Ministry of Energy Submission to TB/MBC (Risk Tracker) –
Electricity Price Mitigation

Executive Summary:

- 11 key risks identified that impact for two key objectives:
  - Global Adjustment Smoothing (5 risks)
  - Enhancing Electricity Support & Conservation Programs (6 risks)
- 7 of the risks require further attention and analysis before the proposal is submitted for decision-making. (i.e. final costing/forecasting models not identified; more detailed implementation information required from ministry to support decision-making).
- Risk status' may be adjusted before inclusion in TB/MBC Request Assessment Note based on results of ongoing analysis (i.e. financial, accounting and legal risk assessments) and information included in ministry submission to TB/MBC.
- Cabinet Office Policy and Delivery Risk Tracking methodology utilized to facilitate ongoing reporting and monitoring of risks from ministry to central agencies post-implementation.

Objective(s)	Risk(s)	Risk Category	Risk Status	Rationale for Risk Level	Risk Response and Mitigation Activities
Global Adjustment (GA) Smoothing Provide immediate ratepayer relief by capping rate increases at Consumer Price Index (CPI) for four years and refinancing GA costs over a longer period of time. Develop and implement a financing structure that increases provincial borrowing, but has no impact on annual provincial surplus/deficit.	1. The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA smoothing being allocated to the Province.	Financial	**Heigthened Management Attention Required**	• **Risk Likelihood:** Possible • **Risk Impact:** Critical • **Time Scale:** Now **Considerations:** • Will result in significant provincial fiscal impacts. If a favourable legal and accounting treatment is not implemented, there would be a negative impact on the province's fiscal plan of $2.5B in 2017-18 and rising. • OPCD has advised that the complexity of the proposed structure and length of deferral/recovery increases risk and decrease transparency. • Proposed structure may result in negative response from Ontario Auditor General (OAG) due to previous concerns regarding recognition of rate regulated assets and liabilities. • Initial assessment of the IESO accounting considerations suggests that the proposed model is in alignment with established accounting standards. • Initial assessment of the OPG Special	• Risk may not be acceptable. • More information and analysis needed before proceeding on presenting option for decision-making. **Activities** • MOE to seek formal accounting opinions from OPG and IESO auditors. • MOE to provide an overview of approach to AOGO.

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				Purpose Vehicle (SPV)/Trust accounting considerations presents specific requirements that must be included in the Trust's enabling legislation/directives.	
	2. The perception that the Province is spreading the cost of GA financing in order to lower the price in the short term by increasing the price in the long term may result in a legal judgment that the Province has implemented an unconstitutional tax.	Policy	**Management Attention Required**	• **Risk Likelihood:** Possible • **Risk Impact:** Major • **Time Scale:** Less than 6 months **Considerations:** • Imposition of a tax may result in significant negative stakeholder reaction • Former Supreme Court Justice Binnie has provided a legal opinion concluding that current financing proposal is at a moderately high risk of being a tax due to inability to properly align costs with the consumers benefiting; and the potential perception of 'back-ending of costs to future consumers by the inability to establish that current assets will perform over the long-term. • Dependent on accurate assessments of the expected life of electricity generating assets; specifically usability beyond a 20 year period and the level of investment required to maintain performance.	• More detailed information and analysis required to support decision-making and determine appropriate risk mitigation activities. **Activities** • MOE to conduct legal risk assessment, including Eurig analysis.
	3. Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and higher future costs for rate payers.	Financial	**Monitoring**	• **Risk Likelihood:** Likely • **Risk Impact:** Moderate • **Time Scale:** 12 to 24 months **Considerations:** • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • Impact on the cost of GA smoothing and the ultimate rate impact on future consumers. • Availability of debt financing may also be	• Risk to be considered in decision making, including recommended activities to monitor the status of the risk. **Activities:**

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				limited. • Province can provide a potential guarantee for the cost of borrowing – however, would redirect risk back to the Province and negate benefits of proposed financing structure. • Risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.	

	4. Inaccurate forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated future costs for rate payers.	Financial	**Management Attention Required**	• **Risk Likelihood:** Likely
				• **Risk Impact:** Critical
				• **Time Scale:** 12 to 24 months
				
				Considerations:
				• The proposal financing structure will accrue total interest of $25 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.
				  ○ An increase in the borrowing rate from 5% to 6% would increase the total interest cost by almost $9 billion and would require an extension of the financing term beyond 30 years.
				  ○ Should electricity demand be lower than forecasted, the cost of paying off the debt will be spread over a smaller pool of consumption, further increasing future costs for ratepayers.
				• GA costs fluctuate based on demand and the addition of new generation and natural gas prices. The difference between estimate and actual will need to be managed.
				• A clear understanding of GA smoothing, identifying key assumptions; and a sensitivity analysis (under different
					• More detailed information and analysis required to support decision-making and determine appropriate risk mitigation activities.
					
