

**Summary Status Table in Response to the
Report of the Auditor General of Ontario**
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 <i>We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.</i>	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	
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AG Recommendation #2 <i>We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.</i>	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 <i>We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued</i>	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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<i>by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows:</i> <i>Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and</i> <i>Use a financing structure to fund the rate reduction that is least costly for Ontarians.</i>	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.
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	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 <i>The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:</i> <i>Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that</i>	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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<i>our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and</i> <i>• Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of</i>	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	
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<i>their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.</i>		
AG Recommendation #5 <i>We recommend that the Independent Electricity System Operator (IESO), an “other government organization,” use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:</i> <i>Remove market</i>	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately \$17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario’s electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm’s audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario’s \$17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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<i>accounts recorded on its financial statements; and</i> <i>Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.</i> <i>To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: “The Auditor</i>	unreported in IESO’s financial statements. These changes were extensively discussed with IESO’s external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO’s external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General’s statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General’s audit.
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<i>General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."</i>		
AG Recommendation #6 <i>We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.</i>	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 <i>We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.</i>	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about \$190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every \$1 spent on public infrastructure, GDP increases by \$6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 <i>We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax</i>	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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revenues.		
AG Recommendation #9 <i>We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.</i>	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 <i>We recommend that the government determine when it will issue a</i>	Under the <i>Fiscal Transparency and Accountability Act</i>, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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<i>regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.</i>	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	
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OFHP Business Issues

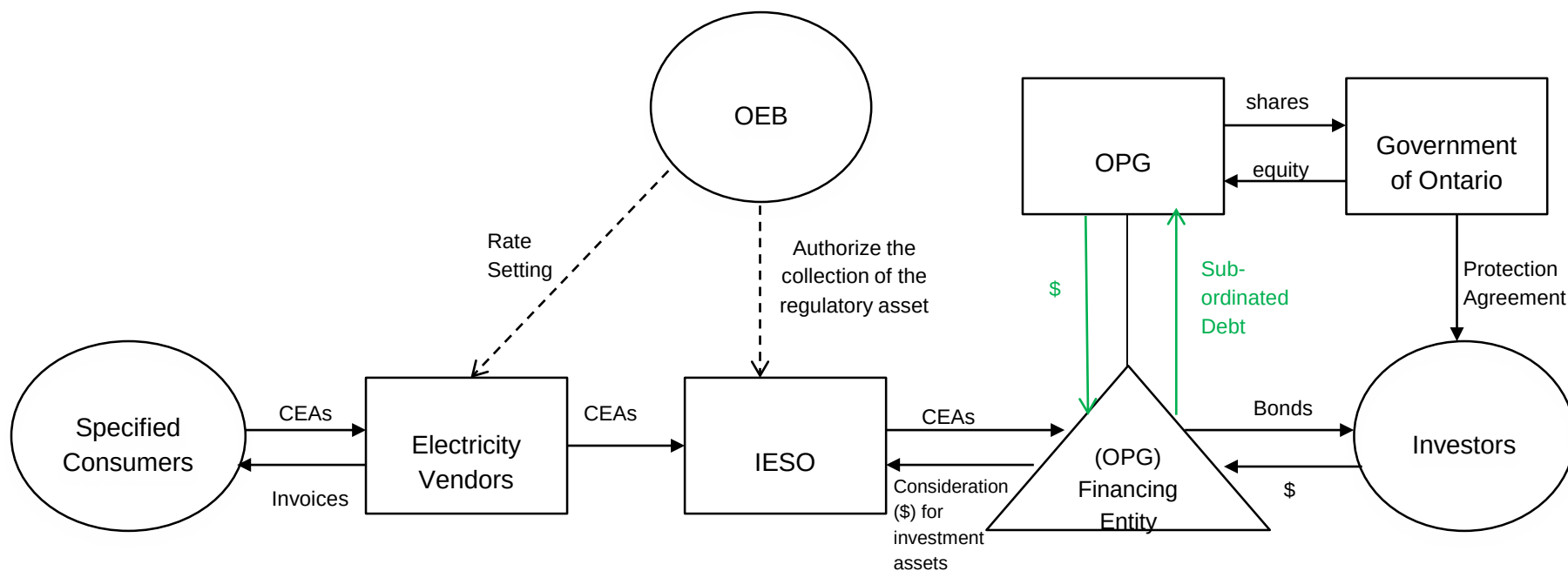
DRAFT – ~~September 11, 2017~~ November 2017

