial details for the current year, outlook for the next 2 years and Maturity date.A32 **<u>For each year of the following sections please provide applicable details for Expense, Asset, Operating and/or Capital:</u>**
A. Program Current Base	Provide current base associated with the request
B. Program Request	Change in costs associated with the proposal.
C. Available for Offset	Indicate the costs that can be managed from within existing appropriations (intra or inter-ministry where applicable).
D. Net Impact on Program Allocation	Net impact on the Ministry's allocations.
E. Revenue Implications	Identify new or change in revenues that would flow into the Consolidated Revenue Fund.
7. Impact on FTE Limit	Provide staff details for the current year, outlook for the next 2 years and mature FTE impact - follows the same logic as financial details (items 6 above). For Section 7E provide the change in the salaries and wages associated with the net impact of the request (i.e. 6D) if applicable.
8. Other Decision Factors	Answer Yes or No to each of the decision factors highlighted and provide key notes on template for Minister and Deputy Minister information. Provide further details in the submission.
9. Authorization /Date	To be signed by the Minister and Deputy Minister of the requesting Ministry to confirm support for the request as submitted. Joint inter-ministry submissions require the signature of all Minister and Deputy Minster affected. Signed submission due in to the TB/MBC Coordination Office no later than 2 weeks prior t the scheduled TB/MBC meeting date.

Administrative Data for Current year (relates to 6B and 6C from page 1).

Vote & Item	Standard Account	Ministry Request ($ Millions)				
		Holdback / Release (A)	Treasury Board Order (B)	Increase (C)	(Decrease) (D)	Total (E=B+C+D)
xxxx-x	Salaries & Wages Employee Benefits Transportation & Communication Services Supplies and Equipment Transfer Payments ____ ____ ____ Other Transactions Recoveries Other (Specify) ____					
	ITEM TOTAL					
xxxx-x	Salaries & Wages Employee Benefits Transportation & Communication Services Supplies and Equipment Transfer Payments ____ ____ ____ Other Transactions Recoveries Other (Specify) ____					
	ITEM TOTAL					
	Salaries & Wages Employee Benefits Transportation & Communication Services Supplies and Equipment Transfer Payments ____ ____ ____ Other Transactions Recoveries Other (Specify) ____					
	ITEM TOTAL					
	Salaries & Wages Employee Benefits Transportation & Communication Services Supplies and Equipment Transfer Payments ____ ____ ____ Other Transactions Recoveries Other (Specify) ____					
	ITEM TOTAL					

Vote & Item	Standard Account	Ministry Request ($ Millions) Holdback / Release (A)	Treasury Board Order (B)	Increase (C)	(Decrease) (D)	Total (E=B+C+D)
	Salaries & Wages Employee Benefits Transportation & Communication Services Supplies and Equipment Transfer Payments Other Transactions Recoveries Other (Specify)					
	ITEM TOTAL					
	Salaries & Wages Employee Benefits Transportation & Communication Services Supplies and Equipment Transfer Payments Other Transactions Recoveries Other (Specify)					
	ITEM TOTAL					
	Salaries & Wages Employee Benefits Transportation & Communication Services Supplies and Equipment Transfer Payments Other Transactions Recoveries Other (Specify)					
	ITEM TOTAL					
MINISTRY SUMMARY	Salaries & Wages Employee Benefits Transportation & Communication Services Supplies and Equipment Transfer Payments Other Transactions Recoveries Other (Specify)					
	MINISTRY TOTAL					

Treasury Board Submission:

1. **Ontario Power Generation 2013-2015 Business Plan and Hydro One 2013-2015 Business Plan**

2. **Reinstatement of Program Funding for the Ontario Clean Energy Benefit**

3. **Proposed Shareholder Declaration and Resolutions for Hydro One / OPG Outsourcing Arrangements**

Ministry of Energy
August 2013

THE REQUESTS

Ontario Power Generation and Hydro One Business Plans

Ontario Power Generation (OPG) and Hydro One have submitted their 2013-2015 business plans to the Ministry of Energy for concurrence. The Ministry of Energy is supportive of the fiscal, financial and operational strategies laid out in both business plans.

The 2013 Ontario Budget indicated that ministries would be required to undertake regular reviews of other government organizations to ensure that achievement of results and value-for-money are obtained and that risks and required mitigation are addressed. The results of these reviews are to be assessed to ensure overall effectiveness of the ministries' oversight processes and that any concerns have been properly managed.

Consistent with this Budget commitment, the Ministry of Energy is requesting that Treasury Board/Management Board of Cabinet (TB/MBC):

1. NOTE the receipt of Ontario Power Generation's (OPG) 2013-2015 Business Plan

2. NOTE that Ontario Electricity Financial Corporation will provide greater access to 30 year borrowing to reduce OPG's average cost of funds

3. NOTE the receipt of Hydro One's 2013-2015 Business Plan

4. NOTE that the Minister of Energy will provide concurrence with OPG's and Hydro One's Business Plans

5. APPROVE that the Ministry of Energy will move forward with a regulation to prescribe OPG's currently unregulated hydroelectric generating facilities

6. NOTE that the Ministry of Energy will work with the Ministry of Finance to determine the appropriate methodology for building OPG's and Hydro One's business plan projections into the province's fiscal plan

Reinstatement of Program Funding for the Ontario Clean Energy Benefit (OCEB)

The Ontario Clean Energy Benefit (OCEB) is a $1 billion a year expenditure program providing electricity price relief to over 4 million residential and 400,000 farm and small business consumers. Budget 2012 announced changes to the program with the addition of a 3,000 kilowatt hour per month cap to balance managing the needs of electricity consumers and the fiscal implications of providing electricity price relief. It is estimated this change will save a total of about $500 million over four years or 11 per cent of the total cost of the OCEB over the period.

There is continued need in Ontario for electricity price assistance. The 2010 Long Term Energy Plan announced that residential electricity prices were expected to increase by

46 % over 5 years. It was in recognition of these rising costs that the government implemented the OCEB.

Through the 2013-14 Results-based Planning process funding for the OCEB was once again reduced – by $730M over a two-year period, 2014-15 and 2015-16. The 2013 Ontario Budget announced that certain benefit and tax programs, including the OCEB, would be reviewed for fairness and affordability with a view to introducing an income-testing element.

Rate regulation of OPG's unregulated hydroelectric assets, by contributing additional revenue from the energy sector that would largely offsetting the fiscal impact of maintaining the current OCEB program, would allow the OCEB to be continued as is for the 2014-15 and 2015-16 fiscal years.

This strategy is recommended because there are a number of considerations that make it difficult to implement the income-testing changes suggested in the Budget, including:

- A requirement for legislative changes
- Difficulty in implementing an income tested version of the OCEB
- Impact on consumer's bills would be an increase of up to 10%

The Ministry of Energy is requesting that Treasury Board/ Management Board of Cabinet:

1. NOTE that the Ministry of Energy is reporting back to Treasury Board/ Management Board of Cabinet as required in the Ontario Budget 2013 Treasury Board/ Management Board of Cabinet minutes.

2. APPROVE the ministry's strategy to reinstate funding for the OCEB program. In this regard:

    a. DIRECT the ministry to submit a funding request for the, Ontario Clean Energy Benefit, of $400 million in 2014-15, and, and $330 million in 2015-16 as part of the ministry's 2014-15 RbP submission.

Proposed Shareholder Declaration and Resolution on Hydro One Outsourcing Arrangements and Declaration for OPG Outsourcing Arrangements

Hydro One is planning to issue a new procurement(s) for various services covered by its current outsourcing agreement with Inergi LP. The Minister of Energy intends to issue a Shareholder Declaration and Shareholder Resolution to Hydro One to require that in the new procurement all services currently performed under its existing Inergi outsourcing contract be performed in Ontario. It is expected that Hydro One would be in a position to retender this work in the summer of 2013. The Minister of Energy also intends to issue a Shareholder Declaration to OPG to require that all services associated with Ontario Power Generation's future tendering of the work currently performed under its existing New Horizon Solutions (NHSS) contract be performed in Ontario. It is expected that OPG would be in a position to begin the retendering of this work in 2014.

The Minister of Energy is proposing to issue these Declarations and Resolutions to mitigate concerns and risks associated with off-shoring, including protecting the cyber security and location of critical commercial and electricity-system data, and the potential for Ontario job erosion.

The Ministry of Energy is requesting that Treasury Board/Management Board of Cabinet (TB/MBC):

1. NOTE the Minister of Energy intends to issue a Shareholder Declaration and Shareholder Resolution to Hydro One to require that all services associated with Hydro One's tendering of the work currently performed under its existing Inergi outsourcing contract be performed in Ontario.

2. NOTE that the Minister of Energy intends to issue a Shareholder Declaration to Ontario Power Generation to require that all services associated with Ontario Power Generation's tendering of the work currently preformed under its existing New Horizon System Solutions (NHSS) outsourcing contract be performed in Ontario.

