

RE: Updated minute

From: Ronald Kwan <ronald.kwan@ofina.on.ca>
To: "Thompson, Scott (MOF)" <scott.thompson@ontario.ca>, "Mayman, Gadi (OFA)" <gadi.mayman@ofina.on.ca>
Cc: "McLean, David (MOF)" <david.mclean@ontario.ca>
Date: Mon, 20 Feb 2017 20:26:23 -0500
Attachments: price mitigation minute draft Feb 20 330pm_Markup.docx (33.28 kB)

Hi Scott, Gadi,

While I see that the Minute (2A) is trying to put more definition to the 25% cap as annual for that year during the deferred cost recovery period, the Minute as written seems to raise questions.

What if there is a change in the amount to be deferred due to GA costs being higher than expected, or from interest rates that are higher than modelled?

I.e., what if it becomes not possible to meet both the 2048 timeframe for full recovery and the 25% cap?

Is this an exposure to the entity carrying the deferral amounts, if cost recovery is capped and it has not fully recovered costs by 2048? – Does that raise the risk that it may not ultimately be sustainable, with then a fiscal impact?

If the expectation is that a future Cabinet could remove one or both of the 2048 or 25% limit, why impose it?

Or, is the intent to expose the entity to real risk – is that needed for the accounting treatment? And would such a constraint, presumably needed to be publicly revealed to third party bondholders, then raise the cost of debt, or would the third party debt be kept to a small tranche and senior to any government-provided debt? Would that affect the accounting analysis, if sustainability is questionable, or reliance on government debt?

Minute 1 still reads to me as giving a lot of flexibility to Energy to get to up to 25%. If it's an aspirational Minute, should it be worded as such?

Ron

From: Greenberg, Martha (CAB) [mailto:Martha.Greenberg@ontario.ca]
Sent: February-20-17 3:28 PM
To: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Steven Davidson (MTCS) <Steven.Davidson@ontario.ca>; Steve Orsini (MOF) <Steve.Orsini@ontario.ca>
Cc: Serge Imbrogno (ENERGY) <Serge.Imbrogno@ontario.ca>; Helen Angus (MOHLTC) <Helen.Angus@ontario.ca>; William Bromm (CAB) <William.Bromm2@ontario.ca>; Karen Hughes (MGS) <Karen.Hughes@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Robert Foster (MOF) <Robert.Foster@ontario.ca>; Moore, Karen (CAB) <Karen.Moore4@ontario.ca>; Chochla, Megan (CAB) <Megan.Chochla2@ontario.ca>; Bofoa Kwamena (MOI) <Bofoa.Kwamena@ontario.ca>
Subject: RE: Updated minute

Hi

Attached is an updated minute attempting to reflect the emails over the weekend. There are still questions embedded that would benefit from review to ensure we are capturing the weekend email discussion appropriately. We can then work to delete those outstanding questions and send around a proposed final

minute early tomorrow.

New note will be coming out later today if possible and thanks to all who have fed in comments on minute and note.

Thanks,
Martha

From: Thompson, Scott (MOF)
Sent: February-20-17 1:36 PM
To: Davidson, Steven (CAB); Orsini, Steve (CAB)
Cc: Imbrogno, Serge (ENERGY); Greenberg, Martha (CAB); Angus, Helen (TBS); Bromm, William (CAB); Hughes, Karen (TBS); McLean, David (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA); Foster, Robert (CAB); Moore, Karen (CAB); Chochla, Megan (CAB); Kwamena, Boafoa (CAB)
Subject: Re: Updated minute

Thanks. Helpful. And hopefully the comms plan/strategy allows time to consider these other options at a report back to Cabinet before it gets locked in by an announcement.

Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Davidson, Steven (CAB)
Sent: Monday, February 20, 2017 12:05 PM
To: Orsini, Steve (CAB)
Cc: Thompson, Scott (MOF); Imbrogno, Serge (ENERGY); Greenberg, Martha (CAB); Angus, Helen (TBS); Bromm, William (CAB); Hughes, Karen (TBS); McLean, David (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA); Foster, Robert (CAB); Moore, Karen (CAB); Chochla, Megan (CAB); Kwamena, Boafoa (CAB)
Subject: Re: Updated minute

We'll have revised minute and CO note for distribution this afternoon.