CONFIDENTIAL & COMMERCIAL SENSITIVE

Context – Global Adjustment (GA) Refinancing

- The *Ontario Fair Hydro Act, 2017*, enables the IESO to establish a variance account to record the deferral amounts from the difference between collections from current ratepayers and payment obligations to generators and conservation, and to create a regulatory asset as the Act provides the IESO the right to recover the balance in the variance account.
 - The IESO can then sell the regulatory asset – the right to recover those deferred amounts from specified consumers in the future
 - OPG, as the Financial Services Manager (FSM), is authorized to establish one or more financing entities that may incur funding obligations to finance the purchase of the regulatory asset.
 - A financing entity purchasing the regulatory asset would effectively finance the IESO's shortfall in current rates not received from ratepayers.
- In order to support the establishment of a financing entity, facilitate ongoing funding requirements of the Global Adjustment (GA) and optimize ratepayer impacts, OPG and the Province have been are working on finalizing the details for a number of business issues, including:
 - Amendments to O. Reg. 206/17 (General), made under the OFHPA, were required to enable OPG to establish and charge fees as FSM, and to define the role of the Ontario Energy Board (OEB) in reviewing and approving those fees. Amendments proceeded to LRC on October 30, 2017.
 - Included in these amendments were additional provisions in O. Reg. 206/17 to enable the recovery of FSM carrying costs during the moratorium period.
- Ongoing businesses issues include:
 - Provincial Protection and Assurances Agreement (PPAA).
 - OPG Financing Plan and Debt Issuance, including further amendments to O. Reg. 206/17 to deal with acceleration and negative FAA.
 - ~~IESO Letter of Credit~~ IESO Cost Recovery for security vehicle to back-stop LDCs, including amendments to O. Reg. 429/04.
 - ~~Management Fees Regulation~~
 - ~~Moratorium Period Interest and Fee Recovery~~
 - Equity Injections.
 - Subordinated Debt Agreement.

GA Refinancing – Roles and Responsibilities



Note: CEAs are “clean energy adjustments”

Provincial Protection and Assurances Agreement

Overview:

- To purchase the regulatory asset from the IESO, the Financing Entity must borrow a portion of the funds from capital markets (planned to be 51%, with other financing to come from OPG and, indirectly, the Province).
 - OPG's financial advisors have indicated that without adequate protection against legislative, judicial and organizational risk, the debt would not be financeable or would result in higher financing costs, to be passed on to ratepayers.
- Upon receiving TB/MBC approval, and as contemplated under the Act, the Ministers of Energy and Finance have the authority to negotiate and enter into a protection agreement that supports the Financing Entity and prospective debt holders such that the Province would take over the funding obligations of the Financing Entity, under certain circumstances, including:
 - Actions of the Legislative Assembly that undermine the financing arrangement; i.e., repeal or amendment of the Ontario Fair Hydro Plan Act, 2017, or new legislation that adversely affect the Financing Entity;
 - A court decision that declares the rights of the Financing Entity to recover amounts from ratepayers to be invalid or unenforceable; and
 - Changes to the organization, structure or operations of IESO or a change in the electricity market structure or operations that adversely affects the ability of the Financing Entity to recover amounts related to funding obligations.

Provincial Protection and Assurances Agreement (Con't)

- In the event the protection agreement is triggered, the Province will be required to pay the obligations of the Financing Entity including principal and interest payments on debt issued to date, any payments to derivatives counterparties and any outstanding payments to service providers,
 - The Province could potentially service the debt and other obligations and could replace OPG as the financial services manager.
- The protection agreement may need to be revised at a future date, or approval from the Province may be required, if the financing entity must access the U.S. market as investors in that market will likely require additional compensation if the assumption agreement is triggered.
- The Province will take on a contingent liability, which will increase over the duration of **Ontario's** Fair Hydro Plan and peak at an estimated \$20 **billion** of debt (final cost forecasts TBC), including principal and accumulated interest
- In the event the protection agreement is triggered, the Province's net debt will most likely increase by an amount equal to the contingent liability at that point in time:
 - The Province's interest payments will also increase by the debt interest servicing of the debt payment obligations it has assumed under the protection agreement; **and**
 - IOD expense may increase between \$0.8 **billion** and \$1.0 billion per annum, assuming the protection agreement is triggered when debt is at its peak, and depending on the interest rate at which the Financing entity will be able to borrow at.