SECTION 1: OPG 2013-2015 BUSINESS PLAN AND HYDRO ONE 2013-2015 BUSINESS PLAN

Background

- **Note OPG's Business Plan, containing the following elements:**
  - OPG's projected financial performance, including:
    - revenue increases by approximately $850 million from 2012 to 2015, with an average year-over-year increase in revenues of 6 percent
    - operation, maintenance and administration (OM&A) costs, excluding nuclear outage and pension/OPEB costs, decline from $2,077 million in 2013 to approximately $2,000 million in 2015
    - earnings before taxes and PIL increases from $13 million in 2013-2104 to $130 million in 2014-2015
      - OPG's net income could also include an additional $300 million in extraordinary gains due to regulating unregulated hydro
      - Based on an effective date of July 1, 2014 for regulating OPG's currently unregulated hydro facilities.
  - OPG has, through its Business Transformation Initiative, been pursing company-wide efficiencies, and the company is expecting to reduce headcount by 2,000 and result in savings of ~$700 million from 2011 to 2015. KPMG, as part of the independent benchmarking of OPG, noted that the company's transformation initiative was "systematic and structured" and "incorporated many leading practices for implementing a large business transformation".

- New rates for regulated assets for 2014 and 2015 that will add about $4 per month to average residential customer bills next year. Increases are driven by:
    - The expected rate regulation of OPG's currently unregulated hydro assets, which represent about 3,000 megawatts of capacity that is exposed to market prices.
    - In-service of the Niagara Tunnel, and cost recovery of those expenses.
    - Catch-up after several years of constant rates that has resulted in a build-up of unrecovered costs.
- Continued spending of ~$2 billion over the business planning period to prepare for refurbishment of the Darlington nuclear station, expected to commence in 2016. The decision to proceed with refurbishment is not required at this time.

- **Note Hydro One's Business Plan, containing the following elements:**

    - Hydro One's projected financial performance, including:
        - revenues increase from $5,967 in 2013 to $6,268 in 2015.
        - OM&A costs remain constant at $1,000 million from 2013 to 2015.
        - $731 million average net income over the next 3 years, which is over $70 million and 11 percent higher than the average over the 2010-2012 period.
        - net income increase from $710 million in2013-2104 to $739 million in 2014-2015.
    - Efficiency improvements driven by IT and back-office savings of ~$530 million over the Business Plan period. Further to these plans, Hydro One is currently reviewing the results of KPMG benchmarking, to determine feasible opportunities for further OM&A efficiencies.
    - In mid-2013, Hydro One plans to apply to the Ontario Energy Board (OEB) using the Incentive Regulation Mechanism process for 2014 Distribution rates. The total bill impact is expected to be 1.4% in 2014 and 3.0% in 2015 for distribution rates and 0.5% in 2014 and 0.6% in 2015 for transmission rates.
    - Hydro One plans to grow the size of both its transmission and distribution businesses from a combined rate base of ~$15.5 billion in 2013 to ~$17.1 billion in 2015 through upgrades to existing assets as well as the build out of major projects that were called for in the 2010 Long Term Energy Plan.

- **Note that following Treasury Board review, the Minister of Energy will concur with each business plan.**

    - Ministry of Energy staff are supportive of the fiscal, financial and operational strategies laid out in OPG and Hydro One's business plans.

Business Plan Process

- The business plan requirements for both Hydro One and OPG are found in their respective Memoranda of Agreement (MOA) with the shareholder, which is the Province, represented by the Ministry of Energy.

- The Agreements state that both agencies must:

  - Annually submit Board approved "3-5 year performance targets for operational and financial results as well as major project execution", to the Shareholder and the Ministry of Finance for concurrence;
  - Provide the Ministries of Energy and Finance with their multi-year and annual business planning information;
  - Advise on developments that would materially impact the financial performance of the agencies and / or the shareholder; and
  - Submit their business plans to the Ministry of Energy and the Ministry of Finance for concurrence, once approved by their respective Board of Directors.

2013 Ontario Budget

- This year's Ontario Budget included language on agency accountability:

  "Ministries will be required to undertake regular reviews of their agencies and other government organizations to ensure that achievement of results and value-for-money are obtained and that risks and required mitigation are addressed. The results of these reviews will be centrally assessed to ensure overall effectiveness of the ministries' oversight processes and that any concerns have been properly managed. The government has also undertaken a benchmarking review with its electricity organizations to improve overall operating performance, efficiency, value for money and accountability of these organizations."

Governance and Oversight

Business Corporation Act Requirements

- OPG and Hydro One are business corporations incorporated under the *Business Corporations Act* (Ontario) (OBCA). As the only Provincially-owned OBCA companies in Ontario, OPG and Hydro One are subject to a variety of unique and rigorous governance requirements.

  - OPG and Hydro One operate as business enterprises with commercial mandates and independent Boards of Directors responsible for the appointment of the President and Chief Executive Officer.

Securities Act (Ontario) Requirements

- As reporting issuers of debt securities, OPG and Hydro One are also subject to the continuous disclosure standards and requirements of the *Securities Act* (Ontario).

- Under this Act, both companies are required to file financial, management and compensation information with the Ontario Securities Commission.
- The Act also contains requirements around the composition of the Boards, the qualifications of Board members, as well as the establishment of a code of conduct for Board members.

- The reporting requirements under the *Securities Act* and the governance requirements under the OBCA are more strenuous and promote greater transparency than those found in the government's Agency Establishment and Accountability Directive, to which classified agencies are subject.

Shareholder Oversight

- The Minister of Energy is the shareholder of both OPG and Hydro One. The Minister meets frequently with leadership from each company to ensure operations are effective and aligned with their respective mandates.

- As part of this oversight, the Ministry recently engaged KPMG to conduct a benchmarking review of OPG and Hydro One to find company efficiencies. KPMG favourably reviewed both businesses and found only limited opportunities for incremental savings.

- Senior staff from OPG and Hydro One meet monthly with staff from the Ministry of Energy and Ministry of Finance to discuss operational performance, financial performance, status of key capital projects, progress toward fiscal targets and market information.

- At the start of this fiscal year, a new branch was created within the Ministry of Energy to augment already robust shareholder oversight of both OPG and Hydro One. The branch is designed to provide rigorous analysis and oversight of the financial performance of both companies. This provides the Ministry with dedicated resources to ensure that each company is maximizing value to the shareholder through increased revenues and efficiency, while ensuring that ratepayers are well served.

Revisiting Incentive and Oversight Structures

- Options to further enhance oversight and align incentives include:

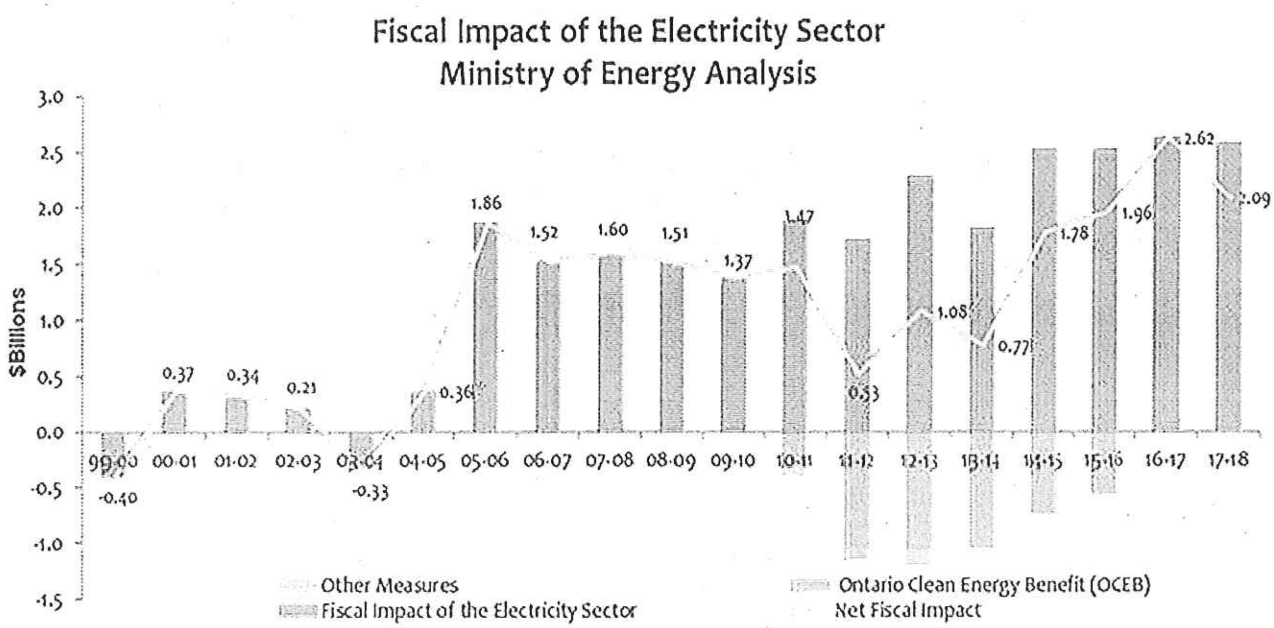
  - Reviewing Hydro One's corporate scorecard to ensure continued appropriateness;
  - Working with OPG, as part of the ongoing refresh of its Memorandum of Agreement, to review its scorecard to ensure continued appropriateness;
  - Reviewing the responsibilities of the heads of each corporation to ensure they align with controllable actions:

- For example, the CEO of OPG is currently responsible for meeting net income targets. However, as an accounting measure, net income can be masked by other factors that have little relevance to company's performance. In addition, many of the factors that do affect performance are outside of the control of the company (market prices, fuel costs etc.).
- Suggested alternatives are described in the following table:

Metric	Purpose
Operating cash flow targets	Removes accounting distortions by focusing on cash derived from ongoing operations
On time and on budget delivery of large capital projects	Directly controlled by company and has a significant impact on ratepayers as well as OPG's bottom line
Ongoing nuclear performance	

Fiscal Impacts

- There are a number of electricity-related items that are consolidated in the province's financial statements each year, including: Hydro One's and OPG's net income and payments-in-lieu of taxes (PILs); the debt retirement charge; and PILs paid by Local Distribution Companies. It is expected that the net result of this consolidation is that the sector will continue to be a positive contributor to the provincial fiscal plan going forward (see chart below).



