

Fair Hydro Plan

Communications Plan
June 13, 2017

Media Landscape

Despite media interest in the Fair Hydro Plan, the IESO has yet to receive a media inquiry on the subject. The IESO will continue to monitor media coverage relating to the Fair Hydro Plan, but will not conduct any proactive outreach on the matter.

Future Interest

There is some potential for media interest in the IESO's accounting policy in the future. The Auditor General has indicated that she plans to report on the issue at a later date but has not yet decided whether she'll do this in her annual report, released in December, or earlier through a standalone report. When the timing and content of this report is known, the IESO will re-evaluate the situation and update its communications approach and messages accordingly.

Key Messages

Messaging below is intended for reactive purposes.

Role of the IESO in the Fair Hydro Plan

- ∞ The Independent Electricity System Operator manages the province's power system so that Ontarians receive power when and where they need it. It oversees Ontario's electricity market, plans and prepares for future electricity needs, and works with its partners to guide conservation efforts. In its role as the market administrator, the IESO operates and settles the electricity market, where sums of money are constantly flowing to and from market participants, such as consumers and generators.
- ∞ As the market administrator, the IESO facilitates these market transactions which require it to temporarily hold and move money, including recovering costs associated with Global Adjustment.
- ∞ As part of settling the market, the IESO recovers from ratepayers the amounts paid to generators, distributors or other contracted entities. In 2016, the IESO settled \$17 billion in financial transactions from Ontario's electricity market, related services, programs and electricity charges. Under the proposed legislation, ratepayers are being provided

relief from paying the full cost of electricity resulting in the IESO not collecting sufficient funds to pay Global Adjustment. These deferred GA costs will be recorded in a variance account, and the right to recover the deferred amounts recorded will be a regulatory asset. The proposed legislation establishes the framework for transferring this asset to the OPG Trust.

- ∞ Under the proposed legislation, the IESO will continue to settle Global Adjustment as it had in the past. At the same time, it will also calculate and record any deferred GA amounts that it will transfer to the OPG Trust.

Global Adjustment

- ∞ The Global Adjustment (GA) is part of the total cost for electricity in Ontario. The GA covers the cost of building new electricity infrastructure in the province, maintaining existing resources, as well as providing conservation and demand management programs.

IESO Accounting

- ∞ The IESO has made changes to its accounting policies to increase transparency and to report certain costs as regulated assets, consistent with the accounting policies of other regulated entities in North America. The changes include the recognition of rate regulated assets as well as the recognition of market accounts assets and liabilities on the statement of financial positions to allow for greater transparency
- ∞ It's important to note that these items do not affect IESO's costs and the impact on ratepayers does not change.

Questions and Answers

Proposed Fair Hydro Plan Act, 2017

1. How will the IESO facilitate the Fair Hydro Plan

The IESO is responsible for administering the wholesale electricity market, including the settlement of financial transactions within the market. This involves settling amounts owed by those who consume electricity and amounts due to power producers who sell electricity. In 2016, the IESO settled \$17B of financial transactions in the electricity market.

Under the proposed legislation, ratepayers are being provided relief from paying the full cost of electricity. As a result, the IESO will only collect a portion of the full Global Adjustment from local distribution companies. The deferred GA amount will be recorded in a variance account, and the deferred amounts will become a regulatory asset that can be sold to a financing entity to be established by OPG. The proposed legislation establishes the framework for transferring this asset to the financing entity.

2. Why is deferred GA later collected as a 'Clean Energy Adjustment'?

The Clean Energy Adjustment will factor in the deferred GA costs as well as administrative costs.

3. When will the Clean Energy Adjustment be collected?

That is to be determined by the government.

4. How much debt will be accumulated over time, by deferring GA?

The government's initial analysis indicated that the proposed legislation would lead to an accumulated debt not to exceed \$28 billion. The IESO has not done any modeling of future costs under the proposed legislation.

