

2017 OFHP Matrix and Outstanding Business Issue...(1).pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Yordi, Samer \(ENERGY\)](#)
Subject: 2017 OFHP Matrix and Outstanding Business Issues - Week of Nov 20 DOCX _
Date: November 22, 2017 4:19:00 PM
Attachments: [2017 OFHP Matrix and Outstanding Business Issues - Week of Nov 20 DOCX_.docx](#)

Hi Sam –

I have to go shortly. Please incorporate your edits/track changes to the OFHP matrix and business issues list and send back to me once complete. I'll push it through Steen once I've got your input/edits.

HC

2017 OFHP Matrix and Outstanding Business Iss.pdf

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 - Service Level Agreement - Notice of Subscription - Amendment to Articles	- OFA / ENE to determine required monthly process and sign-off mechanism Timing: - October for internal provincial mechanisms
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: - Fall

Issue	Overview	Supporting Documentation	Timing / Next Steps
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: • 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: • 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
3) Providing a First Nations On-Reserve Delivery Credit (SNAP)		

Item	Key Deliverables / Considerations	Timing / Next Steps
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 <u>Next Trustees meetings ~~is~~are scheduled for November ~~23~~0 and December 14, 2017</u> <u>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)</u>	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- ~~back~~ - Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets ~~Late 2017/~~ Early 2018: - ENERGY can apply for

Item	Key Deliverables / Considerations	Timing / Next Steps
		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
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

2017 OFHP Matrix and Outstanding Business Issue....pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Hume, Steen \(ENERGY\)](#)
Subject: 2017 OFHP Matrix and Outstanding Business Issues - Week of Dec 4 - EPE - CRED
Date: December 6, 2017 2:23:00 PM
Attachments: [2017 OFHP Matrix and Outstanding Business Issues - Week of Dec 4 - EPE - CRED.docx](#)

Hi Steen –
Consolidated OHFP matrix/business issues list.

HC

2017 OFHP Matrix and Outstanding Business Iss_1.pdf

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 by mid-December (No later than Dec. 15th) 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 - Financing Plan - Transaction Documents	- OPG has provided a <u>second</u> draft of the Financing Plan to ENERGY Timing / Next Steps: - OPG Board committee review and approval of <u>Financing Plan</u> by the OPG Board (TBD). - Final Financing Plan expected the week of December 11th, pending conclusion of rating agency preliminary assessment. - Finalization of Transaction Documents in December / January as required (TBD). - OPG initial <u>purchase of IESO regulatory asset utilizing warehouse facility expected debt issuance is currently planned to proceed in December. (TBD).</u> - OPG to proceed with initial issuance of term debt in January (TBD).

Formatted: Superscript

Commented [AL1]: Certain documents that pertain to term debt may not need to be finalized in December

Issue	Overview	Supporting Documentation	Timing / Next Steps
Contingent Funding Agreement / Letter	• IESO requires assurance that the Province will backstop its line of credit with the OFA in the event IESO is unable to recover the balance of the variance account (i.e. if the regulatory asset is not transferred). • The Act prohibits IESO from recovering any amount of the variance account from specified consumers during the inflationary cap period.	• Agreement / Comfort Letter	• ENE / IESO considering options that would meet the needs of IESO Timing / Next Steps:
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 • Amendment to Articles Signed - complete	• ~~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~~ • Master Share Subscription Agreement and Shareholder resolution signed on Nov 29, 2017. • OFA/ENE MOU will be signed by Dec 7. Timing / Next Steps: • ~~Agreements to be signed by end of November~~ • First equity injection expected to be completed by December 18.
Subordinated Debt Loan Agreement 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 ~~to~~ has provided comments • OPG to draft Debt Loan Arrangement Timing / Next Steps: • Fall (TBD) • OPG to provide additional details
PILs Exemption	• The beneficiary of the OFHP	• Comfort Letter	• MOF is working to complete comfort letter to

Commented [TS(2)]: May need to be updated following feedback from OPG

Issue	Overview	Supporting Documentation	Timing / Next Steps
	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	Tax Regulation	OPG and to finalize the regulation Timing / Next 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 - 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. - 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

Commented [AL3]: Email from Blakes on Dec 4 commenting on changes to the security agreement would seem to indicate this is still being worked on

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 - 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 and working together on aligning software	- 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 - 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
	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 23 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	
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/Nov. 16 – 1,634 intake forms submitted; over 1,000 AFT applications sent to Hydro One or the 41 active/pending participating distributors. 66 applications from 6 LDCs processed	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

Item	Key Deliverables / Considerations	Timing / Next Steps
	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)	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-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.,		

Item	Key Deliverables / Considerations	Timing / Next Steps
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

Action Items_ Sept 28_SH.pdf

From: [Hume, Steen \(ENERGY\)](#)
To: [Schlaepfer, Martin \(ENERGY\)](#)
Cc: [Cox, Hilary \(ENERGY\)](#)
Subject: Action Items_ Sept 28_SH
Date: September 28, 2017 6:34:54 PM
Attachments: [Action Items_ Sept 28_SH.docx](#)

Hi Martin: attached are my edits to the actions (note in yellow). Mostly just work-smithing.