					Activities:
					• MOE directed to work TB/MBC and Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.
					• MOE to conduct assessment of risk to borrowing (with OFA).
					• MOE to report on the multi-year profile of GA smoothing, identifying specific assumptions

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				assumptions, recovery rates and periods) would support a clearer understanding of the risk and inform decision making and risk mitigation planning.	
	5. The targeting of GA smoothing benefits to RPP consumers may result in negative stakeholder reaction from Class A and Class B Consumers	Stakeholder / Perception	**Monitoring**	• **Risk Likelihood:** Possibly • **Risk Impact:** Minor • **Time Scale:** Less than 6 months **Considerations:** • Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. • Province is also addressing competeveness for Class B consumers (i.e. targeted lowering of the Industrial Conservation Initiative (ICI) eligibility thresholder from 1 MW to 500 kw). • Both Class A and Class B consumers will also benefit from the proposed tax-basing of the electricity social programs.	• Risk to be considered in decision making, including recommended activities to monitor the status of the risk. **Activities:**
Enhancing Electricity Support & Conservation Programs Shift funding of existing and new electricity support programs (RRRP, OESP, Affordability Fund, First Nations Credit) from rate to tax base.	6. Inaccurate forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated fiscal impacts for the Province.	Financial	**Management Attention Required**	• **Risk Likelihood:** Likely • **Risk Impact:** Major • **Timescale:** 12 to 24 months **Considerations:** • The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate. ○ Previous experience with forecasting rate mitigation (8% rebate in September 2016) indicates that higher than forecasted costs are likely. • Fiscal projection is highly dependent on factors which can fluctuate from year to	• More detailed information and analysis required to support decision-making and determine appropriate risk mitigation activities. **Activities:** • MOE directed to work TB/MBC and Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives. • MOE to report back to TB/MBC with final details for all programs, including fiscal plan implications. • MOE directed to return underspending

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				year, including: ○ electricity usage; ○ distributions costs; and ○ consumer consumption patterns that may change due to extreme weather or other factors. • Fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs. ○ Enhanced RRRP may create disincentives from the eligible LDCs towards productivity and performance improvements and/or cause ineligible LDC's to drive up distribution costs to gain access to program. • Completion of sensitivity analysis and finalization of agreed upon costing model will improve decision making and support mitigation of the risks as programs are implemented.	related to any of the initiatives to TB/MBC and not be reallocated within ministry.
Enhancing Electricity Support & Conservation Programs Enhance RRRP by provide additional supports to customers of designated Hydro One rate classes and other high distribution cost Local Distribution Companies (LDCs).	7. The need to draft new legislation and other implementation considerations may result in a delay in shifting costs to the tax base and provide enhanced benefits to targeted customers.	Timeline	**Management Attention Required**	• **Risk Likelihood:** Likely • **Risk Impact:** Moderate • **Timescale:** Less than 6 months **Considerations:** • Potential impacts on the recipients of the RRRP who have high delivery and distribution costs and are often faced with significantly higher than average bills, which are currently perceived as no longer affordable or equitable. ○ Targeted Hydro One R2 customers will still be receiving the existing RRRP, which will then be topped off by enhanced benefit. • Potential impacts on the expected rate	• More detailed information and analysis required to support decision-making and determine appropriate risk mitigation activities. **Activities:**

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				mitigation for all electricity customers by moving the program to the tax base.
				    ○ Customers will still be receiving the rate reductions provided by GA smoothing.
				• New legislation is required to establish the enhanced RRRP.
				• LDCs will need to change their billing and customer information systems.
				    ○ OEB estimates that the implementation would take at least 6 months or more, following finalized regulations.	