We're repositioning minute #2 to remove 2A ii and add a new 2B that will speak more clearly to the report back requirements per comments below, ie be clear that we're not assuming an automatic full fiscal offset for GA smoothing, but to require options for achieving the desired outcome in the most cost effective way.

Sent from my iPhone

On Feb 20, 2017, at 10:37 AM, Orsini, Steve (CAB) <Steve.Orsini@ontario.ca> wrote:

Scott,

This is an important point. It should be very clear that there will also be a risk that the debt financing will end up impacting the deficit.

It may be prudent to have the Ministers report back to Cabinet/TB. Since all items from TB go to Cabinet, it amounts to the same thing. It is just the ordering.

Steve

From: Thompson, Scott (MOF)
Sent: Monday, February 20, 2017 7:23 AM
To: Orsini, Steve (CAB)
Cc: Imbrogno, Serge (ENERGY); Davidson, Steven (CAB); Greenberg, Martha (CAB); Angus, Helen (TBS); Bromm, William (CAB); Hughes, Karen (TBS); McLean, David (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA)
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That would be the appropriate way to go. However the current Minute suggests that if the debt financing method doesn't work that Ministries just go to TB to get the required funding. That suggests that GA smoothing is happening whether or not the OPG debt method works, which seems to be foregoing the possibility that there's a more effective and less costly way of delivering the same price savings to customers.

I agree with you that a trip back for Cabinet consideration of options would be the way to go - that's just not what the current minute says.

Scott

Sent from my iPad

On Feb 18, 2017, at 7:22 PM, Orsini, Steve (CAB) <Steve.Orsini@ontario.ca> wrote:

Agreed, but we need to have that discussion and the minute should reflect the need to report back on more effective options.

From: Thompson, Scott (MOF)

Sent: Saturday, February 18, 2017 6:44 PM

To: Orsini, Steve (CAB); Imbrogno, Serge (ENERGY)

Cc: Davidson, Steven (CAB); Greenberg, Martha (CAB); Angus, Helen (TBS); Bromm, William (CAB); Hughes, Karen (TBS); McLean, David (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA)

Subject: Re: Updated minute

Sorry, I didn't finish my sentence!

What I meant to say was"If it doesn't, presumably there's a more effective or cost efficient way of providing the same benefit vs the GA smoothing."

Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Thompson, Scott (MOF)

Sent: Saturday, February 18, 2017 6:10 PM

To: Orsini, Steve (CAB); Imbrogno, Serge (ENERGY)

Cc: Davidson, Steven (CAB); Greenberg, Martha (CAB); Angus, Helen (TBS); Bromm, William (CAB); Hughes, Karen (TBS); McLean, David (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA)

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And if there is to be that large a fiscal impact, there should really be an analysis of the fiscal cost for each dollar (or percent) of price mitigation. There's been no real cost-benefit analysis because the assumption has been that the GA smoothing will work. If it doesn't, presumably there's a more eff

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Orsini, Steve (CAB)

Sent: Saturday, February 18, 2017 5:01 PM

To: Thompson, Scott (MOF); Imbrogno, Serge (ENERGY)

Cc: Davidson, Steven (CAB); Greenberg, Martha (CAB); Angus, Helen (TBS); Bromm, William (CAB); Hughes, Karen (TBS); McLean, David (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA)

Subject: RE: Updated minute

These are good points. I would add that until we have confirmed the legal and accounting treatment, the GA smoothing should be assumed to fall on the deficit.