Thanks, Steen

Action Items_ Sept 28_SH_1.pdf

Action Items – September 28, 2017

Agenda

1) GA Refinancing

o General Update (OPG / IESO)

- OPG has shared comments on the FAA letter. OPG advises that it requires the letter for its OPG Board meeting (September 29, 2017)
- Fees and interest payments during the moratorium period regulations are underdevelopment. OPG advise that these are required when going back to rating agencies. Regulations are tracking to LRC on October 16
- As part of the IESO/OPG Commercial Agreement process, IESO is working through its role going forward (e.g., recovery of funds, etc). To provide additional security to creditors, IESO is exploring a credit enhancement. IESO/OPG continues to work through details regarding a letter of credit

o Business Item (OPG/IGS)

- Items are tracking towards completion in Fall.

o Provincial Protection and Assurances Agreement (OFA/OPG)

- Term sheet approved. Final agreement is under development and needs to be finalized before going to market (i.e., November)

o Fees, Interest Payments and FAA Letter (ENERGY)

- Fees and interest payment regulations are under development and drafts have been circulated for comments (i.e., to OEB, OPG, IESO, MOF and OFA). Drafts will also be circulated to TBS/OPCD

2) Estimates

- Ministry prepping for questions related to OFHP
- IESO and OPG representative to attend to answer specific questions

3) Other OFHP Initiatives

- o RRRP, OESP and FN (SNAP)
- o Affordability Fund (CRED)

Notes:

Action Items_Nov 23.pdf

From: [Hume, Steen \(ENERGY\)](#)
To: [Schlaepfer, Martin \(ENERGY\)](#)
Cc: [Cox, Hilary \(ENERGY\)](#)
Subject: Action Items_Nov 23
Date: November 23, 2017 5:17:47 PM
Attachments: [Action Items_Nov 23.docx](#)

Hi Martin: attached are my edits to the action items. Edits are in yellow.

Thank you,

Action Items_Nov 23_1.pdf

Action Items

November 23, 2017

1) GA Refinancing

- o General Business Update (OPG / IESO / ENERGY)
 - OPG to provide shareholder resolution for Minister of Energy's signature with respect to the OPG Equity Injection
 - OPG to share with ENERGY the debt loan agreement with respect to the Subordinated Debt
 - IESO to provide an update to its Board on November 29th. Note: IESO Board approved delegation of approval for OPG / IESO Commercial Agreements, which are expected to be finalized by end of next week (i.e., week of November 27th).
 - MOF to draft comfort letter and possible regulation (either LGIC or Minister's Reg) with respect to PILs Exemption
- o Provincial Support Agreement (OFA / OPG / ENERGY)
 - Ongoing work to finalize agreement wording between legal counsels
 - Briefing of Ministers' of Finance, Energy and President of TB – next week or early the following week. Note: MO will aim for November 30th or December 4th. Briefing would also provide an update from OPG on its approach to engaging the market
 - OPG to determine with legal counsel who would need to sign the agreement on behalf of the OPG /Trust. Note: Ministers' of Finance and Energy would sign on behalf of the province
- o OPG's Financing Plan / Market Activities (OPG)
 - OPG Chair to send a letter to Minister of Energy with respect to OPG's proposed Financing Plan. Note: ENERGY had provided preliminary feedback
 - With respect to market engagement, OPG is considering two options:
 - 1) Approach the market in early December. Note: Work would need to be finalized before December 15th; or
 - 2) Warehouse the funds on a revolving line of credit in December then go to market in New Year – possibly 2nd week of January. Following feedback from the rating agencies a decision on which option to proceed with can be made. Note: The matter will be raised at the joint Ministers' briefing next week

2) Technical Briefing (All)

- o Technical Briefing in December will be determined based on whether or not OPG goes to market in December (per the points raised above)

- o Technical Briefing presentation needs to be put in plain language and needs to be higher level, including a few context slides up front
- o Overall, the objective of the presentation is to providing a conclusion to the process (i.e., bookending the process)

3) Other OFHP Initiatives

- o RRRP, OESP and FN (SNAP)
- o Affordability Fund (CRED)

Action Items_Oct12.pdf

From: [Schlaepfer, Martin \(ENERGY\)](#)
To: [Hume, Steen \(ENERGY\)](#); [Christie, Tim \(ENERGY\)](#); [Sermat-Harding, Kaili \(ENERGY\)](#); [Chander, Sunita \(ENERGY\)](#); [Katona, Keley \(MOF\)](#)
Subject: Action Items_Oct12
Date: October 12, 2017 9:28:00 AM
Attachments: [Action Items_Oct12.docx](#)

Hi everyone,

Attached are the action items. Let me know if you have any updates/changes.

