CONFIDENTIAL REVISED: May 12, 2017

GLOBAL ADJUSTMENT SMOOTHING PROPOSAL

ISSUE: How is the government refinancing the Global Adjustment?

KEY MESSAGES:

- From 2003, Ontario invested more than $50 billion in the electricity system, to ensure the system is clean and reliable. The costs of the generation investments are funded in part through the Global Adjustment (GA).
- The majority of the generation costs are recovered over their 20-year contract period, while many of the assets are expected to be able to generate electricity for a longer period.
- To relieve the current burden on ratepayers and allocate costs more fairly over the period of expected benefit to ratepayers, a portion of the GA is being refinanced.
- Refinancing the GA would provide significant and immediate rate relief to eligible ratepayers by spreading the cost of electricity investments over a 30-year period to better reflect the expected lifecycle of the infrastructure that has been built.
- In the early years, a portion of the costs covered by the GA would be refinanced to reduce pressure on today's electricity ratepayers.
- In later years, the cost of refinancing would be recovered from ratepayers.

- Under current forecasts, the immediate reduction in the GA would be about $2.5 billion per year on average over the first 10 years.
- The government introduced legislation that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance the GA over a longer period of time. The proposed legislation would also outline the role for the Ontario Energy Board (OEB), as it relates to the financing proposal.
- Any further questions related to the GA refinancing should be directed to my colleague, the Minister of Energy.

IF ASKED ABOUT ACCOUNTING METHODS FOR GLOBAL ADJUSTMENT:

- Under the proposed structure, the Province's net debt and annual surplus/deficit is not expected to be negatively impacted since all costs are expected to be recovered through future rates.
- However, there is still much to be done in terms of working out the remaining details through regulations and commercial agreements.
- The fiscal impact to the Province will only be known once those details are finalized.

- The Ministry of Finance continues to work closely with Treasury Board Secretariat, the Ministry of Energy, OPG, the IESO and external advisors to address the outstanding accounting related considerations which will be key to managing the fiscal impact of the GA refinancing.
- The Auditor General has also been briefed on the proposed structure of the GA refinancing structure and will be advised of the government's proposed accounting treatment once the necessary details are available.

IF ASKED ABOUT STRUCTURAL DEFICIT:

- Any questions on this issue should be directed to my colleague, the Minister of Finance.

CURRENT STATUS:

- The Global Adjustment (GA) smoothing proposal was announced March 2, 2017, as a part of the proposed Fair Hydro Plan.
- The government introduced legislation on May 11, 2017 that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance the GA over a longer period of time. The legislation would also outline the role for the Ontario Energy Board (OEB).

BACKGROUND:

- The Ministry of Finance (MOF) and Ontario Financing Authority (OFA) are the lead on questions relating to debt financing for the Global Adjustment (GA).
- The global adjustment component of the electricity bill covers part of the cost of the electricity commodity.
- The global adjustment is set monthly to reflect:
    - The differences between the wholesale market price for electricity, known as Hourly Ontario Energy Price (HOEP) and:

        - Regulated rates for Ontario Power Generation's nuclear and hydroelectric generating stations, and
        - Payments for contracted rates paid to a number of generators across the province that have built or refurbished and operate electricity generation infrastructure such as gas-fired and renewable facilities (e.g., hydro, wind, solar) and nuclear
    - The cost of delivering conservation programs
- The GA varies from month to month, responding to changes in the HOEP compared to contract prices. Generally speaking, when the HOEP is lower, the GA is higher to cover additional costs for the items referenced above. The GA rate is also impacted when new projects come into service, contract payments take effect or as a result of changes in Ontario electricity demand.

Fair Hydro Plan and Global Adjustment

- To relieve the current burden on ratepayers and allocate costs more fairly, a portion of the GA is proposed to be refinanced under the Fair Hydro Plan.
- Refinancing the GA would provide significant and immediate rate relief by spreading the cost of electricity investments over 30 years to better reflect the expected lifecycle of infrastructure that has been built.
- In the early years, a portion of the costs covered by the GA would be refinanced to reduce pressure on today's electricity ratepayers
- In later years, the cost of refinancing would be recovered from ratepayers.
- Under current forecasts, the immediate reduction in the GA would be about $2.5 billion per year on average over the first 10 years.

RECENT MEDIA COVERAGE:

- May 12, 2017 – There is widespread coverage of allegedly leaked government documents that show the 25% cut to hydro rates now could mean high electricity bills in the long-term. The Toronto Star (A1) and Globe & Mail (A4) report briefing materials show the average Toronto Hydro customer would save almost $2,500 through to 2025, but bills would increase an extra $4,800 over the following 22 years. The Globe says Ontarians would see a charge of about $20 on monthly bills to repay the almost $28-billion in debt accumulated to lower rates for almost a decade. **Tone negative**.
- May 11, 2017 – Toronto Sun reports "Ontarians are in for a hydro shock".
- May 11, 2017 – CBC reports an allegedly leaked cabinet document reveals hydro bills will increase over the next decade and surpass $200/month on average in 2028.
- May 11, 2017 – Toronto Star reports the average hydro bill will jump almost $10/month in 2022 and soar to $195 by 2027. The article quotes alleged leaked cabinet documents obtained by the PC's.

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