- OPG and Hydro One are significant contributors to the electricity sector's positive fiscal impact.

- Due to their commercial, competitive nature, both OPG and Hydro One are treated as Government Business Enterprises (GBEs). As a result, they are consolidated on the Province's financials on a modified equity basis.
- This means that only net income is recorded on the Province's income statement and only equity is recorded on its balance sheet.
- The fiscal impacts of OPG and Hydro One, derived from the combination of net income and payments-in-lieu of taxes (PILs) for OPG and Net Income for Hydro One, are shown in the table below:

Year	OPG (EBT) *($ million)*		Hydro One (Net Income) *($ million)*	
	Actual / Projection	**Ontario Budget**	**Actual / Projection**	**Ontario Budget**
2010-2011	586	414	634	634
2011-2012	406	256	616	616
2012-2013	300	190	762	621
2013-2014	13	13	710	621
2014-2015	120 - 130*	176	739	676

*This could be increased by a one-time gain of $300 million to recognize the conversion of an existing tax liability into a regulatory asset in the year that OPG's unregulated hydro assets are regulated. Accounting treatment for this conversion would need to be confirmed.

- These fiscal projections build in all of the assumptions highlighted in the detailed business plan sections of this note.

- In the recent past, both OPG and Hydro One have either met or exceeded Provincial Budget projections.. On the basis of the proposed business plans, this trend is expected to continue into the future.

  - Note that the $300 million one-time OPG gain in 2014-15 is dependent upon a proposal to rate regulate OPG's remaining unregulated hydroelectric assets. Treatment of the gain by the Province has yet to be determined.

- Given that these companies operate in a commercial and competitive environment, business plan projections are subject to uncertainty.

  - The Province's fiscal projections should be considered in this light.
  - To increase conservatism, Ministry of Energy staff recommend building in a contingency representing a portion of total projections, to mitigate downside risks to fiscal plan targets.

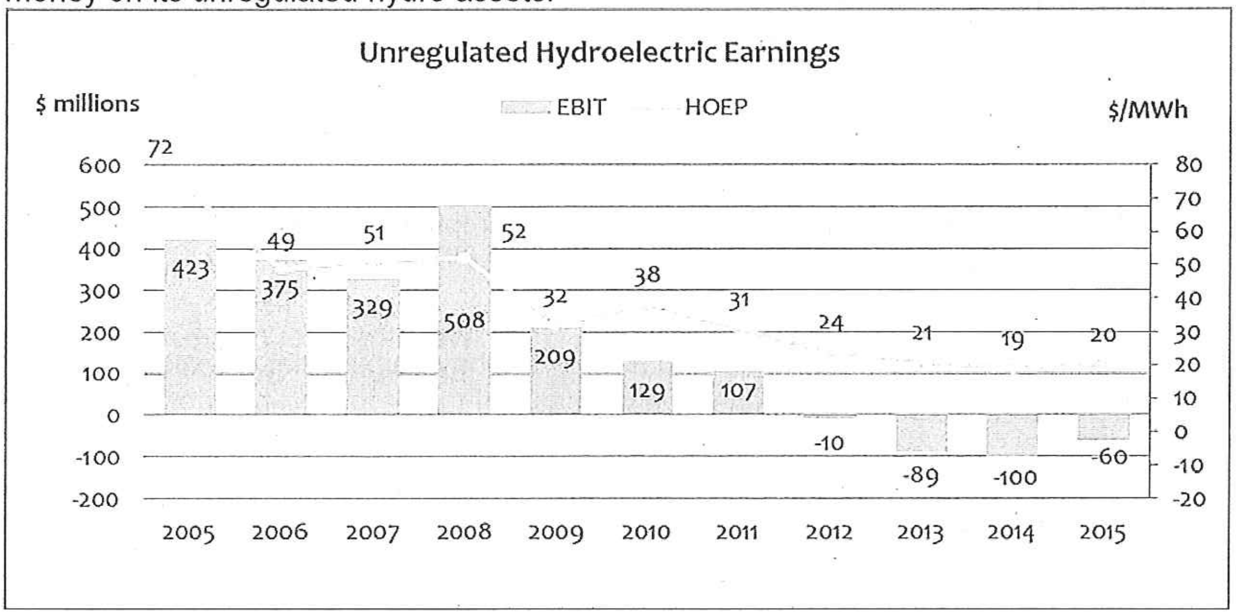
Regulating OPG's Unregulated Hydroelectric Assets

Background

- OPG's unregulated hydroelectric assets are the only significant generation sources in the province that receive just the Hourly Ontario Electricity Price (HOEP) for their output.
  - HOEP is the wholesale price of electricity in Ontario, and represents the marginal cost of electricity based on variable costs.
  - Most generation in Ontario has its fixed costs covered by long term contracts and power purchase agreements with the Ontario Power Authority, or through regulated rates set by the Ontario Energy Board.

- HOEP has been decreasing in recent years and is expected to remain low for the near future, which will continue to negatively impact OPG's revenue.
  - HOEP prices are currently expected to remain low over the medium-term due to low natural gas price forecasts

- As shown in the chart below, due to low HOEP prices, in 2012, OPG began to lose money on its unregulated hydro assets:



- To help improve OPG's financial performance, the Ministry proposes to rate regulate OPG's unregulated and un-contracted hydroelectric assets.

- If OPG's unregulated facilties were rate regulation, the Ontario Energy Board (OEB) would establish their rates through public hearings based on OPG electricity rate filings. The OEB currently does this with OPG's nuclear and large hydroelectric facilities.

- Rate regulation of OPG's unregulated facilities would provide the following energy policy benefits:

  - Improves regulatory efficiency: Rate regulation would result in an efficient regulatory process whereby all of OPG's non-contracted facilities would be rate regulated.

- Aligns with regulatory changes: The OEB is developing an Incentive Rate Mechanism for currently regulated OPG hydro assets. This could be extended to all of OPG hydro assets.
- Increases stability for customers and for OPG: Rate regulation would remove volatility that results from exposure to market prices. This would improve predictability for customers and for OPG's cash flows.
- Properly values strategic assets: Improved revenues would ensure that OPG is able to adequately maintain these low-cost, renewable facilities which generate power at times when the system needs it most.
- Enables OPG investment in new generation: OPG can use new resources to grow its business, consistent with government policies, and to the benefit of ratepayers and the Province.

- Regulating these assets would also provide a fiscal benefit to the province by improving OPG's earnings before taxes (EBT), which are consolidated on the Province's financial statements. It would also increase customer bills by a corresponding amount.

  - OPG estimates that rate regulation is expected to add $320M to $400M annually to its EBT.
  - The monthly bill impact of regulating the unregulated hydroelectric assets is estimated to be ~$2.00 for a typical residential customer (see the chart on page 12 for more details).

- While OPG's business plan assumes that the regulation of its unregulated hydro is effective as of January 1, 2014, Energy is recommending an effective date of July 1, 2014.

  - A July 1, 2014 implementation date would balance the impact on ratepayers with the province's fiscal plan
  - While a July 1, 2014 implementation date would represent a net income reduction of $120 million in 2014 as compared to OPG's Business Plan, it would still provide significant fiscal benefits in the 2014-15 fiscal year to help offset the OCEB program.
  - With a July 1,2014 effective date, ratepayer impact would reduce to $12/customer for the remaining 6 months of 2014.

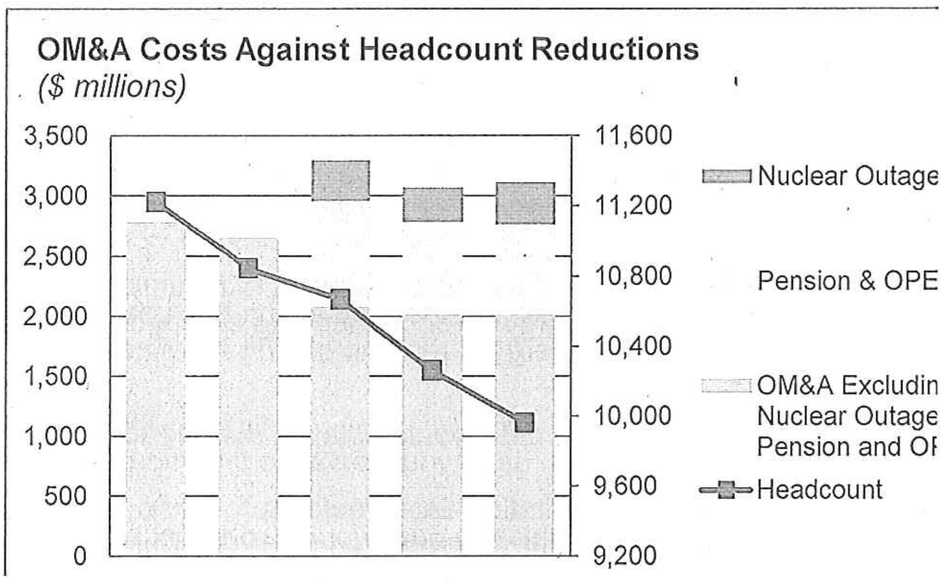
- Stabilizing OPG would strengthen the fiscal plan sufficiently to allow the Ontario Clean Energy Benefit (OCEB) to continue in its current form.