Thanks,
Martin

Action Items_Oct12_1.pdf

Action Items

October 12, 2017

1) GA Refinancing

- o General Business Update (OPG / IESO / IGS)
 - OPG started rating agency process last week with DBRS and Moody's
 - OPG/IESO continue to work through commercial agreement
- o Provincial Protection and Assurances Agreement (OFA/OPG)
 - OFA/OPG continue to refine agreement – quantum/term etc.
- o Fees and Interest Payments (ENERGY)
 - Interest payments during moratorium can be dealt with through variance account and minor GA reg amendments for LRC on the 16th
 - Consolidation analysis to be shared with TBS
 - Fees reg would include 7.5 basis points for OPG and OEB would do a review of comprables in 2019 and re-evaluate
 - CO to explore direct to Cabinet on 18th
- o Letter of Credit (ENERGY / IESO / OPG)
 - Ministry will work on regulatory amendment for LRC on Oct 16 to allow these cost to be recovered
 - CO to explore direct to Cabinet on 18th
 - Ministry/OPG/IESO/OFA to determine primacy of payment between Crown, Generators Underwriters during four year moratorium – (could require regulatory amendment)

2) Report

3) Other OFHP Initiatives

- o RRRP, OESP and FN (SNAP)
 - Need to go to LRC to proclaim section to allow it to move to tax base (tentatively Dec 7 LRC)
 - CRA has accepted online sing up
 - FNDC update from Hydro One on Oct 2 went well
- o Affordability Fund (CRED)
 - Plan is to announce Fund on Oct 24 in Hamilton
 - Today is the plan for soft launch (1-800 number and microsite)

Briefing Note -OFHP Complaints oct 13.pdf

From: [Mallen, Jane \(MAG\)](#)
To: [Murray, Maud \(ENERGY\)](#); [Thouin, Alena \(ENERGY\)](#)
Cc: [Phan, Cathy \(MAG\)](#)
Subject: Briefing Note -OFHP Complaints oct 13
Date: October 17, 2017 12:29:15 PM
Attachments: [Briefing Note -OFHP Complaints oct 13.docx](#)

Maud, Alena,

Cathy has discussed the note with the DMO and she has conveyed their comments to me, which I have highlighted in the attached.

I have asked for a follow up discussion with the DMO, particularly to discuss the PSR, but I wanted you to have this in the meantime so you could get started on the changes. Bottom line is that they do not agree that the current PSR captures this work and they would like a new PSR submitted.

I'll connect with you later this afternoon.

Thanks,
Jane

Briefing Note -OFHP Complaints oct 13_1.pdf

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Ministry of the Attorney General

Briefing Note

Civil Law Division

**Legal Services Branch – ENERGY/ MEDG / MRIS / MOI / Accessibility/ Small
Business**

ISSUE: This note provides an overview with respect to complaints made to the Advertising Standards Council (“ASC”) regarding government advertising on the Ontario Fair Hydro Plan (“OFHP”).

SUMMARY:

The Legal Branches of ENE, TBS and CLOC Advisory have reviewed the questions from the Secretary of the Cabinet with respect to complaints against the Province arising from advertising that ran in connection with the OFHP. Below are summary answers and background on the issues.

A. Bias

- CLOC’s view, based on the current understanding of the facts, is that it would be difficult for the government to establish that a reasonable apprehension of bias exists in these circumstances for the following reasons:
 - o Mr. Engle is not an employee of the Auditor General. In addition, we are not aware that Mr. Engle has provided legal advice to the Auditor General of Ontario in respect of the OFHP advertisements.
 - o Although Mr. Engle has provided the Auditor General with legal advice respecting the advertising standards contained in the *Government Advertising Act, 2004*, these advertising standards are quite different from the standards set out in the ASC Code. The Act’s advertising standards only require that the advertisement (a) state that it was paid for by the Government of Ontario and (b) not be “partisan”, as defined therein (s. 6(1)). By contrast, the relevant complaint to the ASC appears to relate to whether the OFHP advertisements comply with the ASC Code’s standards for accuracy and clarity (see ASC Code, s. 1).
 - o The ASC’s procedures indicate that Mr. Engle, as the Chair of the Council, has no vote in Council decisions. As a result, it is not clear whether Mr. Engle played a significant role in Council’s consideration of this matter.

B. Reference to 25%

- During the call of October 3, 2017 between Staff from CAB/ENE/ARB it was suggested by ASC that as part of a potential solution the Province may consider removing the references to 25% reduction as it relates to the OFHP from Ontario.ca websites. The ASC has not actually instructed the Province to proceed in any one way, but merely proposed it as an option to facilitate resolution at this early stage. [please clarify outcome if removed/not removed]
- ARB/CAB/ENE has limited time to provide ASC with additional information/response and the adjudication will proceed regardless of whether ENE provides such information. ASC did not give a specific date, but indicated a 2 week timeline for when such response should be forthcoming. ENE/CAB/ARB agreed to come back within this approximate time frame with a potential timeline for a response on the merits. ASC agreed but it is clear that ASC would like a response on the merits soon. The ENE DMO is agreeable to removing the references to assist the process.
- It's important to note that if the government does not withdraw the advertisement, the case may be deemed to be an "identifiable case" and thus become public. The complaints process is described in greater detail below.
- A failure to remove the 25% reduction reference may influence the decision of the ASC if the matter proceeds to adjudication and may result in a negative finding against the Province. Given there is no precedent on such a proceeding against the Province, it is difficult to predict the outcome of the adjudication process.