Accounting Practices

5. How does the IESO's accounting policy fit with the government's global adjustment refinancing plan?

The IESO can recognize a regulatory asset related to the variance account created by the proposed Act. The accounting opinion issued by KPMG to the Independent Electricity System Operator (IESO) confirms the IESO's view that the accounting practices and structures proposed in the Fair Hydro Act, 2017 are consistent and compatible with the IESO's current financial accounting practices. As a result, the IESO can recognize a regulatory asset related to the right to recover the balance in the variance account created by the proposed Act, and that regulatory asset will no longer be included in IESO financial statements upon transfer of the regulatory asset to a financing entity.

6. Why did the IESO determine that the new accounting policy on rate-regulated accounting was more relevant to the IESO?

After reviewing its accounting policies, it was determined that rate-regulated accounting was more applicable to regulated entities such as the IESO. The approach allows for the recognition

of regulated assets on our statement of financial position and better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model. This is consistent with the accounting policies of other regulated entities across North America, but also Hydro One and OPG.

7. Did the IESO review its accounting policies as a result of its role in refinancing the global adjustment?

The IESO regularly reviews its accounting policies although this review was triggered by discussions with government. The IESO's review determined that including market accounts would increase transparency and reporting certain costs as regulated assets was consistent with the accounting policies of other regulated entities across North America. For these reasons, the IESO would have made the change regardless of whether the government's refinancing plan proceeded.

8. How does the IESO benefit from changing its accounting practices to allow for regulatory accounting?

The IESO has previously explored the option of regulatory accounting to provide greater transparency on the expenses related to the management of the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) programs as well as the Regulated Price Plan (RPP) variance account. Through a discussion triggered by the government, the IESO's latest review determined that it would be beneficial for the IESO to adopt regulatory accounting.

9. Is the trust to be established by Ontario Power Generation controlled by the IESO?

The IESO will not have the power to govern the Trust, nor have ongoing access to the Trust's assets. The IESO will also not have any voting shares or future rights to the Trust nor the power to dissolve the Trust. Without control, the Trust is not subject to consolidation within the IESO financial statements.

Electricity Prices

10. Has the IESO done any forecasting of the electricity price for residents and small businesses under the Fair Hydro Plan?

The IESO has not done any modeling of the changes proposed under the Fair Hydro Plan legislation.

11. According to a leaked Cabinet document, from 2022 to 2029, the average hydro bill will rise from \$142-\$214 or 51%, does the IESO agree with this forecast?

The IESO is not in a position to comment on leaked cabinet documents, but has not done any modeling of the changes proposed Fair Hydro Plan legislation.

12. Does the IESO have a forecast of prices?

The IESO's price forecasts can be found in the Ontario Planning Outlook document, which can be found on our website, www.ieso.ca.

If pressed: The IESO previously provided the Ministry of Energy with a price forecast related to the 2016 Ontario Planning Outlook. It later updated this forecast to reflect recent changes in government policy, but the IESO has not done any modeling of the changes proposed under the Fair Hydro Plan.

13. Does the IESO expect existing facilities to be around past the duration of their contracts?

The IESO's 2016 Ontario Planning Outlook analysis assumes that service lives of generators could be extended beyond their contract terms, at additional investment and ongoing costs. The IESO has launched the Market Renewal Program that will provide the opportunity for generators to continue to supply electricity beyond the life of their contracts, provided they are cost competitive. Incremental annual capacity auctions would establish an enduring mechanism that creates a technology neutral playing field for all resources to compete to make sure Ontario has the resources it needs to meet demand into the future.

14. What is Market Renewal?

The Market Renewal program will provide increased opportunities for all participants in Ontario's electricity market, with increased competition, flexibility and transparency. The program is estimated to produce around \$3.4 billion in savings between 2021 and 2030. This project will see:

- ∞ the wholesale electricity market evolved, providing more transparent market prices and mechanisms, such as a day-ahead energy market, to provide greater certainty to both participants and the IESO;
- ∞ the introduction of capacity auctions to competitively and efficiently procure resources, ensuring Ontario has the resources it needs to meet demand cost effectively; and

- ∞ enhanced market mechanisms, such as more frequent scheduling of energy imports and exports with neighbouring jurisdictions, that will help to meet emerging operability needs.