Next Steps:

- Province to work with OPG and external legal counsel to finalise the Protection Agreement.

~~Fair Allocation Amount~~ OPG Financing Plan and Debt Issuance

Overview:

- Under the OFHPA, the Minister of Energy is required to regularly calculate the Fair Allocation Amount (FAA) to ensure a proper alignment of the allocation of the intergenerational costs and benefits for each of the next 60 six-month reference periods.
- OPG, in its role as FSM, is to produce Financing Plans that would set out funding obligations for each reference period consistent with the FAA.
- On September 28, 2017, the Minister sent a letter to the OPG Board Chair setting out FAA and readjustment amounts (RAs). ENERGY and OPG exchanged data to support the amounts included in the Minister's letter.

Next Steps:

- OPG is expected to complete its Financing Plan in November, and to proceed with the initial debt issuance in late November or early December.
- OPG has advised that additional amendments to O. Reg. 206/17 (General) are required to satisfy accounting requirements prior to proceeding to market.
- Proposed amendments would address unintended consequences of negative FAA amounts and set out an approach to managing a potential acceleration of funding obligations after the inflationary cap period in the event of a default, including corresponding impacts on the calculation of finance amounts and the Clean Energy Adjustments (CEAs).
 - According to OPG/Torys, amendments are needed to mitigate the possibility that the full amount of any accelerated funding obligations would be included in the CEA for the following reference period.
- The proposed amendments are expected to proceed to LRC on November 20, 2017.

IESO Cost Recovery for Security Vehicle, backstopping LDC's Letter of Credit

Overview:

- OPG has advised that an IESO security arrangement (e.g. a Letter of Credit or other similar credit enhancement tool) is required to backstop smaller Local Distribution Companies (LDCs) that would not be expected to have any or sufficiently sound credit ratings during the years in which CEAs are collected.
- IESO has advised ENERGY that it requires a funding mechanism to recover both carrying costs and any default costs associated with the the security arrangement.
- Amendments to O. Reg. 429/04 (Global Adjustment) made under the Electricity Act, 1998 are being developed in order enable amounts related to the security arrangement to be recovered through the GA from consumers.
- In the event of an LDC default – resulting in CEAs not being recovered from the relevant LDC – the amounts related to uncollected CEAs would be recovered from consumers, as defined in the legislation, through the GA.
- Note: the risk of LDC default is considered to be low. However, OPG has advised regulatory amendments are necessary to provide security to the market should such a default occur.

Next Steps:

- ENERGY has been consulting with IESO and OPG/Tory's as it develops its proposed amendments to O. Reg. 429/04 to enable the recovery of Letter of Credit carrying costs from specified consumers. The OEB has also been consulted previously.
- Amendments to O. Reg. 429/04 could track to an LRC date in December.

Management Fees Regulation

Overview:

- Ontario Power Generation Inc. (OPG) has been appointed the Financial Services Manager under the **Ontario** Fair Hydro Plan Act, 2017 (**OFHPA**) to, among other things evaluate whether funding obligations should be incurred by the Trust for the purpose of acquiring and financing an investment interest.
- The Act enables OPG to achieve its objectives of consolidation of the Trust with OPG, and the ability to earn a return and take on risk, through its control of the Trust.
- have a fixed and variable component and be determined by formulas set out in a regulation, which as currently drafted includes:
 - **Base fee:** Monthly fee calculated as 7.5 basis points on monthly funding obligation. The base fee will be independently reviewed in 2018.
 - **Variable fee:** Annual fee of 5% of the difference difference between forecast and actual interest rates achieved for each of its funding tranches. The variable fee in any one year will be no more than 5 basis points of the net annual borrowing and can be no less than -5 basis of the net annual borrowing. If the variable fee is a negative amount, such amount will be deducted from the base fee in the following calendar year in twelve equal monthly payments
- The OEB will have a role in reviewing OPG's fees to ensure that the fees are consistent with prevailing market comparators

Next Steps:

- The Province is working with the OEB and OPG to develop a regulation setting out how the fees would be calculated including appropriate comparators for the OEBs review

Moratorium Period Interest and Fee Recovery

Overview:

A mechanism is required to enable the recovery of amounts related to interest costs and Financial Services Manager fees (“carrying costs”) in a manner consistent with accounting requirements of OPG and the Independent Electricity System Operator (IESO), during the inflationary cap period in which such amounts cannot be recovered from specified consumers.