BACKGROUND

A. Advertising Standards Council

- The ASC is an advertising industry self-regulating body that administers the Canadian Code of Advertising Standards ("the Code"). The Province, through the ARB, is one of 190 members in the ASC (most members seem to be large organizations that purchase a lot of advertising). [please provide more info re: why ASC has jurisdiction re: gov't advertising i.e. by virtue of membership, gov't has agreed to be bound by the Code, etc.]
- The ASC Process:
 - o ASC reviews each consumer complaint against the Code.
 - o ASC conducts a preliminary evaluation of the complaint.
 - o If the complaint raises an issue, the advertiser is requested to provide a written response. If a Code issue remains, the complaint is forwarded to the Standards Council for adjudication.

- o If Council determines that the advertisements contravene the Code, Council can ask the advertiser to withdraw or amend the advertisement.
- o The complainant or advertiser can appeal the decision.
- o There is no right to appear before the Council – decision is based on a review of the ad, the complaint(s) and the advertiser's written representations. Further, ASC:
 - (a) doesn't have any formal legal authority to impose sanctions on members;
 - (b) would only have the ability to 'name and shame' or notify regulators of members that do not comply with ASC direction.
- o If an advertiser fails to participate in or comply with the provisions of the *Consumer Complaint Procedure* or to voluntarily comply with a decision of Council the ASC will advise exhibiting media of the advertiser's failure to co-operate and comply, and request media's support in no longer exhibiting the advertising or representation(s) in question; and
- o May publicly declare, in such manner as Council deems appropriate, that the advertising or representation(s) in question have been found to contravene the *Code*, and publicly identify the advertiser of such advertising or entity making such representation(s); and
- o May notify the Competition Bureau and/or other regulatory authorities of the fact that the advertiser of such advertising or entity making such representation(s) has not participated in or with the *Consumer Complaint Procedure*, and/or that the advertising or representation(s) in question has/have been found to contravene the *Code*, and that the advertiser or entity making the representation(s) has not complied with a decision of Council.
- o Furthermore, ASC retains the discretion to re-open cases where a party violates an undertaking to withdraw non-compliant advertising. Based on the Subsequent Complaint, the Council may have concluded that it has jurisdiction to re-examine the case as the advertising continued to be in the market place.
- o Finally, there is an appeal mechanism for ASC complaints – this involves a hearing in front of a five person panel. Note though that the member must undertake to withdraw the advertising at issue *before* an appeal will be heard.
- o Decisions of Appeal Panels will be by majority vote and will be sent to both parties within five working days of the appeal hearing. At the appeal hearing, the complaint will be treated as a new complaint and the matter reconsidered in its entirety.
- o Decisions by Appeal Panels will be binding and final.

B. OFHP Complaints

- The Advertising Review Board (ARB) monitors advertising and creative communications services policy, oversees the advertising or creative communications services agency selection process and ensures government policy standards are met.

- On May 4, 2017 the ARB received a letter from ASC with respect to an advertisement by the Ontario Government about the reduction of electricity bills for consumers by 25% as part of the Ontario Fair Hydro Plan (“Initial Complaint”). The Initial Complaint stated that this number was misleading and asked whether this advertisement could be discontinued. The letter was then referred to ENE for review and draft response.
- On May 16, 2017 ENE-LSB sought advice from Blakes with respect to the Initial Complaint and potential response to the Initial Complaint. At the time of the ENE-LSB inquiry, Blakes was already retained by ENE-LSB to provide legal advice on the development and implementation of the OFHP. Blakes provided legal advice to support to ENE in responding to the Initial Complaint.¹ The legal advice was in a form of re-focusing the response on salient issues which were the subject matter of the complaint.
- On May 18th, 2017, the ARB responded to ASC stating that the advertisement was in fact factually accurate by referring to the numbers and also directed the ASC to the specialized OFHP website that provided further details about the plan which were consistent with the advertisement.
- The ASC reviewed the ARB response and concluded that the matter would be resolved administratively and not proceed to adjudication. This meant the complaint would be dismissed and the case closed.
- On August 14, 2017 the ARB received a letter from ASC advising of two additional complaints with respect to the OFHP advertisement on the same issue raised in the Spring (“Subsequent Complaints”).
- The Initial Complaint and the Subsequent Complaints focus on the following themes
 - o “Household electricity bills will be an average of 25% less” (“**25% reduction claim**”);
 - This Complaint challenges the 25% reduction and states that it is incorrect.
 - o “Upgrades to our [Ontario’s] electricity system have made it more reliable for Ontarians” (“**reliability claim**”); and
 - This Complaint is a comment by an individual advising that the system is not reliable and providing some anecdotal evidence to the effect.