  - The fiscal impact of rate regulation of OPG's unregulated hydro assets is similar to the amount of OCEB reduction built into the Province's fiscal plan.
  - Implementation of the regulatory amendment required to prescribe OPG's assets is likely to proceed more quickly than legislative amendments needed to modify OCEB.

OPG Business Plan Details

Efficiencies

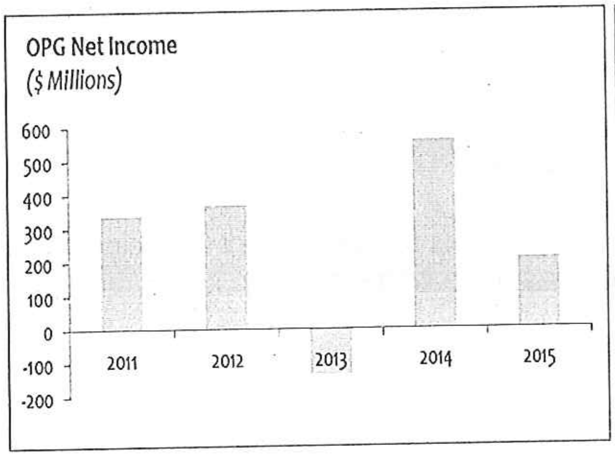
- OPG has been actively pursuing cost savings through its Business Transformation Initiative, to enhance efficiency and reduce spending to moderate electricity prices. The Initiative is expected to result in headcount reductions of 2,000 and savings of ~$700 million between 2011 and 2015.
  - Over the course of the business planning period, OPG expects to achieve headcount reductions of ~1,000 and estimated cost savings of almost $600 million.
  - Excluding OM&A from nuclear outages and pension / OPEB costs, OM&A is expected to decline over the 2013-2015 period.

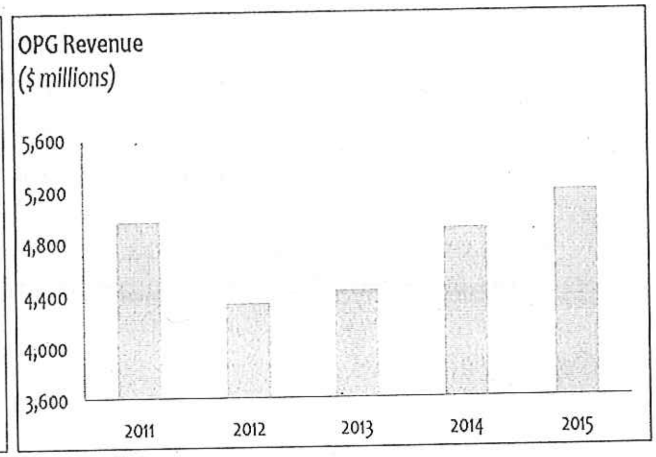


- KPMG was tasked with conducting a benchmarking review of OPG to find further efficiencies in the company. KPMG favourably reviewed OPG's business transformation Initiative and also identified further savings opportunities around strategic sourcing and early payment discounts, as well as the potential for outsourcing and offshoring.
  - OPG has reported back that it will investigate potential opportunities to implement these recommendations.
  - The company has committed to include $14 million in savings related to strategic sourcing in its next business plan. Opportunities for an additional $12.6 million identified by KPMG are also being explored by OPG.
  - OPG will not pursue offshoring, unless the government directs otherwise.

Financial Performance

- OPG's revenue is expected to increase by ~$850 million from 2012 to 2015, with an average year over year increase of 6 percent. These increases are driven mainly by higher rates for currently regulated assets, as well as rate regulation of currently unregulated hydro.





- Net income decreases in 2013, primarily due to higher nuclear costs and lower nuclear generation due to planned outages, increased severance and relocation costs from coal closure and declining Hourly Ontario Energy Prices (HOEP).

- OPG's net income improves substantially in 2014 to $558 million, up from -$134 million in 2013. The increase is the result of new rates for its currently regulated assets and regulating its unregulated hydroelectric assets.
  - The increase in 2014 also includes a one-time extraordinary gain of ~$300 million, which is a regulatory asset for income taxes resulting from regulating unregulated hydro.
  - Provincial treatment of this gain needs to be further explored.
  - Please note that delays to the implementation of rates for newly regulated hydro assets will result in a decline in EBT of $25 million to $30 million per month.

Borrowing

- As part of its business plan submission, OPG noted that once its financial performance improves, the company will be in a position to borrow on the strength of its own balance sheet for corporate debt.

- Currently, OPG relies on the Ontario Electricity Financial Corporation (OEFC), for its corporate borrowing.

- By borrowing from public markets the Province would be able to reduce its debt burden by ~$4 billion. This would also impose greater transparency and discipline on OPG, while providing the OEB with a market metric to gauge the company's financial position and its cost of capital.

- The Ministry of Finance has concerns with this proposal as there is the potential for higher spreads without a corresponding transfer of risk, given OPG's significant nuclear portfolio. In addition, this will create a new competitor for scarce provincial borrowing.

- Rather than allow OPG to borrow in public markets for its corporate needs, the Ministry of Finance, through the OEFC, has agreed to reduce OPG's cost of capital and increase certainty by providing it with greater access to 30 year borrowing. This would better reflect the long-term nature of OPG's business.

- OPG would continue to borrow in the public markets for any project financing needs it has for renewable energy projects, as it has done with respect to its Lower Mattagami hydroelectric project.

Capital Projects

- OPG's investment in capital projects is consistent with the province's Long Term Energy Plan and other government direction.

- **Nuclear:** OPG continues to advance its work on the Darlington Refurbishment project, which will generate costs totalling over $2 billion over the course of the business planning period.

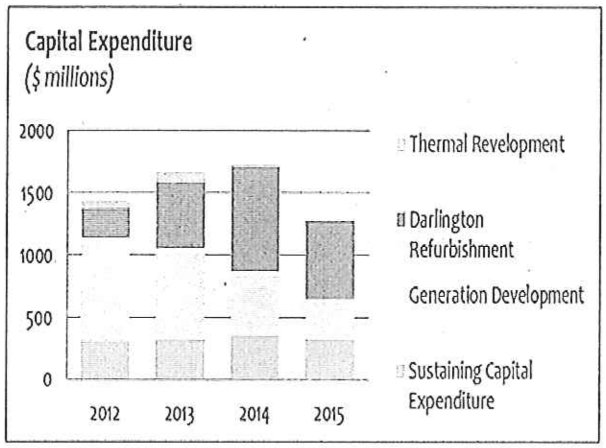
  - The company requires an OEFC corporate credit facility to fund the project.

- **Hydroelectric:** A large portion of OPG's capital expenditures come from hydroelectric generation development, particularly the Lower Mattagami project. There are also costs from the Niagara Tunnel Project in 2013, which OPG will seek to be recovered in its next rate application. Total costs over the business planning period for hydroelectric expenditures are almost $2.5 billion.

- **Thermal:** Thermal redevelopment costs total ~$150 million over the course of the business plan, which includes ongoing work to convert Atikokan to biomass by 2014.

  - All other thermal repowering will be deferred by OPG beyond this business plan.

- OPG's capital spending increases in both 2013 and 2014 in order to achieve project milestone dates associated with its ongoing capital projects. Expenditures then decline in 2015, primarily due to lower spending on the Lower Mattagami Project, and lower costs that year related to Darlington Refurbishment.



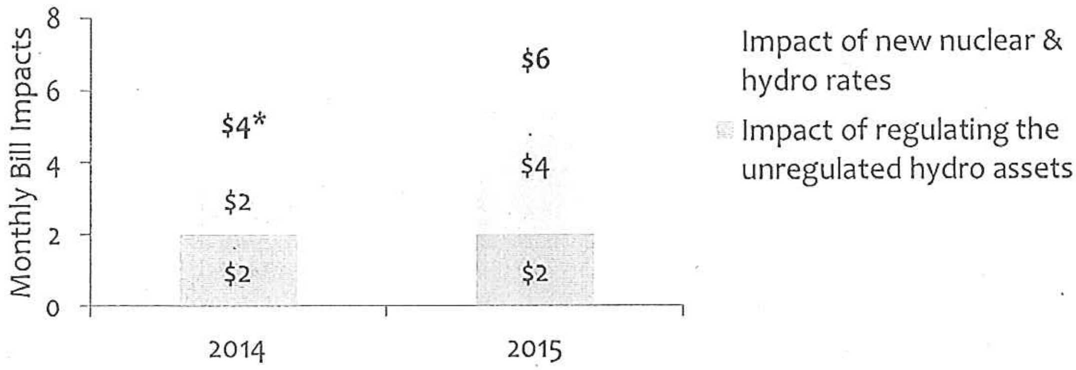
Rate Strategy

- The OEB held an oral hearing on March 25, 2013 on OPG's limited issues rate application, setting new rate riders for its regulated hydroelectric and nuclear assets. These riders are effective for 2013 and 2014. The Board made its decision to accept the proposal on March 25 and the final rate order was issued on April 18, 2013.