From: Thompson, Scott (MOF)
Sent: February-18-17 3:56 PM
To: Imbrogno, Serge (ENERGY)
Cc: Davidson, Steven (CAB); Greenberg, Martha (CAB); Orsini, Steve (CAB); Angus, Helen (TBS); Bromm, William (CAB); Hughes, Karen (TBS); McLean, David (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA)
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A few points:

- most importantly, we haven't been able to take our Minister through the 'all in' fiscal impact summary for the package being presented. Our Minister will be back on Tuesday and this will be at the top of his mind.
- related to this, is it assumed that there will be a full year's worth of fiscal impact in 17-18. Won't some of these measures take time to roll out and therefore be a smaller impact in year one?
- also related, what is the presumed duration of the non-GA mitigation measures? Are they permanent? If so, we'll need a stronger understanding of the long term fiscal implications of them. There's just a small (and worrisome) footnote at the bottom of the fiscal table on page 35 that suggests the costs for RRRP will start increasing post 2023
- I don't believe we've seen a strong case being made for the 200M affordability fund. Since that is proposing to use money from 16-17, and we're publishing Q3 on Tuesday, he'll be particularly sensitive to that. He does not want additional expense items added between now and Q3 that would significantly add to the interim deficit number for 16-17 to be presented in Document. With all of the other affordability measures being proposed, why do we need to rush this program out the door now? I'm not suggesting moving it into a later fiscal year, but I think it would benefit from a stronger analysis of the level of need, after building in all of the OESP proposed changes. The slides say that LDC's say that something is needed, but of course they would, they haven't seen all of the other things that are coming.
- why does the fiscal impact of oesp need to increase so significantly from years one to four? Can't we somehow put a limit on the size of the program, and revisit the need to enhance further once we see the effect of electricity price mitigation overall on lower income households?
- not sure how the 25 percent cap works after 2022. Does this mean that the cost in any given year can't be any more than 25 percent higher than what it was in 2017? Does this math work, even if electricity prices increase drastically for some unexpected reason?
- the TB consideration of this will be important. They will need some real analysis of the impact, and hopefully some real time to consider the options. Not sure how this is possible if an announcement is to be this week
- I see MMA referenced in the Minute. Is Energy working with them on implementation options? I'm quite concerned about the operability of any proposal, as I'm aware that rent control is only on a portion of the rental stock, and I know that we didn't try to ensure savings pass through from landlord to renter in some previous electricity programs.

Thanks
Scott

Sent from my iPad

On Feb 18, 2017, at 1:50 PM, Imbrogno, Serge (ENERGY) <Serge.Imbrogno@ontario.ca> wrote:

Hi. I believe that's where my MO and PO landed but we could try for different language. Not sure if up to 25 percent language would give us some flex. Serge

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Davidson, Steven (CAB)
Sent: Saturday, February 18, 2017 1:42 PM
To: Greenberg, Martha (CAB); Imbrogno, Serge (ENERGY)
Cc: Orsini, Steve (CAB); Angus, Helen (TBS); Thompson, Scott (MOF); Foster, Robert (CAB); Chochla, Megan (CAB); Moore, Karen (CAB); Bromm, William (CAB); Kwamena, Boafoa (CAB); Hume, Steen (ENERGY); Hughes, Karen (TBS); Katona, Keley (ENERGY)
Subject: Re: Updated minute

Serge, a question on 2A of attached minute.

I don't recall us locking down a 25% cap. Is that from your MO? Is there any risk of that impacting on ability for full repayment by 2048, ie if consumption patterns change and repayment is being funded by a relatively smaller customer base (which is one of the risks flagged)?

Thanks.

Sent from my iPhone

On Feb 18, 2017, at 1:30 PM, Greenberg, Martha (CAB) <Martha.Greenberg@ontario.ca> wrote:

Hi all,

Attached is an updated minute that incorporates the version received from energy last night as well as SoC comments and Steven's comments this morning. We have incorporated most of the detail energy included but not in all areas, for example some of the detail on legislative change isn't here and some detail is more appropriate for a TB minute (e.g., on the affordability fund). I have left one comment in, around whether OEFC or the OFA would require any expanded powers as it could be added in 2Ai, will leave that to MOF to answer.

Tracked changes was not a pleasant read so I have made this clean but if you would like further details on the changes, just email me and I can walk you through them.

I've saved this version as Feb 18 130pm.

Same password.

Thanks,
martha

Martha Greenberg
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Cabinet Office – Economic, Environment, Justice & Intergovernmental Policy
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Martha.Greenberg@ontario.ca

<price mitigation minute draft Feb 18 130pm.docx>