¹ The Blakes retainer doesn’t speak to the specific areas of law that we will be contacting Blakes on and the retainer is broadly worded and states that Blakes has been retained to provide advice related to “electricity price mitigation to lower the cost of electricity for Ontario consumers. The price mitigation plan includes an initiative to “smooth” the global adjustment portion of the electricity bills through cost deferral, spreading these costs over a longer period of time to provide immediate price relief to electricity consumers.” The complaints to the Advertising Standards Canada, for which advice from Blakes was sought, were specifically in relation to consumer complaints against the accuracy of the advertising on the “immediate price relief to electricity consumers”.

- o “Recent changes have made bills more affordable” (“**affordability claim**”)
 - The Complaint challenges that the rates are more affordable by indicating that these have simply been hidden elsewhere from consumers.
- On September 19, 2017, the ARB responded to ASC with an explanation indicating that the advertisement was not misleading as it was factually accurate.
- On September 25, 2017, ARB/ENE Communications received a response from ASC advising that it had re-evaluated both the Initial Complaint and the Subsequent Complaints and that the matter should proceed to adjudication at its next meeting in October, the date has not yet been set.
- On September 28, 2017, ENE re-engaged Blakes to assist in responding to the re-opened complaints. ENE Communications also engaged ARB/CAB Staff.
- On October 3, 2017 staff from CAB, ARB, ENE (Legal) and Blakes participated in a preliminary call with ASC staff to obtain further information and determine potential next steps. ASC indicated that they took issue with the 25% reduction statement in the Province’s advertisement and would require further information about it. They also suggested that should the Province consider removing the 25% from its websites as this may assist in resolving the matter from proceeding to adjudication. ASC agreed to provide more time to ARB/ENE/CAB to provide response on the merits.
- Blakes drafted a response on the merits on October 6 and it is pending review by ENE Communication. The letter has yet to be reviewed by ENE-LSB. [any update?]

C. Apprehension of Bias

- CLOC counsel considered whether the Council’s initial view is potentially subject to challenge on the ground of bias. We understand that the Chair of the Council is Rafe Engle, a lawyer. We further understand that Mr. Engle has provided advice (and may still be providing advice) to the Auditor General of Ontario in respect of the application of the advertising standards contained in the *Ontario Government Advertising Act, 2004*. The Auditor General has criticised certain aspects of the Fair Hydro Plan, including the government’s advertisements respecting the Plan.
- CLOC’s view is likely that the Council owes a duty of fairness to ASC’s members, including the Ontario government. One of the components of the duty of fairness is the rule against bias.
- The Supreme Court of Canada recently affirmed that, for the rule against bias, the relevant legal test is whether a “reasonable apprehension of bias” exists: “what would an informed person, viewing the matter realistically and practically – and having thought the matter through – conclude. Would he think that it is more likely than not that [the decision-maker], whether consciously or unconsciously, would not decide fairly” (*Yukon Francophone School Board, Education Area #23 v. Yukon*

(Attorney General), 2015 SCC 25 at para. 20). The Court also noted that the inquiry into whether a reasonable apprehension of bias exists is inherently contextual and fact-specific (para. 26).

- CLOC's view, based on our current understanding of the facts, is that it would be difficult for the government to establish that a reasonable apprehension of bias exists in these circumstances for the following reasons:
- Mr. Engle is not an employee of the Auditor General. In addition, we are not aware that Mr. Engle has provided legal advice to the Auditor General of Ontario in respect of the Fair Hydro Plan advertisements. In our view, the fact that Mr. Engle, as a lawyer, has provided legal advice to the Auditor General in respect of other advertising matters does not, in itself, give rise to a reasonable apprehension of bias in these circumstances.
- Although Mr. Engle has provided the Auditor General with legal advice respecting the advertising standards contained in the *Government Advertising Act, 2004*, these advertising standards are quite different from the standards set out in the ASC Code. The Act's advertising standards only require that the advertisement (a) state that it was paid for by the Government of Ontario and (b) not be "partisan", as defined therein (s. 6(1)). By contrast, the relevant complaint to the ASC appears to concern whether the Government's Fair Hydro Plan advertisements comply with the ASC Code's standards for accuracy and clarity (see ASC Code, s. 1).
- The ASC's procedures indicate that Mr. Engle, as the Chair of the Council, has no vote in Council decision. As a result, it is not clear whether Mr. Engle played a significant role in Council's consideration of this matter.
- Generally, the ASC's procedures provide for less procedural fairness than, say, a court or an administrative tribunal governed by the *Statutory Powers Procedure Act*. The Council consists of the Chair and a group of volunteers (advertising industry representatives and public representatives). It reviews complaints without an oral hearing. As a result, in these circumstances, it is likely that the Council would be subject to relatively flexible requirements concerning the avoidance of bias.

