Good Afternoon:

- Appreciate that today's conversation is an evolution from our detailed discussion at Caucus Retreat on Monday.
- The purpose of today's Cabinet discussion is not to approve a final plan, but to provide this table with more detail and considerations as we work through these challenging policy options.
- The most significant conversation that we'd like to have is around the smoothing of the Global Adjustment (commodity) charges that we discussed earlier this week.
- However, before we tackle the Global Adjustment, would like to spend a few moments to highlight a few updates on the other suite of programs that we are recommending.

Distribution Charges / Social Programs

- Content in the front section of this deck remains generally the same, regarding the programs and measures to support a more equitable delivery charges across the Province.
- To review, those are the expansion of the RRRP (Rural or Remote Ratepayer Protection Plan); the enhancement of the OESP (Ontario Electricity Support Program); the establishment of the LDC Affordability Fund; and the On-Reserve First Nations rate.

- I won't go into detail to review these again, given the dialogue earlier this week, but would like to point out that we took back the suggestions from Caucus Retreat and were able to immediately action the suggestion that came from Laura Albanese regarding the enhancement of the OESP. If you look to SLIDE 24, you will note that we have further enhanced our recommended option and added additional support – these are now circled in the chart on the right.
- Significantly, please turn to SLIDE 35, and you will see the near-term fiscal impact of taking these programs, and fully funding them through the fiscal plan.
- Ministry of Energy strongly feels that social programs that carry no tangible electricity system benefit from a strict engineering & physics perspective belong on the tax-base. These are social programs that speak to our values as a Government – that there are those who deserve dedicated support with their electricity costs. But that it was wrong for us to burden all other ratepayers with these social programs.
- On its own, by moving these programs to the tax-base will save residential customers about $25 per year off hydro bills.
- This reduction is included in our math later on in this deck, but also stands on its own, as an important principle.

Global Adjustment Smoothing

- Next, we need to discuss in detail the smoothing of the Global Adjustment.
- Allow us to explain this concept and then take some questions.
- As previously discussed, the Global Adjustment (GA) is the difference between the spot market price or HOEP (Hourly Ontario Electricity Price) and the contracted price of power. For sake of ease, I will use a simplified example.
- Wind farm. When it feeds electricity into the grid, it makes money via both HOEP and the GA.
- HOEP, on average is about $35 / MWh ["*megawatt hour*"] per year. But our Green Energy / Large FIT / Samsung contracts are at a price of $135 / MWh. So in this case, the GA accounts for about $100 of the $135 that goes to the wind farm proponent.
- Now, in keeping with this wind farm analogy.
- We have agreed, via contract, to pay that wind farm proponent $135 / MWh for the FIRST 20 years of their operations, via a Power Purchase Agreement (PPA).
- The high cost of the PPA rate allowed Ontario to secure this supply for 20 years and ensure that the proponent was able to recoup all of their capital, operating & maintenance as well as a profit for these generating facilities.
- But after 20 years, that wind farm is still going to exist, and still be available to Ontario electricity ratepayers.

- For years 21-30 (or in some cases 35) those generating assets, once off-contract, will still have OPTION value for future ratepayers, should we need to re-contract with them for electricity supply.
- All evidence suggests that when we choose to re-contract for supply, we are largely able to do so at steep discounts to the original PPA rate. This is because the assets have been fully depreciated and, in the cases of renewables, face zero fuel costs.
- Based on the imperfect information that we have at this time, we recommend against attempting to re-contract with these firms at present. But rather, maintain the option value for the future.
- However, regardless of the contractual structure in the out years, future ratepayers will benefit from a security of supply in those years BECAUSE we have front-end loaded these charges during the 20 year PPA that current ratepayers are shouldering.
- Taken together, these PPA's are contributing to a cumulative GA that, in 2017 will amount to about $12-billion, and decline by 2030 to $6-billion.
- To that end, our proposed smoothing mechanism would lower the GA in the near term and spread the costs more evenly across the full useful life of our generating fleet.
- Next, in terms of technical factors, the proposed smoothing mechanism would be established as a fund, managed by OPG with a relationship to the IESO.

- Our legal and accounting staff have been reviewing these options for the past number of weeks, and a description of the proposed mechanism is outlined on SLIDE 44.
- In effect, we want to create a structure that would satisfy the accounting principles that allow us to keep this smoothing fund off the provinces' books.
- Since there would be no co-mingling between the electricity ratepayer and the consolidated revenue fund of the Province; we believe that we have a strong case against consolidating this charge on the provinces' fiscal plan.
- Over the course of the past four weeks, our team, along with Treasury Board and Finance staff have been working through the various permutations and combinations that would effect a smoothing transaction, while lowering the risk of consolidation.
- We know that even after we buttress our case internally, that we will face a potentially awkward conversation with the Auditor General.
- Our own view is that as long as our internal house is in order, then we should proceed, and deal with the AG in time.
- Also, in recent days, we have also become attuned to risks regarding the potential for a constitutional law challenge. Ministry of Attorney General staff have been engaged and are also helping us chart the 'path of least resistance' here.

- In SLIDES 45 – 50 you can review the profile of what a 25%, 20% and 18% total bill reduction could look like, as well as the commensurate level of debt associated with each option.
- Of note, and as highlighted by Bob Chiarelli on Monday, we are aware of the risk of mitigation measures today being off-set by further rate increases. To that end, we are structuring the GA smoothing to ensure that we set the total bill increase at NO MORE THAN 2% (i.e. generally the proxy for a CPI increase) for the next 4 years.

Conclusion

- From this presentation and the accounting and legal considerations listed on SLIDES 51 and 52, it is quite apparent that the proposed approach is not without its implementation risks.
- Simply put, this represents a significantly difficult proposal. But if it was easy, then this would already have been done.
- Before we take questions, I just want to thank the team at Ministry of Energy, Finance, Treasury Board and Cabinet Office who have put in a lot of very LONG hours to get this to the stage we are at today.

[Discussion]

- If possible, please ask Cabinet to narrow down on a preferred Option – 1 (25% total bill reduction); Option 2 (20% total bill reduction) or 3 (18% off).