- OPG plans to submit its next cost of service (COS) rate application for its regulated hydroelectric and nuclear assets in Autumn 2013 for 2014 and 2015 rates. The business plan assumes that this application would include rates for its newly regulated hydroelectric assets.

- Based on typical OEB processes, a decision on OPG's 2013 rate application for 2014 and 2015 rates for its currently regulated assets is expected in the summer of 2014; however a settlement could lead to an earlier decision.

- OPG's rate application for currently unregulated hydro, combined with new rates for currently regulated nuclear and hydro is expected to result in the customer bill impacts outlined in the table below (all values relative to 2013):
  - Please note that as per Energy's recommendation of a July 1, 2014 implementation date, the impact or the unregulated hydro assets would only be in effect for the last 6 months of 2014, for a rate payer impact would be $12 per customer in 2014.



- It is expected that rate regulating OPG's unregulated hydro assets could result in a 2 percent price increase for typical industrial customers. However, for Class A customers this impact can be mitigated by reducing demand during peak periods.

- To help smooth rate impacts over the business plan period, OPG plans to defer $465 million in OM&A costs in 2014 and $57 million in 2015. OPG would likely seek to recover these costs over a five year period starting in 2016.
- Rates would be set by the Ontario Energy Board (OEB) following the OEB's public hearings in OPG's rate application.
  - It should be noted that in its 2012 rate filing application before the OEB, OPG entered into a settlement agreement with the interveners in its rate filing before the OEB. In this settlement, both OPG and the interveners arrived at a mutually-agreed to rate settlement that moderated the rate impacts associated with OPG's filing by eliminating some costs and by amortizing other costs over a longer period.

Risks

- OPG experiences a degree of regulatory uncertainty, as a large portion of its revenue is contingent on the OEB's approval of rates for OPG's regulated hydroelectric and nuclear assets.

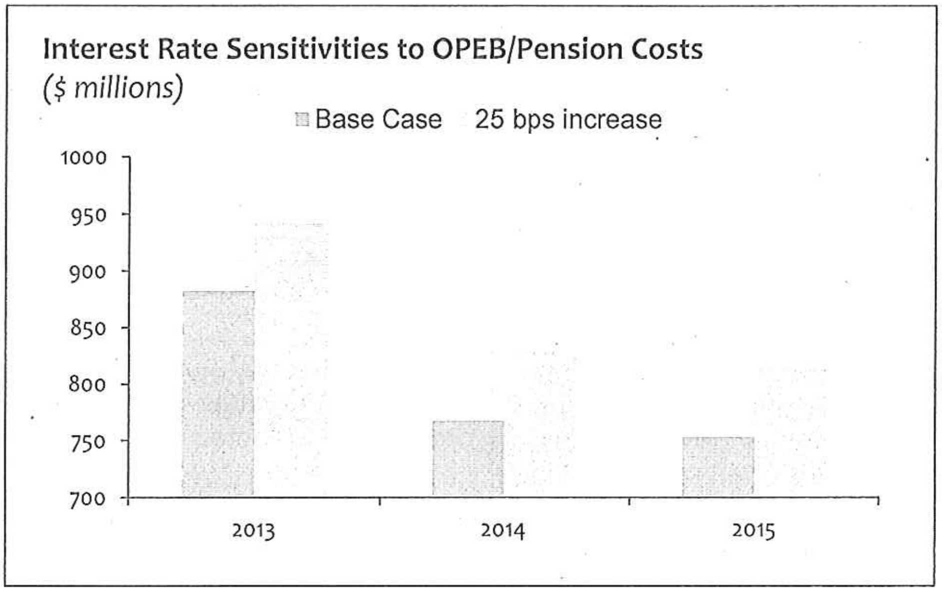
- OPG's ability to realize projected revenues and cash flows is contingent upon approval of rate regulation of the unregulated hydroelectric assets and rate revisions by the OEB. A 6-month delay of rate regulating unregulated hydro would result in a net income loss of $120 M. The table below summarizes these delay risks.

Impact of Delays in Rate regulation of unregulated hydro in 2014	$ Million
Net Income before extra-ordinary gain	252
Impact on Earnings Before Taxes (EBT)*	-160
Income Tax	40
Net Income impact	-120
Net Income after delay	132

* Would affect 2014-15 EBT projections shown in the table on page 8

- OPG has been rated "A-" with negative outlook in Feb 2013 by S&P and "A (low)" rating with "stable trend" in March 2013. If OPG is unable to meet financial metrics set in place, OPG is at the risk of a credit rating downgrade which would impact OPG's borrowing ability going forward.

- Changes in interest rates are expected to increase pension and OPEB costs for OPG. A sensitivity analysis on these interest rate impacts is provided below:



- OPG also experiences a degree of operational uncertainty, as factors such as Ontario electricity demand and water levels are outside of the company's control.

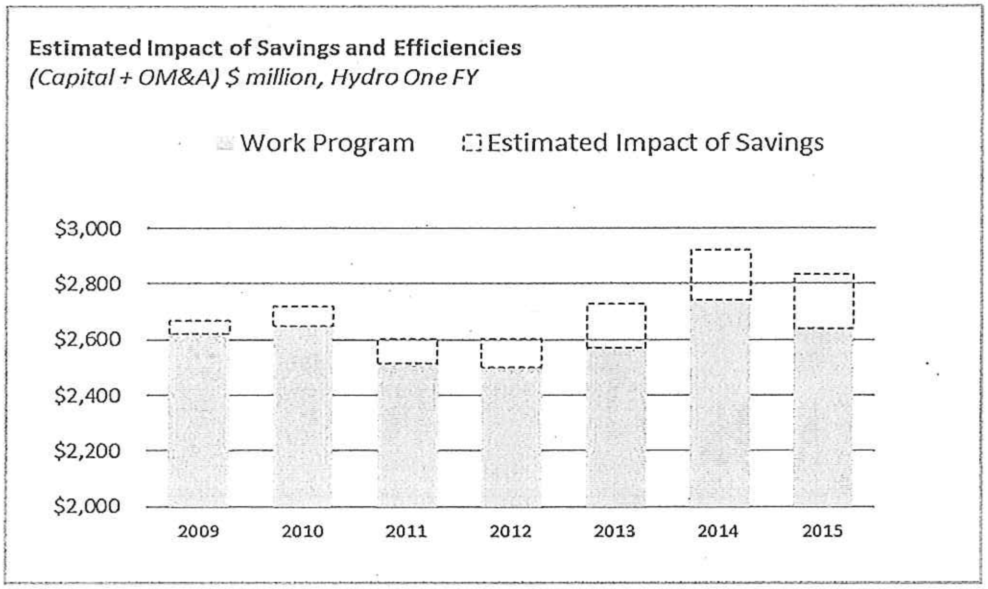
- While OPG has achieved headcount reduction targets set out earlier and continues to strive for realizing efficiencies from the Business Transformation Initiatives, a reduction in attrition could impact planned cost savings for 2013-15.

Hydro One Business Plan Details

Efficiencies

- Hydro One's projected total savings and efficiencies over the 2013-2015 timeframe are ~$530 million. Hydro One's savings strategy is grounded primarily in the following three initiatives:

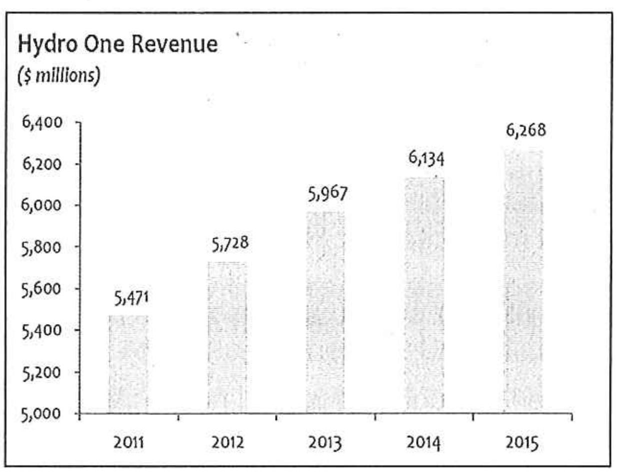
  - IT/Process improvements, with savings due to investments to replace end-of-life business systems with modern asset management, HR, resource planning and customer management systems;
  - Operations improvements by using non-regular staff to address work program growth while maintaining workforce flexibility and the centralization of operations; and
  - Back office savings, which would be gained through successful negotiation of the last extension of the Inergi Outsourcing Agreement (2010-2015).