D. Next Steps

DMO does not agree that this work is contemplated by the current PSR. Please remove this section here and submit a new PSR that explicitly addresses this work

- It is recommended that we continue to engage Blakes to provide legal support on the file as MAG doesn't currently have the appropriate expertise to make submissions in front of the ASC and Blakes has long standing expertise in the area. Blakes can be useful in assisting with the response on the merits of the complaint. This retainer is currently covered by the existing retainer under OFHP as described above.
- In light of the above analysis, it is recommended we submit a proposed timeline for response on the merits in order to maintain our participation in the adjudication process by early next week.
- It is recommended that until the matter is determined on the merits there may be usefulness to removing the 25% reference at this early stage of the process and

contribute to a positive early resolution. Resolving the matter at the administrative level will avoid public exposure.

Originated: October 12, 2017

Prepared by: Alena Thouin
Deputy Director
Legal Services Branch
ENERGY/ MEDG / MRIS / MOI / Accessibility / Small Business

In consultation with TBS LSB and CLOC Advisory

Reviewed by: Maud Murray
Legal Director/A
Legal Services Branch
ENERGY/ MEDG / MRIS / MOI / Accessibility / Small Business

Approved by: Jane Mallen
Portfolio Director
Civil Law Division
Ministry of the Attorney General

Approved by: Michel Helie
Assistant Deputy Attorney General
Civil Law Division
Ministry of the Attorney General

Approved by: Irwin Glasberg
Deputy Attorney General
Ministry of the Attorney General

FW_ AG Annual Report - TBS Minister's Statement....pdf

From: [Hendy, Adam \(ENERGY\)](#)
To: [Berg, Denna \(ENERGY\)](#); [Lyon, Sam \(ENERGY\)](#); [Barbaro, Rachel \(ENERGY\)](#); [Nutter, George \(ENERGY\)](#); [Schlaepfer, Martin \(ENERGY\)](#)
Subject: FW: AG Annual Report - TBS Minister's Statement and Backgrounder
Date: December 6, 2017 10:54:50 AM
Attachments: [TBS Minister's Statement - 2017 AG Annual Report _ EN FINAL.docx](#)
[TBS Minister's Statement - 2017 AG Annual Report _ FR FINAL.docx](#)
[Public Accounts Management Response - Backgrounder - Dec. 6, 2017 FINAL EN.docx](#)
[Public Accounts Management Response - Backgrounder - Dec. 6, 2017 FINAL FR.docx](#)

FYI.

From: Tharani, Alisha (TBS)
Sent: December-06-17 10:53 AM
To: @ENERGY-COMM-Issues_and_MediaRelations; @FIN-L-O-CSB-ISSUES
Cc: @TBS-L-Issues and Media
Subject: AG Annual Report - TBS Minister's Statement and Backgrounder

Hi all,

Please see attached for TBS's final Minister's statement and backgrounder.

The statement will be posted on Newsroom. The plan for the backgrounder is that it will be handed out to the QP Gallery, as needed.

Thank you again for your quick review of the backgrounder – it's very much appreciated!

Best regards,

Alisha

Alisha Tharani

Corporate Issues Management Analyst | Treasury Board Secretariat
416-327-3803 | Alisha.Tharani@ontario.ca

TBS Minister's Statement - 2017 AG Annual Rep.pdf

**Statement from the President of the Treasury Board
on the Auditor General's Annual Report**

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government.”

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

ontario.ca/news
Disponible en français

TBS Minister's Statement - 2017 AG Annual Rep_1.pdf

**Déclaration de la présidente du Conseil du Trésor
sur le rapport annuel du vérificatrice générale**

Le 6 décembre 2017

Cette déclaration a été publiée aujourd'hui par la présidente du Conseil du Trésor, Liz Sandals :

« Nous remercions la vérificatrice générale pour son rapport et sommes toujours reconnaissants de nos relations de travail continues avec le Bureau de la vérificatrice générale (BVG). Le Secrétariat du Conseil du Trésor œuvre régulièrement en étroite collaboration avec le BVG sur un éventail de questions, et nous sommes heureux de pouvoir profiter des connaissances et de la perspicacité de la vérificatrice générale lors de nos échanges courants de même que pour la production du présent rapport annuel.

La vérificatrice générale mentionne plusieurs sujets de discussions en cours entre le gouvernement et son bureau, notamment les pratiques comptables concernant les actifs de régime de retraite et l'application des principes comptables généralement reconnus aux États-Unis lorsque le Conseil sur la comptabilité du secteur public n'a pas fixé de normes. La position du gouvernement au sujet de ces différences d'opinions n'a pas changé.