Next Steps:

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Equity Injections

Overview:

- To purchase the regulatory asset from the IESO, an OPG financing entity would be established and borrow funds from the following:
 - Capital markets (51%); and
 - Subordinated OPG debt, financed through equity injections from the Province (44%) and OPG, financing from capital markets (5%).
- OPG will require equity injections on an ongoing basis in order to provide the 44% share of financing for the financing entity to acquire the regulatory asset from IESO and keep its capital structure in line, and will require flexibility in order to issue shares to the Province as needed, under a share subscription agreement.
- The Ministry of Energy will be responsible for seeking approval for the investment envelope each year and managing the share subscription arrangement with OPG.
 - On a periodic basis, OPG will send a notice of share subscription to the Ministry of Energy, requesting a certain amount of equity based on the amount of the regulatory asset it plans to purchase in a fiscal year; the Ontario Financing Authority will flow the funds.

Next Steps:

- OPG and the Ministry of Energy have approved the Master Subscription Agreement and will proceed to execute in the coming weeks.
- The Ministry of Energy will work with the OFA to ensure a mechanism is in place to flow the funds within the required timeframes after the request is made by OPG.

Subordinated Debt Agreement

Overview:

- OPG intends to lend the equity injection from the Province to the Trust by way of subordinated debt.
- OPG proposes that OPG, the Fair Hydro Trust and the OFA will enter into a subordinated debt loan agreement, which outlines the terms of the subordinated debt [TBD].
- OPG has proposed that interest rates on the subordinated debt be established as follows:
 - During the Trust short term financing period, when bank facilities are used as funding vehicles, the interest rate on subordinated debt will be the sum of (1) funding rate on senior debt, and (2) additional spread margin of [xx], reflecting the credit rating difference between the senior and subordinated debt [TBD].
 - At the time when senior bonds are being issued to take out (term out) the short term financing, OPG will seek indicative coupon rates on the subordinated debt from dealers, reflecting the sum of underlying Government of Canada yield of equivalent term and the appropriate credit spread. The average indicative coupon rate from dealers will be calculated and set as the subordinated debt rate. [TBD]

Next Steps:

- OPG to incorporate the Province's comments into the next draft of the Subordinated Debt Agreement, which is tracking to be finalized by the end of September [TBD].

PILs Exemption

Overview:

- It is currently contemplated that the first financing entity to be established by OPG, in its capacity as Financial Services Manager (FSM), will be a trust (Trust).
- The Trust would be subject to tax under the *Income Tax Act* (Canada) and the Ontario *Taxation Act, 2007*.
- The beneficiary of the Trust will be a corporation (Subco) that will be directly or indirectly wholly-owned by OPG.
 - Subco, as a subsidiary of OPG, would be exempt from federal and provincial corporate taxes payable by private sector companies. Instead, Subco would be subject to tax under the payments in lieu of taxes (PILs) regime under the *Electricity Act, 1998 (EA)*, and would pay PILs to the Ontario Electricity Financial Corporation (OEFC); and
 - PILs are used by the OEFC to help pay down its debt and other liabilities – OEFC is the legal continuation of the former Ontario Hydro.
- In order to mitigate the cost to ratepayers, a recommendation will be made to the Minister of Finance to make a regulation under the EA that would exempt Subco from PILs on income received by Subco as beneficiary of the Trust.
- Should OPG, as Financial Services Manager FSM, establish other financing entities in the future for purposes of the OFHP, the Ministry of Finance will also consider making similar recommendations to the Minister of Finance.

Next Steps:

- Letter to OPG provide comfort that Subco will be exempt from PILs on income received as beneficiary of the Trust.
- The Ministry of Finance is working with OPG on a draft regulation, which is intended to be made by the Minister of Finance in the Fall of 2017.