Enhancing Electricity Support & Conservation Programs Increase eligible benefits of the OESP by 50% and expand the categories of OESP credits. Improve eligible customer uptake of the program to full participation.	8. Existing uptake rates, lack of knowledge of the OESP and implementation challenges may result in an inability to increase uptake of the enhanced program.	Delivery / Operational	**Monitoring**	• **Risk Likelihood:** Possibly • **Risk Impact:** Moderate • **Timescale:** 6 to 12 months **Considerations:** • Inability to access program will impact upon rate mitigation objectives for eligible customers of the current and enhanced OESP. • Existing program has low uptake (30%) • Potentially eligible Social Assistance recipients (approximately 11,000) are currently not automatically qualified for the OESP. MOE and MCSS working on streamlining eligibility process. • MOE implementing communications strategy and application intake clinics across Province.	• Risk to be considered in decision making, including recommended activities to monitor the status of the risk. **Activities:** • MOE working with Treasury Board Secretariat (Behavioural Insights Unit) to accelerate/maximize program uptake.
	9. The need to draft new legislation and other implementation considerations may result in a delay in shifting costs to the tax	Timeline	**Management Attention Required**	• **Risk Likelihood:** Likely • **Risk Impact:** Moderate • **Timescale:** Less than 6 months **Considerations:** • Inability to access program will impact upon	• More detailed information and analysis required to support decision-making and determine appropriate risk mitigation activities. **Activities**:

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	base and provide enhanced benefits to customers.			rate mitigation objectives for eligible customers of the current and enhanced OESP. • Potential impacts on the expected rate mitigation for all electricity customers by moving the program to the tax base. ○ Customers will still be receiving the rate reductions provided by GA smoothing. • Need to determine if changes to legislation/regulations are required to establish and define parameters for OESP to receive funding from tax base. • Regulatory changes required to clarify eligibility for social assistance recipients. • Operational changes required to central and billing systems and financial flow-through mechanisms.	
Enhancing Electricity Support & Conservation Programs Establish a new Affordability Fund, providing energy efficient measures at no or minimal cost to those who are ineligible for low-income conversations programs, have difficulty paying their electricity bills and who cannot make energy efficiency upgrades without financial assistance.	10. Uncertainty regarding components of the program may result in the delay of the distribution of benefits from the Affordability Fund.	Timeline	**Management Attention Required**	• **Risk Likelihood:** Possibly • **Risk Impact:** Moderate • **Timescale:** Less than 6 months **Considerations:** • Impact on eligible customers not being able to access the program. ○ The Affordability Fund benefits will be provided to consumers on top of the benefits they will receive from GA smoothing – so impacts of delay of receiving benefits is somewhat mitigated. • Funding is already in place for the trust. TB/MBC approved $200M in annual funding on March 1. • No legislative changes are required to create the program. • Development of program components	• More detailed information and analysis required to support decision-making and determine appropriate risk mitigation activities. **Activities:**

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				dependent on key activities not yet completed. ◦ Beneficiaries of the trust not yet determined. To be determined by Electricity Distributors and Board of Trustees. ◦ Board of Trustees not yet in place. (May 31 target).	
Electricity Support Programs – Implement On-Reserve First Nations Delivery Credit to remove charges for on-reserve First Nations customers.	11. Due to the targeted nature of the program, non-status Indigenous communities without reserve or Metis could challenge on the grounds that it discriminates based on Section 15 of the Charter of Rights and Freedoms.	Stakeholder / Perception	**Monitoring**	• **Risk Likelihood:** Possibly • **Risk Impact:** Minor • **Timescale:** Less than 6 months **Considerations:** • An ameliorative program that targets some people but excludes others is shielded from a s.15 challenge if it serves or advances the ameliorative goal. ◦ The program is ameliorative as it targets First Nations communities for a reserve-based program which corresponds to the distinct circumstances of reserve-based communities, relative to other indigenous communities, that affect electricity affordability.	• Risk to be considered in decision making, including recommended activities to monitor the status of the risk. **Activities:**

Risk Assessment Methodology
The methodology utilized is based on the Cabinet Office's Policy and Delivery Tracking Process, which monitors risks to the key activities in the Province's Multi-Year Action Plan and is supported by OPCD.

(Likelihood x Impact x Timescale = Individual Risk Status)

Risk Status Legend	
	Satisfactory (0-6)

	Monitoring (7-10)
	Management Attention Required (11-16)
	Heightened Management Attention Required (17+)

Likelihood: The probability the risk will occur	
1	Rare (0% - 10%)
2	Unlikely (10% - 30%)
3	Possibly (30 – 70%)
4	Likely (70% - 90%)
5	Almost Certain (90% - 100%)

Impact: The impact the risk event will have on the key activity's objectives	
1	Insignificant
2	Minor
3	Moderate
4	Major
5	Critical

Timescale: The proximity of the risk occurring	
0.6	More than 36 months
0.8	12 to 24 months
1.0	6 to 12 months
1.2	Less than 6 months
1.4	Now

Risk Categories
Policy
Financial
Governance
Delivery / Operational
Stakeholder / Perception
Timeline