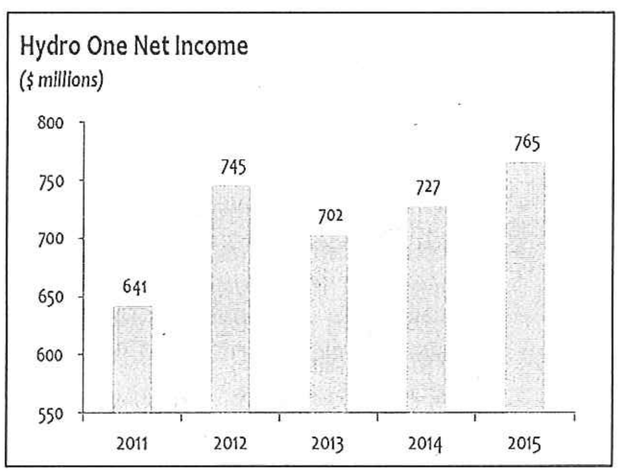


- KPMG was tasked with conducting a benchmarking review of Hydro One to find further efficiencies in the company. Hydro One is expected to report back on the potential for further efficiency savings.

Financial Performance

- Hydro One is projecting $731 million average net income over the next 3 years, which is over $70 million and 11 percent higher than the average over the 2010-2012 period.
  - The net income performance is largely impacted by lower than expected capital expenditures, OM&A and cost of borrowing, as well as lower regulatory return on equity.
  - Aside from 2013, net income is projected to increase year-over-year throughout the planning period at an average rate of 5.8 percent.
  - 2013 is projected to be the first year since 2009 with a year-over-year net income decrease.

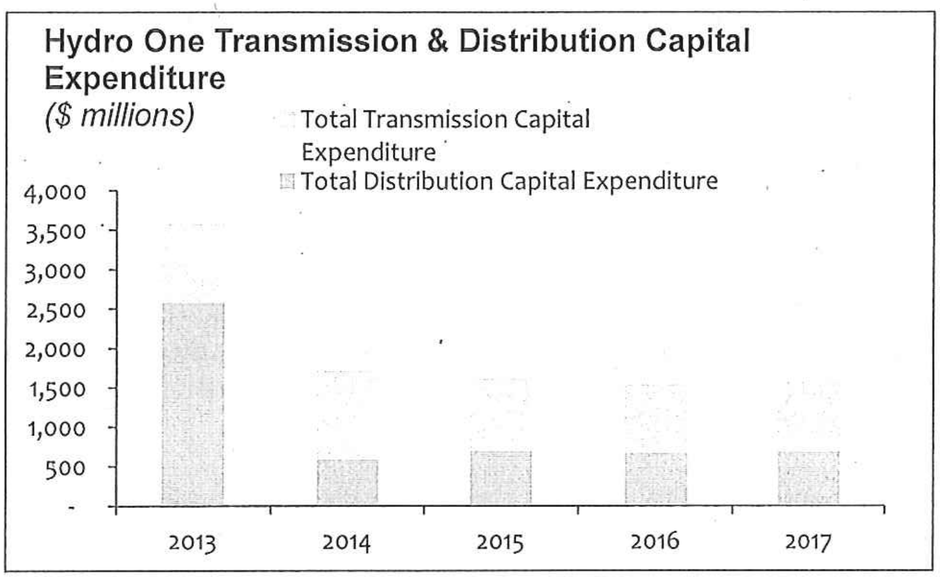




Capital Expenditures

- **Distribution:** Hydro One's capital expenditures for its distribution segment includes sustainment programs, such as vegetation management, equipment maintenance and trouble calls, station refurbishment / replacement, and development expenditures, including work on the Smart Grid, connections and upgrades, Smart Meters, and DG connections.
  - Capital spending increases are primarily related to a focus on asset replacement, an increase to the wood pole replacement program, and station refurbishment.
  - Distribution spending totals ~$1.4 billion over the course of the business planning period.

- **Transmission:** The majority of Hydro One's capital spending for its transmission segment is related to investments to replace, refurbish, and maintain aging equipment.
  - Capital investments to upgrade network capability consist of major LTEP projects (rewiring West of London and Milton SVCs) as well as the new Clarington TS in the east GTA, capacitor banks at Cherrywood TS, and reactors in the northwest for area voltage control.
  - Transmission spending totals ~$1.5 billion over the course of the business planning period.



Rate Strategy

- 2013 and 2014 transmission rates and 2013 distribution rates have already been approved by the OEB. Rates for both applications were set on the basis of outcomes from stakeholder settlement conferences, rather than full rate hearings.

- On November 8, 2012 the OEB issued its Decision accepting Hydro One's settlement proposal for its cost of service transmission application.
- On December 14, 2012, the OEB issued its Decision accepting Hydro One's Settlement Proposal for its IRM distribution application.
- The final rate orders for both transmission and distribution were issued on December 20, 2012

- In mid-2013, Hydro One plans to apply to the Board using the Incentive Regulation Mechanism process for 2014 Distribution rates.
  - The total bill impact is expected to be 1.4% in 2014 for distribution rates and 0.5% in 2014 for transmission rates. Rate increases are driven primarily by a growing ratebase, including planned and ongoing investments in local area supply and network capability and aging asset sustainment. It should be noted that the rate impact is less than CPI projections.

- The Business Plan reflects the outcomes of the OEB's Renewed Regulatory Framework for Electricity Report (RRFE). The Report has established a new approach to distribution sector regulation, whereby utilities are able to select one of three approaches to setting their distribution rates, starting in rate year 2014.
  - In 2015, Hydro One expects to utilize the new "Custom-Incentive Regulation" approach, which is a 5-year Cost of Service filing, for its distribution rates. This approach is suitable for utilities with significant forecasted capital expenditures.
  - The approach would involve filing one rate application for 5 subsequent rate years at once. While this presents the company and the shareholder with increased certainty on cost recovery and revenues, it would constrain the flexibility of work program adjustments that would be required due to changing policy priorities and/or circumstances.

Risks

- While Hydro One has decided to pursue a Custom IR Method (5-year Cost of Service) for its Networks Distribution subsidiary starting with the 2015 rate year, the mechanism itself is still under development at the OEB. Revisions to out-year rate impact estimates would be expected.

- Out-year development capital plans currently include conservative cost estimates for only those projects that have a strong likelihood of proceeding at this point. Emergent government policy initiatives, system investment needs, or customer requirements, would require funds and resources to be re-directed from other projects and programs.

- With respect to on-going labor negotiations, any adjustments to compensation levels and / or benefits and pension contribution ratios would require some cost re-allocation within the planned work program.

- Hydro One and the Society of Energy Professionals agreed to a new collective agreement in April. While there were base salary increases, these were partially offset by increases to the employee pension contributions.
- Hydro One and the Power Workers Union completed negotiations for a new collective agreement after conciliation.

- Hydro One is also subject to the risk of not achieving its business plan numbers due to regulatory uncertainty, as its rates are subject to OEB review and approval. It also faces operational uncertainty as it has no control over the amount of electricity consumed in the province. Higher demand leads to greater revenues for the company.

Policy Implications

OPG and Hydro One's business plans are predicated on government policies and can be affected by policy changes.

Long Term Energy Plan

- The Ministry of Energy is currently refreshing its long term energy plan for the Province. It is expected to release a revised plan in the fall.
- The contents and direction contained in the plan will have a considerable impact on both OPG and Hydro One.

OPG

- The Ministry of Energy plans to regulate OPG's unregulated hydroelectric assets. OPG's ability to realize projected revenues and cash flows is contingent upon approval of this change. Benefits of rate regulation include:
  - Improving regulatory efficiency, particularly in light of ongoing OEB initiatives;
  - Driving a fiscal benefit to the Province by increasing OPG net income and payments in lieu of taxes;
  - Stabilizing OPG's financial position; and
  - Providing the right incentives for OPG to maintain and operate these assets.

- The MOA that governs the relationship between OPG and the Ministry of Energy is currently being updated to remove restrictions on OPG's generation business and to improve OPG's financial sustainability.

- The Minister of Energy, in a recent direction to the Ontario Power Authority (OPA), noted that OPG would be allowed to participate in future large renewable procurements undertaken by the OPA. This replaces the prohibition against OPG participating in the Feed in tariff program, and will provide OPG with a new revenue source in the future.
    - As noted above, OPG would continue to borrow in the public debt markets to project finance any future large renewable projects.

- OPG continues to pursue generation opportunities in line with the province's Long Term Energy Plan, including the Darlington Refurbishment project, which is a major capital project for the company. This project has an anticipated 2016 start date.

- The OEB is currently considering opportunities to improve its regulatory process for setting OPG's regulated rates. This includes moving OPG's regulated hydroelectric assets to an Incentive Regulation Mechanism (IRM).

  - Further consideration is still being given on how to improve the process for setting OPG's nuclear rates.

Hydro One

- The OEB issued its RRFE report, which is a performance-based approach to regulation in the distribution sector. As part of this initiative, utilities will now be able to select one of three approaches to setting their distribution rates, starting in rate year 2014. The new approach to regulation would:

  - Provide flexibility to LDCs when applying for their rates;
  - Improve network/regional planning;
  - Further smart grid implementation; and
  - Develop improved methods to measure LDC performance to drive sector efficiency.