Implementation of Ontario's Fair Hydro Plan

Week of December 4, 2017

Global Adjustment (GA) Refinancing – Business Issues / Implementation

Issue	Overview	Supporting Documentation	Timing / Next Steps
Provincial Support Agreements	Province to provide contingent supports to enable structure	- Term Sheet - Change of Law Protection Agreement - Change of Law Process Agreement	- MOF / OPG / ENERGY to finalize Protection Agreement and Process Agreement based on Term Sheet approved by TB/CAB Timing / Next Steps: - Agreements to be finalized by mid-December (Note: No later than December 15)
OPG's Financing Plan / Market Activity	OPG, as Financial Services Manager (FSM), to provide a Financing Plan in accordance with legislation, to evaluate the incurrence of funding obligations consistent with the FAA	- Minister's FAA letter to OPG - Financing Plan - Transaction Documents	- OPG has provided another draft of the Financing Plan to ENERGY for review Timing / Next Steps: - Final Financing Plan expected the week of December 11, pending conclusion of rating agency assessment and Ministry of Energy review - Finalization of Transaction Documents in December / January as required (TBD): - December – OPG initial purchase of IESO regulatory asset utilizing warehouse facility - January – OPG to proceed with initial issuance of term debt
Equity Injection	Province to purchase shares of OPG on a monthly basis	- Master Subscription Agreement – Complete - MOU between OFA and Energy – Complete - Notice of Subscription	- Master Share Subscription Agreement and Shareholder resolution signed on November 29 - OFA/ENE MOU will be signed by December 7

Issue	Overview	Supporting Documentation	Timing / Next Steps
		Amendment to Articles Signed – Complete	Timing / Next Steps: First equity injection expected to be completed by December 18
Protocol for Subordinated and Junior Subordinated Debt	OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	- Draft Term Sheet - Debt Loan Arrangement	- OFA has provided comments - OPG to draft Debt Loan Arrangement Timing / Next Steps: - OPG to provide additional details
PILs Exemption	- The beneficiary of the OFHP Trust would be subject to tax under the payments in lieu of taxes (PILs) regime under the <i>Electricity Act, 1998</i> (EA), and would pay PILs to the Ontario Electricity Financial Corporation (OEFC) - Province to mitigate cost to ratepayers by minimizing PILs payable by the Trust beneficiary - A regulation under the EA is required to exempt the beneficiary from PILs	Regulation	- MOF is drafting the regulation Timing / Next Steps: - Regulation expected to proceed to LRC (TBD)
OPG / IESO Commercial Agreement	OPG and IESO to enter in to commercial agreements governing the Financing Entity purchase of the regulatory assets (i.e., the Master Transfer and Servicing Agreement, Security Agreement and Acknowledgement and Indemnity Agreement)		- OPG and IESO working to finalize Agreement - IESO Board has approved delegation of approval for agreements - IESO provided an update to its Board on November 29 Timing / Next Steps: - Agreements to be finalized. - Further changes may be required pending the completion of the rating process

Ontario's Fair Hydro Plan – Implementation Matrix of Other Items

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
ENERGY, LSB and LDCs	<u>Recent Action Items</u> - All LDCs have indicated they have implemented the program - IESO has begun to submit reimbursement claims to the Ministry	- Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
2) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> - MCSS has begun work to enroll social assistance (SA) clients to OESP, and is directly contacting these clients by phone and letters. The temporary call center is operational and OESP posters and brochures are being distributed to SA offices. - OEB and MCSS are working together on aligning software systems to electronically automate enrollment of SA clients into OESP. Targeting summer 2018 for completion. - The OEB and CRA have reached an agreement to implement an e-signature solution for OESP applications. Work is underway to implement the solution and is expected for Q1 2018. Once completed, the MOU between CRA and MOF will be updated to reflect change. - Ministry is targeting a January 22 – LRC date to proclaim OEBA amendments to shift the OESP to the tax base and to transfer program administration authorities to the Ministry. OESP variance account is expected to deplete in February 2018, and mechanisms to compensate program delivery partners through the tax base needs to be in place for that date. - The Ministry is working with the OEB on knowledge transfer in order to take over program administration in Q1 / Q2 2018. Awaiting feedback from TBS on FTE allocations – the Ministry requested 5 FTEs to support OESP administration through PRRT	- LRC package being developed for proclaiming OEBA provisions and amending OESP regulation for Q1 2018 - Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
3) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
ENERGY and LSB	<u>Recent Action Items</u> - All LDCs have indicated they have implemented the program. - FNDC post card has been distributed to First Nations Band Councils - IESO has begun submitting claims for reimbursement to the Ministry	Receiving regular updates from H1 on enrollment
4) Establishing an Affordability Fund (CRED)		
ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	<u>Recent Action Items</u> - October 12 – Soft launch of microsite and 1-800 number - October 24 – Formal announcement in Hamilton involving the Minister of Energy - As of November 16 – 1,634 intake forms submitted; over 1,000 AFT applications sent to Hydro One or the 41 active/pending participating distributors - On Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions - Next Trustee meetings scheduled for December 14, 2017 - The Trust expects to enter into agreements with interested electricity distributors starting mid to late December 2017 (Hydro One will deliver the program in service areas of those distributors who do not apply)	Fall 2017: - The Trustees are considering the use of Ontario 211 services for the Affordability Fund - The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months - ENERGY has amended the TPA with the Affordability Fund Trust to require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign - Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets Early 2018: - ENERGY can apply for additional funds through an in-

