

GA Financing Scenario

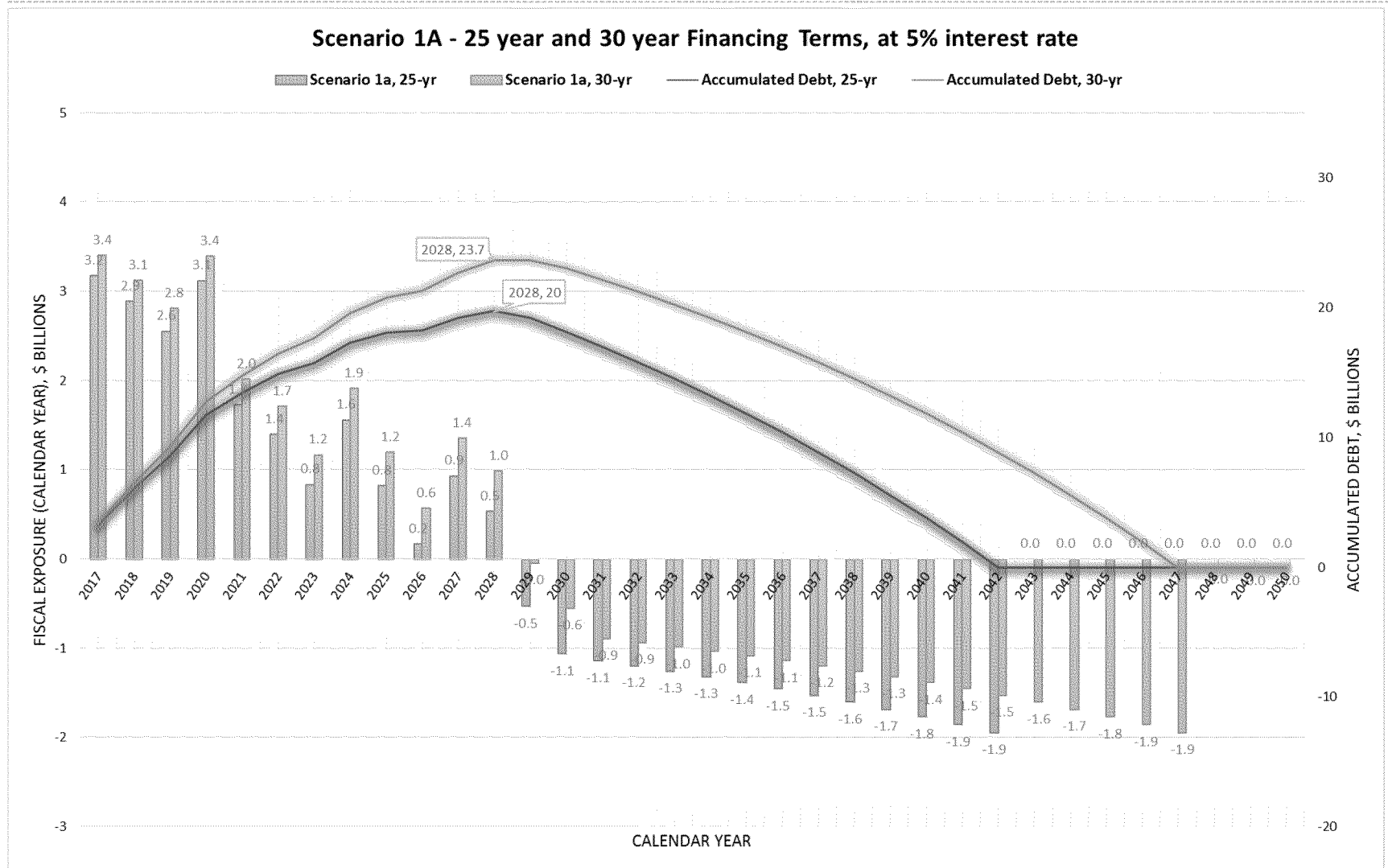
Option 1a/1b

Corporate and Electricity Finance Division
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Overview