- In December 2012, the Distribution Sector Review Panel, commissioned by the Ministry of Energy, released its recommendations to increase efficiency in the distribution sector through consolidation. Subsequently the Ministry of Energy announced it would not impose forced consolidation on the sector, but continues to look for ways to increase efficiency. Given Hydro One's size and importance in the sector, any meaningful drive to reduce the number of local distribution companies in the Province is likely to involve the company.

  - In April, Hydro One announced the purchase of Norfolk Hydro, a small Ontario local distribution company.
  - Hydro One's business plan does not include any costs associated with disposing or acquiring any distribution service territory.

SECTION 2: REINSTATEMENT OF PROGRAM FUNDING FOR THE ONTARIO CLEAN ENERGY BENEFIT

Background:

The Ontario Clean Energy Benefit (OCEB) took effect January 1, 2011 and will run for five years until December 31, 2015.The benefit helps families, farms and small businesses manage rising electricity prices as the province invests in its transition towards a clean, modern and more reliable electricity system – one that includes renewables and creates jobs. While necessary and unavoidable, these investments are increasing electricity costs. The OCEB helps to mitigate these price increases by providing a 10% benefit on the total cost of electricity on eligible consumers' bills, including tax. On average, a typical household that uses 800 kilowatt hours (kWh) per month can expect to save about $165 annually as a result of the OCEB.

In parallel to this OCEB program, a separate OCEB program is available for about 1,700 residential and small business consumers in ten First Nations communities served by Independent Power Authorities (IPA). These First Nations communities face high energy costs. They are located in remote communities that use diesel fuel to generate electricity for distribution through small local grids.

The OCEB reduces electricity bills for low volume users. Over 4 million residential consumers, and over 400,000 farm and small business consumers are eligible to receive the Benefit. The OCEB is offered to Regulated Price Plan-eligible customers. This includes farms, residential customers, small business, and other small consumers that use less than 250,000 kWh per year or have a demand of 50 kW or less.

What changes have been made to the OCEB?
The Commission on the Reform of Ontario Public Services issued its report. The report made several recommendations, including the elimination of the OCEB.

Instead, the government opted to continue providing some relief – the 2012 Ontario Budget announced that financial assistance will be limited to electricity consumption of 3,000 kWh per month. The cap became effective September 1, 2012.Taking this balanced approach to the OCEB is a responsible way of managing the needs of electricity consumers and the fiscal implications of providing electricity price relief. It is estimated this change will save a total of about $500 million over four years or 11 per cent of the total cost of the OCEB over the period.

Eligible consumers who use more than 3,000 kWh per month continue to receive benefits on the first 3,000 kWh consumed. It is important to highlight that eligibility for the program was not changed. All residential customers, farms, and small businesses meeting existing eligibility requirements continue to qualify for the OCEB.

An exemption to the cap is available to residential consumers who require medical equipment that uses electricity. A written declaration must be provided to the local distribution company. This declaration must be supported by a doctor's note. Additionally, the OCEB program for First Nations will be exempt from the cap.

Business case rationale:

There is continued need in Ontario for electricity price assistance. The 2010 Long Term Energy Plan announced that residential electricity prices were expected to increase by 46 % over 5 years. In recognition of these rising costs, the government implemented the OCEB.

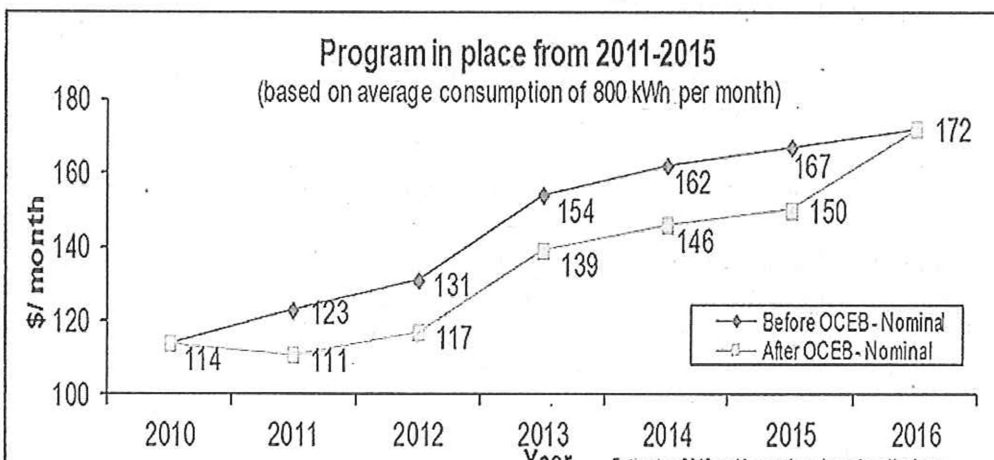
Through the 2013-14 Results-based Planning process funding for the OCEB was once again reduced – by $730M over a two-year period, 2014-15 and 2015-16. The 2013 Ontario Budget announced that certain benefit and tax programs, including the OCEB, would be reviewed for fairness and affordability with a view to introducing an income-testing element.

Additional changes to the OCEB are not recommended at this time as there is continued need for electricity price assistance, changes have already been made to the program recently and there are a number of considerations that make it difficult to implement the income-testing changes suggested in the Budget, including:

- A requirement for legislative changes
- Difficulty in implementing an income tested version of the OCEB
- Impact on consumer's bills would be an increase of up to 10%

The Ministry of Energy is requesting full reinstatement of OCEB funding. To maintain the existing program there is a need to achieve about $350M in each of 2014-15 and 2015-16. Stabilizing OPG would strengthen the fiscal plan sufficiently to allow the OCEB to continue in its current form.

Continued need for price mitigation
Further changes to the OCEB are not recommended at this time as there is continued need for electricity price mitigation. The 2010 Long Term Energy Plan (LTEP) announced that residential electricity prices were expected to increase by 46 per cent over five years (average annual increase of 7.9 per cent) – the OCEB provides direct relief and mitigates the impact of these increases.



Benefits of the OCEB

The OCEB program is helping over four million residential consumers and over 400,000 small businesses, farms, and other consumers. The OCEB continues to provide a full 10 per cent benefit to almost all residential customers, as a typical household of four people uses about 800 kWh per month. Most small retail businesses also continue to receive the full 10 per cent benefit.

Annual benefits received by various consumers:

Customer (annual consumption)	Current estimated annual bill (pre OCEB)	Estimated bill after OCEB	Yearly benefit[1]
Residential - 9,600 kWh	$1,600	$1,440	$160
Single Family Dwelling - Absent during the day - 12,500	$1,997	$1,797	$200
Corner Store - 14,400 kWh	$2,388	$2,148	$240
Residential (Electric Heat) - 19,000 kWh	$2,872	$2,585	$287
Average Welding Shop - 78,500 kWh	$11,820	$11,280	$540
Small Restaurant - 60,000 kWh	$9,115	$8,570	$545
Small Bank Branch - 74,000 kWh	$11,160	$10,615	$545
Farm (Nursery) - 144,000 kWh	$23,675	$23,085	$590
Farm (Greenhouse) - 600,000 kWh	$100,950	$100,345	$605
Farm (Tender Fruit) - 46,000 kWh	$8,120	$7,485	$635

[1] *Note: Amounts will vary based on actual price, consumption and location*

Change has already taken place

Program came into effect January 2011 and was a complicated program for delivery agents to implement and explain to their customers.

In short order, changes were introduced to the program – effective September 2012. To implement the cap, local distribution companies and sub-metering providers were required to make complicated and costly investments to update billing systems in a within short timeframes. Communication of changes was difficult both because they were difficult to explain and the government was decreasing the benefit while prices continued to rise – making it difficult to justify the change.

The program is time-limited – changing it frequently leaves the government vulnerable to criticism.

Financial impacts:

Through the 2013-14 Results-based Planning process, funding for the OCEB was once again reduced – by $730M over the last two fiscal years of the program.