Item	Key Deliverables / Considerations	Timing / Next Steps
		year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
5) Bill Presentment (SNAP/LSB)		
ENERGY	<u>Recent Action Items</u> Ongoing Ministry work re bill presentment	2017-2018 – Bill redesign
6) Expanding ICI (ESP/COMs)		
ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> - Ongoing OCC outreach campaign to promote ICI. Ministry finalizing OCC's expansion proposal - Ministry finalizing CME proposal	Quarterly Report Backs re ICI to TBS / MBC
7) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
ENERGY, LSB, OEB and IESO	<u>Recent Actions Items</u> Work with agencies ongoing	Continue this work as part of 2017 LTEP implementation

Implementation of Ontario's Fair Hydro Plan

Week of November 20, 2017

Global Adjustment (GA) Refinancing – Business Issues / Implementation

Issue	Overview	Supporting Documentation	Timing / Next Steps
Provincial Support Agreements	Province to provide contingent supports to enable structure	- Term Sheet - Change of Law Protection Agreement - Change of Law Process Agreement	- MOF / OPG / ENE to finalize Protection Agreement and Process Agreement based on Term Sheet approved by TB/CAB Timing / Next Steps: - Briefing of the ENERGY, MOF and TBS Ministers - Agreements to be finalized in late November or early December
OPG's Financing Plan / Market Activity	OPG, as Financial Services Manager (FSM), to provide a Financing Plan in accordance with legislation, to evaluate the incurrence of funding obligations consistent with the FAA	Minister's FAA letter to OPG	- OPG has provided a draft of the Financing Plan to ENERGY Timing / Next Steps: - OPG Board committee review and approval by the OPG Board (TBD) - OPG initial debt issuance is currently planned to proceed in December (TBD)
Equity Injection	Province to purchase shares of OPG on a monthly basis	- Master Subscription Agreement /MOU between OFA and Energy - Notice of Subscription - Amendment to Articles	- OPG to request Minister's signature on the Shareholder resolution. - OPG/ENE to sign Master Share Subscription Agreement - OFA / ENE to finalize monthly process and sign-off mechanism Timing / Next Steps: - Agreements to be signed by end of November

Issue	Overview	Supporting Documentation	Timing / Next Steps
Subordinated Debt Loan Agreement	OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	- Draft Term Sheet - Debt Loan Arrangement	- OFA to provide comments - OPG to draft Debt Loan Arrangement Timing / Next Steps: - Fall (TBD) - OPG to provide additional details
PILs Exemption	- The beneficiary of the OFHP Trust would be subject to tax under the payments in lieu of taxes (PILs) regime under the <i>Electricity Act, 1998</i> (EA), and would pay PILs to the Ontario Electricity Financial Corporation (OEFC) - Province to mitigate cost to ratepayers by minimizing PILs payable by the Trust beneficiary - A regulation under the EA is required to exempt the beneficiary from PILs - OPG has advised that a comfort letter signed by the Minister is required	- Comfort Letter - Tax Regulation	- MOF is working to complete comfort letter to OPG and to finalize the regulation Timing / Nexts Steps: - Regulation expected to proceed to LRC in December 2017 (TBD)
OPG / IESO Commercial Agreement	OPG and IESO to enter in to commercial agreements governing the Financing Entity purchase of the regulatory assets (i.e., the Master Transfer and Servicing Agreement, Security Agreement and Acknowledgement and Indemnity Agreement)		- OPG and IESO working to finalize Agreement Timing / Next Steps: - The draft commercial agreements to be reviewed by IESO Board on November 22 - Further changes may be required pending the completion of the rating process