- ▶ In a draft Ministry of Energy deck, Energy considers a number of electricity price mitigation options, including deferring the pass-through to ratepayers of some generation supply costs by partially debt financing the cost of the Global Adjustment (GA) and incurring debt to pay the generators their contracted or regulated payments.
 - ▶ The amount of GA paid by ratepayers would be set at a value lower in the early years than the costs of supply, and would be increased over time according to a pre-defined formula until the debt has been paid off.
 - ▶ Without a favourable outcome on the discussions and implementation of the accounting treatment of the GA-related debt financing, the accumulated debt would potentially represent fiscal exposure to the Province.
- ▶ Based on the two Energy options below, each at a 25-year amortization period and at a 30-year amortization period, there are a total of four scenarios considered:
 - ▶ Option 1a: Moderate GA financing - The amount of GA paid by ratepayers in 2017 is lowered by \$3.2 and \$3.4 billion below the annual supply costs, with the GA increasing by 2% thereafter, with limits on deferred amounts to be recovered annually to be no more than \$2 billion above the annual cost of generation supply
 - ▶ Option 1b: Moderate GA financing with delayed increase - The starting GA payment from all ratepayers in 2017 is lowered by \$1.1 and \$1.4 billion, reducing ratepayer payments more in the short term to keep residential bills relatively flat, then increases at 3% each year with limits of no more than \$2 billion above the annual cost of generation supply
- ▶ Energy scenario modelling was provided on a calendar year basis, and assumed to be starting as at January 1, 2017. Actual costs and timing may differ.
- ▶ Energy assumed a 5% interest cost. Actually borrowing costs may differ, depending on source of financing, structure of the entity including financial risks borne, and general financial market conditions.
 - ▶ Internal modelling that follows is based on GA data provided by Energy and assumes monthly GA amounts to be financed and interest expense accumulating from that point. Energy modelling may make different assumptions.

Scenario 1A *(Calendar Year Basis)*



Scenario 1A *(Calendar Year Basis)*

- Scenario 1a: Moderate GA financing: Initially paying in a year up to \$3.2 and \$3.4 billion below the true cost of GA. Then limits, when consumers start to “pay down”, of paying no more than \$2 billion per year above the true cost of GA.
 - On a calendar year basis, annual interest cost peaks at \$1 billion (\$1.2 billion) , with cumulative interest costs of about \$15 billion (\$22 billion), under a 25-year (or 30-year) financing term

Scenario 1a - GA 25/30 year financing

\$ millions

Scenario 1a - 25-yr amortization ¹	2017	2018	2019	2020	2021	2022
Fiscal Exposure ²	3,180	2,888	2,556	3,123	1,728	1,400

Fiscalized ³	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	795	3,107	2,805	2,697	2,774	1,646

Scenario 1a - 30-yr amortization	2017	2018	2019	2020	2021	2022
Fiscal Exposure ²	3,404	3,128	2,812	3,396	2,020	1,712

Fiscalized ³	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	851	3,335	3,049	2,958	3,052	1,943

Actuals are subject to actual prices and actual interest rates.