$(millions)

Ontario Clean Energy Funding				
	2013-14	2014-15	2015-16	Total
Previously approved OCEB funding	1,040	1,140	890	3,070
Newly approved OCEB funding	1,040	740	560	2,340
Funding reduction	0	-400	-330	-730

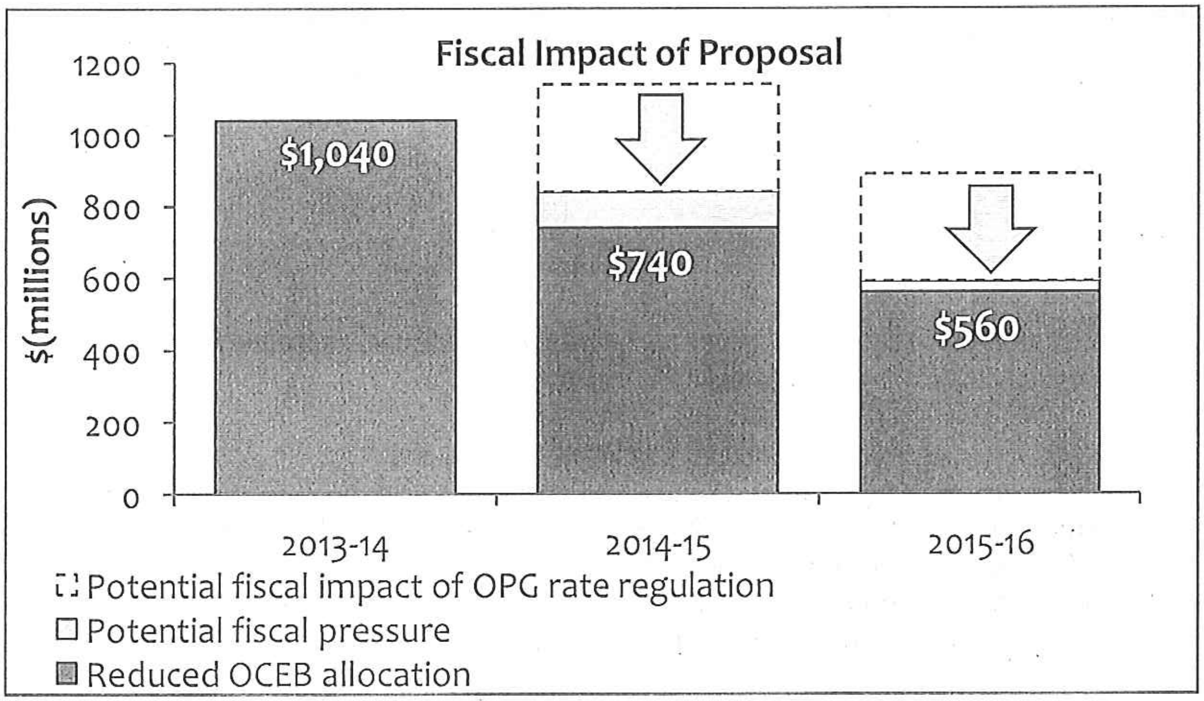
Note: 2015-16 funding only for nine months, program scheduled to end December 31, 2015

Additional changes to the OCEB are not recommended at this time as there is continued need for electricity price assistance and the Ministry of Energy is requesting full reinstatement of OCEB funding.

To maintain the existing program there is a need to achieve $730M over the two year period, 2014-15 and 2015-16. Stabilizing OPG through rate regulation of unregulated hydroelectric assets would strengthen the fiscal plan sufficiently to allow the OCEB to continue in its current form

Fiscal Impact of Proposal

	2014-15	2015-16
Fiscal impact of fully reinstating OCEB funding	400	330
Potential fiscal impact of OPG rate regulation	(300)	(300)
Net fiscal impact	100	30



SECTION 3: INFORMATION NOTE: PROPOSED SHAREHOLDER DECLARATION AND RESOLUTIONS FOR HYDRO / OPG OUTSOURCING ARRANGEMENTS

Hydro One

- The Minister of Energy intends to issue a Shareholder Declaration and Shareholder Resolution to Hydro One to require that in the new procurement all services currently performed under its existing outsourcing contract with Inergi LP be performed in Ontario.

- The Vendor could be based outside of Ontario, but would have to ensure all work and employment occurs in Ontario.

  - The 2013 Ontario budget identified opportunities that would improve operating efficiencies at Hydro One where Hydro One would review and implement solutions that would be Ontario based (ex. supply chain operations, procurement).

- The Minister of Energy is the sole shareholder of Hydro One. Hydro One is planning to issue a new procurement for the services covered by its current outsourcing agreement with Inergi LP which expires on February 28, 2015.

- Hydro One originally entered into a 10 year Outsourcing Agreement ("Agreement") with Inergi LP ("Inergi"), a subsidiary of Capgemini, in 2002. The Agreement was extended by three years in 2012.
  - The annual value of the contract is ~$130M.
  - Hydro One is Inergi's only customer.

- Under the Agreement, Inergi provides a range of outsourcing services for Hydro One, including: customer service operations, IT, procurement and supply management, human resources, and finance / accounting services (the "Services").

- The Agreement included the transfer of about 900 Hydro One positions that were transferred to Inergi LP in 2002 when Hydro One first outsourced Services.

  - Most of the transferred staff were unionized at transfer (569 were represented by the Power Workers Union; 277 by the Society).
  - The existing Agreement between Hydro One and Inergi includes successor rights for existing unionized employees.
  - The staff are located in Toronto.

- Hydro One indicates it needs to begin tendering this summer in order to have sufficient time to choose a supplier(s) and be able to negotiate a new agreement(s).

- Hydro One requires the new agreement(s) to be in place by February 2014 so as to provide a one year transition period between the existing supplier and any potential new supplier(s).

- In 2008, the Minister of Energy issued a Shareholder Declaration to Hydro One. This removed the ability of Hydro One's Board of Directors to make any decisions with respect to the offshoring of Services outside of Ontario in relation to the existing Agreement and declared that the authority to make those decisions now resided with the Minister of Energy, as sole shareholder.

  - The Shareholder Declaration is tied specifically to the current Agreement with Inergi and was not issued in respect of any procurement.
  - The Shareholder Declaration will no longer restrict Hydro One's Board of Directors from making decisions regarding offshoring of the Services once the current Agreement ends.

- As the existing Shareholder Declaration is specific to the current Agreement, Hydro One has indicated that it is seeking a new Shareholder Declaration and Shareholder Resolution prior to issuing a new Request for Proposal (RFP), to clarify where the outsourced Services are permitted to be performed.

  - Hydro One has completed a Request for Pre-qualification (RFPQ) to pre-qualify service providers and garner 'intelligence' over the bundling of service offerings.
  - Hydro One intends to divide up elements of the Services currently provided by Inergi. Hydro One intends to issue an RFP for up to five "bundles" of work from different providers.
  - In May 2013, Hydro One's Board approved the issuance of the RFP to pre-qualified vendors mid-2013. There are currently seven vendors that have been pre-qualified.

Risks and Mitigation Strategy

- The Shareholder Declaration and Shareholder Resolution has a low risk of violating international trade agreements, including the World Trade Organization's (WTO) Agreements on Government Procurement (GPA) and General Agreement on Trade in Services (GATS), and the North American Free Trade Agreement (NAFTA).

  - Hydro One is not a covered entity under the GPA.
  - Government procurements are excluded from non-discrimination obligations under the GATS.

- The issuance of a new Shareholder Declaration and Shareholder Resolution would cause the ministry, on behalf of Ontario, to violate the Agreement on Internal Trade (AIT) and the Trade and Cooperation Agreement between Ontario and Quebec (TCAOQ).

- By issuing the Shareholder Declaration and Shareholder Resolution, the Minister will be assuming all liabilities of the Hydro One board of directors, to the extent that the Shareholder Declaration restricts the discretion and powers of the directors to manage and supervise the business and affairs of Hydro One and the Shareholder Resolution imposes a geographic restriction requirement on Hydro One.

- The trade risk can be mitigated either by (1) allowing servicing across Canada (by using "Canada-only" approach in Shareholder Declaration and Shareholder Resolution) or (2) letting Hydro One tender the outsourcing work on its own and not imposing any requirement through a Shareholder Declaration and Shareholder Resolution. Hydro One could choose to include domestic work requirements as one of the technical specifications in its Request for Proposal (RFP). However, Hydro One has indicated that it would not choose to do so absent a Shareholder Declaration and Shareholder Resolution requiring it.

Financial Impacts

- No fiscal impacts to Province if Hydro One procurements for Services were restricted to Ontario. Would maintain status quo.

Implications for Other Programs / Ministries / Agencies

- The Minister of Economic Development, Trade and Employment reports that Canada and the European Union are currently negotiating a Comprehensive Economic and Trade Agreement (CETA), which is expected to include sub-national commitments in energy procurement for both parties. Once CETA is agreed and implemented, the ability of the Ontario government to direct Hydro One's procurement will be more circumscribed than under current trade agreements.

OPG

- A Shareholder Declaration will also be sent to OPG to ensure future service agreements procured by OPG in the renewal of its existing third party outsourcing agreement are also sourced in Ontario.

- OPG's existing service agreement with New Horizon System Solutions (NHSS) expires in 2016.

    - In 2001, OPG entered into an Information Technology Services Agreement with New Horizon System Solutions (NHSS), a wholly owned subsidiary of CapGemini

    - OPG completed a renegotiation of its outsourcing Agreement with NHSS in 2009 and the Agreement is set to expire on January 31, 2016.

- OPG has commenced the early stages of work around the contracting of these services after the current Agreement expires, but has not moved forward with issuing an RFP at this time.

- NHSS provides OPG with IT services, including data centre services, network services, security and disaster recovery services, and service management support.

    - NHSS provides services to other companies as well, including Bruce Power

    - NHSS's staff are also represented by The Society of Energy Professionals.

- No comparable Shareholder Declaration was issued to OPG concerning any outsourcing activity outside of Ontario, like the one that was issued to Hydro One in 2008 regarding Hydro One's Agreement with Inergi.

- To ensure parallel treatment of Hydro One and Ontario Power Generation, the Minister would issue a shareholder declaration to OPG similar to that which is being considered for Hydro One. Similar trade risks would also apply to OPG as indicated for Hydro One above.