Ontario's Fair Hydro Plan – Implementation Matrix of Other Items

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
ENERGY, LSB and LDCs	<u>Recent Action Items</u> - All LDCs have indicated they have implemented the program - IESO has begun to submit reimbursement claims to the Ministry	Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
2) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> - July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs - OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months - CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance - Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments - Ministry and OEB have initiated work to transfer OESP to government	- LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 - Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
3) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
ENERGY and LSB	<u>Recent Action Items</u> - All LDCs have indicated they have implemented the program. - FNDC post card has been distributed to First Nations Band Councils - IESO has begun submitting claims for reimbursement to the Ministry	Receiving regular updates from H1 on enrollment
4) Establishing an Affordability Fund (CRED)		
ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	<u>Recent Action Items</u> - October 12 – Soft launch of microsite and 1-800 number - October 24 – Formal announcement in Hamilton involving the Minister of Energy - As of Oct. 23 – 66 applications from 6 LDCs processed through the AFT program - On Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions - Next Trustees meetings are scheduled for November 30 and December 14, 2017 - The Trust expects to enter into agreements with interested electricity distributors starting mid to late December 2017 (Hydro One will deliver the program in service areas of those distributors who do not apply)	Fall 2017: - The Trustees are considering the use of Ontario 211 services for the Affordability Fund - The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months - ENERGY has amended the TPA with the Affordability Fund Trust to require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign - Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets Early 2018: - ENERGY can apply for additional funds through an in-

Item	Key Deliverables / Considerations	Timing / Next Steps
		year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
5) Bill Presentment (SNAP/LSB)		
ENERGY	<u>Recent Action Items</u> Ongoing Ministry work re bill presentment	2017-2018 – Bill redesign
6) Expanding ICI (ESP/COMs)		
ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> - Ongoing OCC outreach campaign to promote ICI - Ministry review OCC proposal to expand ICI outreach program - Ongoing outreach with LDCs being undertaken by IESO - CME proposal (TBD)	Quarterly Report Backs re ICI to TBS / MBC
7) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
ENERGY, LSB, OEB and IESO	OEB: - Directive / Letter (TBD) <u>Considerations</u> - Signal efficiencies intent in OEB business plan letter - Work with OEB/LDCs on LTEP document and proposed directive to OEB - Mandate Review implementation is an opportunity to reiterate expectations IESO: - Directive / Letter (TBD) <u>Considerations</u> - IESO's stakeholder engagement re Market Renewal is ongoing	Continue this work as part of 2017 LTEP implementation

Q&A Response – Supplemental Questions

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.
- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years).

- Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of \$500 million.

- According to the Ontario Financing Authority (OFA), this represents a spread of 23 basis points over Ontario long-term debt (per an OFA email from February 2, 2017).

On February 8, 2017, OPG advised that the remainder of the debt is split between \$382 million of "subordinated" debt at an interest rate of 3.637 per cent and \$98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

STANDING COMMITTEE ON PUBLIC ACCOUNTS

*Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018*

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.
- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.
- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.
- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).
- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).
- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.
- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly \$70 billion¹ has been invested in the electricity system since 2003, including more than \$37² billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.
- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
 - o Establishing a new Affordability Fund which will support Ontarians who are not eligible for the [Home Assistance Program](#) and who have difficulty paying their electricity bills.
 - o Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
 - o Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
 - o Establishing a new On-Reserve First Nations Delivery Rate.
- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).
- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

¹ Ministry of Energy, 2017 Long-Term Energy Plan

² Ministry of Energy, 2017 Long-Term Energy Plan

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to \$2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. You say the \$4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The \$4 billion³ figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about \$28 billion⁴ to approximately \$20 billion⁵. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from \$25 billion⁶ to less than \$19 billion⁷.