Nous sommes d'accord avec les commentaires de la vérificatrice générale en ce qui a trait à l'importance de la comptabilité pour les organismes, les conseils, les commissions et d'autres entités du secteur parapublic. Depuis 2010, notre gouvernement a mis en œuvre plusieurs mesures importantes afin de renforcer la responsabilisation, la transparence et la gouvernance des organismes provinciaux et du secteur parapublic. Les perspectives économiques de cet automne, si elles sont adoptées, répondent aux recommandations que la vérificatrice générale a formulées dans son Rapport annuel de 2015 en vue de rationaliser l'administration et d'harmoniser le dépôt et la communication des rapports annuels des organismes provinciaux. Toutefois, nous savons qu'apporter des changements aux processus de production des rapports annuels n'est pas nécessairement la seule solution. Nous continuerons de travailler avec le BVG dans le but d'améliorer la supervision et de veiller à la responsabilisation de tous nos organismes.

Tout comme le BVG, nous croyons que la vérificatrice générale a un rôle important à jouer dans la supervision de la publicité gouvernementale, et c'est l'une des raisons pour lesquelles nous sommes fiers que l'Ontario soit la seule compétence au Canada à mettre en place des mesures législatives pour assurer cette supervision. En fait, nous avons récemment élargi cette supervision pour inclure la publicité numérique.

Nous savons que le gouvernement se doit de faire connaître ses services à la population, et que la publicité est un médium qui permet de faire cela. Par exemple, notre campagne contre le harcèlement et la violence à caractère sexuel - #QuiAiderezVous a combattu les attitudes existantes et lancé une discussion internationale. Notre vidéo a été vue plus de sept millions

de fois les dix premiers jours, pour être finalement regardée par plus de 85 millions de personnes dans le monde. Et en six mois, nous avons eu des résultats mesurables : le pourcentage de personnes qui sont d'accord avec le fait qu'elles ont l'obligation d'intervenir lorsqu'elles sont témoins de harcèlement sexuel est passé de 37 % à 55 %.

À titre de présidente du Conseil du Trésor, je me suis engagée à diriger les efforts du gouvernement en matière de responsabilisation, d'ouverture et de modernisation, et à assurer de bons services gouvernementaux et publics de la manière la plus efficace et efficiente possible. Dans le cadre de cet engagement, nous travaillons de concert avec nos partenaires, y compris la vérificatrice générale, toute l'année pour veiller à ce que nos processus soient de plus en plus efficaces et à ce que notre gouvernement soit de plus en plus ouvert et responsable. »

Lawvin Hadisi, bureau de la ministre, 416-326-3839
Bryant Sullivan, communications, 416-325-1378

ontario.ca/news
Available in English

Public Accounts Management Response - Backgro.pdf

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. 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 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.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (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 the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the 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 section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

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.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), 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.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the 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 section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing 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 certain net pension assets in order to allow Treasury Board Secretariat and the 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.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. 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 legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Public Accounts Management Response - Backgro_1.pdf

Résumé des réponses du gouvernement à la vérificatrice générale Chapitre du rapport annuel de 2017 sur les comptes publics

Le 6 décembre 2017

Le gouvernement tient à remercier la vérificatrice générale pour ses recommandations et maintient son engagement à aider le Bureau de la vérificatrice générale en communiquant ses vues indépendantes à l'Assemblée législative.

Vous trouverez ci-dessous le résumé de la position du gouvernement concernant les recommandations de la vérificatrice dans le Chapitre 2 – Comptes publics de la province.

Comptabilité des avoirs de retraite

Le gouvernement continue de progresser et présente les finances de la province de façon juste et exacte, conformément aux normes comptables canadiennes pour le secteur public (NCSP).

L'an dernier, les comptables professionnels de la province et le Bureau de la vérificatrice générale ne s'entendaient pas sur la bonne façon d'appliquer les NCSP pour la comptabilité des régimes de retraite. Cette situation a mené à la création du Comité consultatif d'experts en matière de comptabilisation des actifs des régimes de retraite, établi pour fournir des conseils et des recommandations indépendants sur la question. Les membres indépendants du Comité ont conclu que les états financiers de l'Ontario devaient comptabiliser la part des avoirs nets de retraite du Régime de retraite des enseignantes et des enseignants de l'Ontario (RREO) et du Régime de retraite du Syndicat des employés de la fonction publique de l'Ontario (SEFPO).

Après d'importantes délibérations, l'Ontario a confirmé qu'il convenait de comptabiliser ces régimes avant 2015-2016. Cette conclusion se fonde sur les éléments suivants :