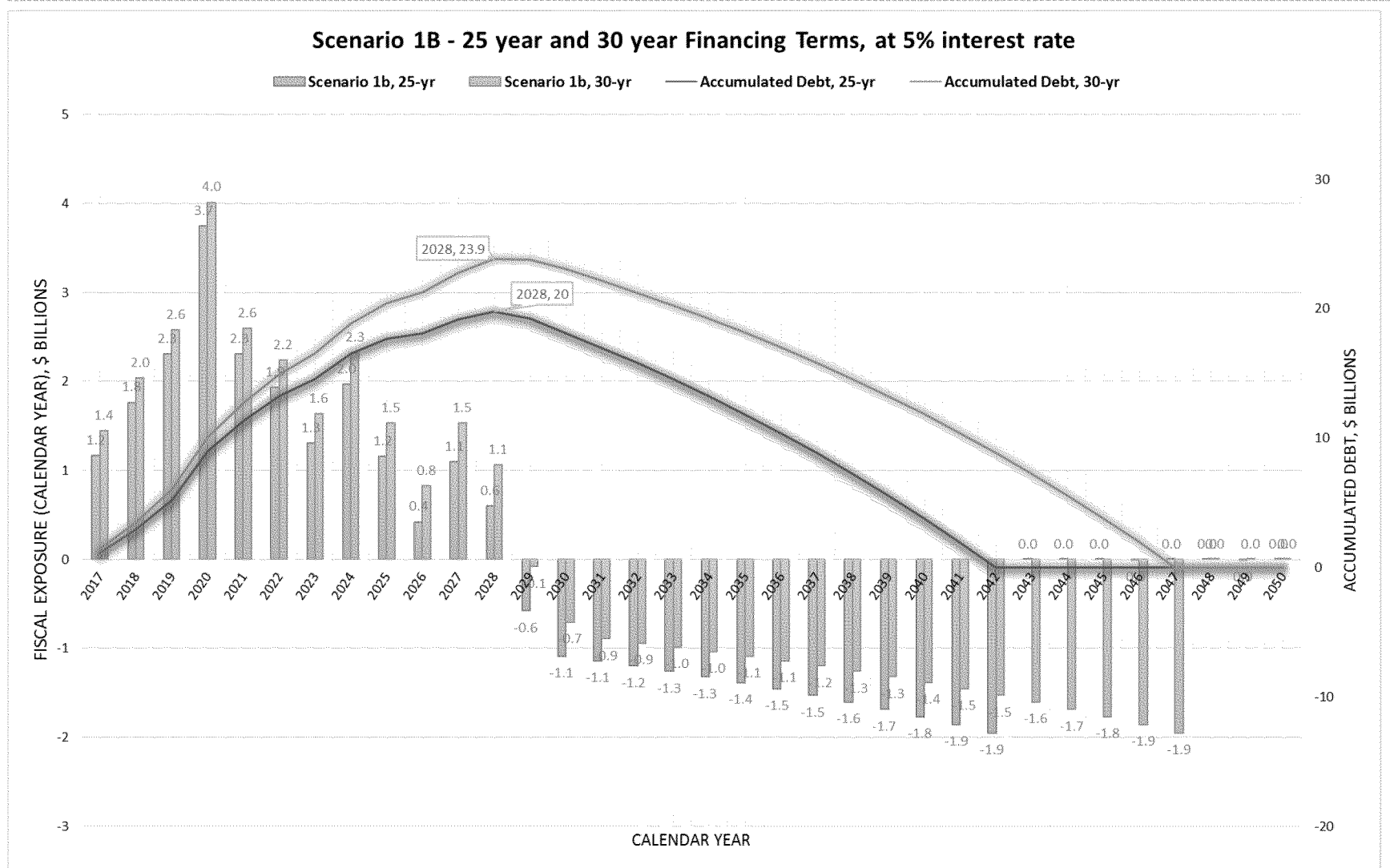
- The highest debt accumulation (at 5% interest rate) is expected to be approximately \$20-24 billion, peaking in 2028 and \$17-21 billion (at 3% interest rate), peaking in 2028.
- At 3.5%, the highest fiscal exposure will occur in 2017-18, decreasing by approximately \$33-\$36 million compared to that at 5% interest rate.

¹ Based on an interest rate of 5%.

² Fiscal exposure based on equal monthly drawdown of debt.

³ Fiscalized based on 75/25 split of annual numbers provided by Energy. Actual fiscalization would vary based on GA actuals per month based on month of the year. Actuals may also depend on decision on accounting treatment.

Scenario 1B *(Calendar Year Basis)*



Scenario 1B *(Calendar Year Basis)*

- Scenario 1b: Moderate GA financing, with delayed increase, paying initially in a year \$1.1 billion below the true cost of GA. Then limits, when consumers start to “pay down”, of no more than \$2 billion per year above the true cost of GA
 - On a calendar year basis, annual interest cost peaks at \$1 billion (\$1.2 billion), with cumulative interest costs of about \$15 billion (\$21 billion), under a 25-year (or 30-year) financing term

Scenario 1b - GA 25/30-year financing with delayed increase in payments

\$ millions

Scenario 1b - 25-yr amortization ¹	2017	2018	2019	2020	2021	2022
Fiscal Exposure ²	1,168	1,765	2,311	3,750	2,311	1,933

Fiscalized ³	2016-17	2017-18	2018-19	2019-20	2020-21	2021-2022
	292	1,317	1,901	2,671	3,391	2,217

Scenario 1b - 30-yr amortization	2017	2018	2019	2020	2021	2022
Fiscal Exposure ²	1,449	2,040	2,581	4,016	2,598	2,241

Fiscalized ³	2016-17	2017-18	2018-19	2019-20	2020-21	2021-2022
	362	1,597	2,175	2,940	3,662	2,508

Actuals are subject to actual prices and actual interest rates.

- The highest debt accumulation (at 5% interest rate) is expected to be approximately \$20-\$24 billion, peaking in 2028 and \$17-21 billion (at 3% interest rate), peaking in 2028.

- At 3.5%, the highest fiscal exposure will occur in 2020-21, decreasing by approximately \$118-\$134 million compared to that at 5% interest rate.

¹ Based on an interest rate of 5%.

² Fiscal exposure based on equal monthly drawdown of debt.

³ Fiscalized based on 75/25 split of annual numbers provided by Energy. Actual fiscalization would vary based on GA actuals per month based on month of the year. Actuals may also depend on decision on accounting treatment.