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

³ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

⁴ Ministry of Energy

⁵ Ministry of Energy

⁶ Ministry of Energy

⁷ Ministry of Energy

of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of \$500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between \$382 million of "subordinated" debt at an interest rate of 3.637 per cent and \$98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately \$20 billion⁸ in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors⁹, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than \$2 billion¹⁰ and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

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OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

⁸ Ontario Financing Authority

⁹ Ontario Power Generation

¹⁰ Ontario Power Generation

In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on all electricity bills by approximately \$3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to \$2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly \$1 billion dollar per year.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to \$500,000, the Ministry of Energy spent approximately \$150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGY STAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the \$100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

Implementation of Ontario's Fair Hydro Plan

Week of January 11, 2018

Global Adjustment (GA) Refinancing – Business Issues / Implementation

Issue	Overview	Supporting Documentation	Timing / Next Steps
OPG's Financing Plan / Market Activity	OPG, as Financial Services Manager (FSM), to provide a Financing Plan in accordance with legislation, to evaluate the incurrence of funding obligations consistent with the FAA	- Minister's FAA letter to OPG - Financing Plan - Transaction Documents	- On December 21, 2017: OPG purchased the regulatory asset via the warehouse facility Timing / Next Steps: - Finalize Transaction Documents in January - January 22 (TBC): OPG to proceed with initial issuance of term debt
Equity Injection	Province to purchase shares of OPG on a monthly basis	- Master Subscription Agreement – Complete - MOU between OFA and Energy – Complete - First Share Subscription Form- Complete - Amendment to Articles Signed – Complete	Timing / Next Steps: Next asset transfer/equity injection expected to take place in March 2018. Note: First equity injection closed on December 20

Ontario's Fair Hydro Plan – Implementation Matrix of Other Items

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
ENERGY, LSB and LDCs	<u>Recent Action Items</u> - All LDCs have indicated they have implemented the program - IESO has begun to submit reimbursement claims to the Ministry	Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
2) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> - MCSS has begun work to enroll social assistance (SA) clients to OESP, and is directly contacting these clients by phone and letters. The temporary call center is operational and OESP posters and brochures are being distributed to SA offices. - OEB and MCSS are working together on aligning software systems to electronically automate enrollment of SA clients into OESP. Targeting summer 2018 for completion. - Work is underway to implement a solution to the requirement for wet signatures, and is expected for Q1 2018. - Ministry is targeting a January 23 LRC date to proclaim OEBA amendments to shift the OESP to the tax base. The current OESP regulation is OESP variance account is expected to deplete in February 2018, and mechanisms to compensate program delivery partners through the tax base needs to be in place for that date. - OESP administration will remain with the OEB until such time that the Ministry has adequate resources to assume responsibility for the program.	LRC on January 23 for proclaiming OEBA provisions and replacement OESP regulation

Item	Key Deliverables / Considerations	Timing / Next Steps
3) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
ENERGY and LSB	<u>Recent Action Items</u> - All LDCs have indicated they have implemented the program. - FNDC post card has been distributed to First Nations Band Councils - IESO has begun submitting claims for reimbursement to the Ministry	Receiving regular updates from H1 on enrollment
4) Establishing an Affordability Fund (CRED)		
ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	<u>Recent Action Items</u> - October 12 – Soft launch of microsite and 1-800 number - October 24 – Formal announcement in Hamilton involving the Minister of Energy - On October 24 – Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions - November 2017 – Affordability Fund Trust (AFT) entered into a Memorandum of Understanding with Ontario 211 services to support community engagement related activities (e.g. call referrals, consultations) - As of December 14 – 1,448 applications sent to Hydro One or the over 40 active/pending participating distributors - December 18 – AFT and IESO meeting with ENERGY to discuss changes to HAP income-eligibility requirements and effect on Affordability Fund eligible population. - Next Trustee meetings scheduled for January 11, 2018 - The AFT expects to enter into agreements with interested electricity distributors starting January 2018 (Hydro One will deliver the program in service areas of those distributors who do not apply) - ENERGY has shared draft TPA amendments with the AFT to require use of the Ontario logo in Fund marketing and communications, and is waiting for the Trustees to sign	Early 2018: - February 2018: Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets. - The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months - ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
5) Bill Presentment (SNAP/LSB)		
ENERGY	<u>Recent Action Items</u> Ongoing Ministry work re bill presentment	2017-2018 – Bill redesign
6) Expanding ICI (ESP/COMs)		
ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> - Ongoing OCC outreach campaign to promote ICI. Ministry finalizing OCC's expansion proposal - Ministry finalizing CME proposal	Quarterly Report Backs re ICI to TBS / MBC
7) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
ENERGY, LSB, OEB and IESO	<u>Recent Actions Items</u> Work with agencies ongoing	Continue this work as part of 2017 LTEP implementation