- Les conclusions atteintes par un Comité consultatif d'experts en matière de comptabilisation des actifs des régimes de retraite (le « Comité »), établi par le gouvernement pour fournir des conseils sur l'interprétation des NCSP ayant trait à la déclaration des avoirs nets de retraite des deux régimes de retraite conjoints à prestations déterminées. Le Comité, composé de professionnels agréés en comptabilité, en actuariat et en droit ayant une vaste expérience de la comptabilité et de la gouvernance des régimes de retraite, a déposé en février 2017 un rapport qui appuyait la position du gouvernement quant à l'inutilité, pour le gouvernement, d'évaluer ces deux régimes de retraite dans l'application des NCSP. Le Comité arrivait aux deux grands résultats suivants : 1) selon les NCSP, il n'est pas nécessaire qu'il existe une entente formelle entre les promoteurs sur le moment ou le montant de la réduction des cotisations pour constater un actif, puisque les ententes existantes entre les Parties favorisent la comptabilisation d'un avantage escompté; 2) il n'est pas nécessaire d'exercer un contrôle unilatéral pour comptabiliser un actif; un contrôle conjoint, où chaque partie a la possibilité de réfuter les actions de l'autre promoteur, procure des preuves de contrôle partagé, en faveur de la comptabilisation d'un actif.
- Une opinion de Deloitte s.r.l. sur certains aspects de la comptabilité de la province relative au Régime de retraite des enseignantes et des enseignants de l'Ontario au 31 mars 2016. Cette opinion, datée du 2 octobre 2016, concluait que les normes comptables canadiennes pour le

secteur public autorisent la comptabilisation d'un actif de retraite, et ce, même si la province ne dispose pas d'un droit unilatéral de réduire les cotisations. L'opinion ne portait pas sur la valeur à inscrire pour l'actif.

- EY a procédé à une analyse pour déterminer s'il était nécessaire d'inscrire une provision pour moins-value pour le RREO ou le Régime de retraite du SEFPO au 31 mars 2017. EY a confirmé qu'aucun des deux régimes de retraite ne nécessitait de provision de moins-value.

Le gouvernement continue d'appliquer le traitement comptable des avoirs de retraite auquel la province a invariablement eu recours depuis 2001.

Comptes des participants aux marchés de la SIERE

En 2016, la Société indépendante d'exploitation du réseau d'électricité (SIERE) a commencé à comptabiliser les actifs (montants dus par des distributeurs d'électricité) et les passifs (montants dus aux producteurs d'électricité) liés à ses comptes des participants aux marchés dans ses résultats financiers. La SIERE a décidé de comptabiliser des comptes des participants aux marchés dans ses livres pour des raisons de transparence, puisque cela correspond plus fidèlement à la position financière en fin d'exercice des marchés qu'elle administre.

Le comité de vérification de la SIERE, son vérificateur externe indépendant et le Bureau du contrôleur provincial ont appuyé ce changement. Cela n'a eu aucune incidence sur le déficit annuel, la dette nette et le déficit accumulé de la province.

Les états financiers de la SIERE pour l'exercice se terminant le 31 décembre 2016 ont été soumis à une vérification externe qui a donné lieu à une opinion sans réserve (ou favorable).

Les principes comptables utilisés sont conformes à ceux précédemment utilisés par l'Office de l'électricité de l'Ontario (qui a été fusionné à la SIERE le 1^{er} janvier 2015) dans ses états financiers, pour lesquels le Bureau du vérificateur général de l'époque n'a exprimé aucune réserve.

Traitement comptable des activités à tarifs réglementés par la SIERE

Les NCSP n'abordent pas la question du traitement comptable des activités à tarifs réglementés – ils n'autorisent pas plus qu'ils n'interdisent de façon explicite la comptabilisation, l'évaluation, la présentation ou la divulgation des activités à tarifs réglementés.

En l'absence d'une position nette sur une question, le principe comptable courant stipule qu'une entité doit se référer à d'autres principes comptables. Cette directive des NCSP est inscrite à la section PS1150.07 du Manuel de comptabilité pour le secteur public du Canada (MCSP).

Dans le cas présent, la SIERE s'est reportée aux Generally Accepted Accounting Principles (GAAP) des États-Unis, le cadre comptable approprié qui donne des directives sur les activités à tarifs réglementés.

La SIERE a décidé d'adopter le traitement comptable des activités à tarifs réglementés pour mieux tenir compte de la structure économique de certains types de dépenses qui pourraient ne pas être recouvrées directement avec le modèle normal des recettes nécessaires.

La direction, le comité de vérification, le conseil d'administration et le vérificateur externe de la SIERE, ainsi que le Bureau du contrôleur provincial ont tous appuyé le traitement comptable des activités à tarifs réglementés par la SIERE.

De nombreux organismes canadiens, dont Ontario Power Generation (OPG) et Hydro One, utilisent le traitement comptable des activités à tarifs réglementés. Le traitement comptable des activités à tarifs réglementés est une pratique bien comprise dans le secteur de l'électricité, et la méthode

retenue tenait compte de ce contexte. La comptabilisation des avoirs réglementés fait en sorte que la SIERE rejoint six autres exploitants indépendants de réseaux en Amérique du Nord.

Comptabilité du Plan ontarien pour des frais d'électricité équitables

Au cours de l'élaboration du Plan ontarien pour des frais d'électricité équitables (POFEE), le gouvernement a pris en considération une variété d'options de mise en œuvre et consulté des experts indépendants des secteurs juridique, comptable, financier et énergétique afin d'obtenir des conseils et d'assurer la diligence raisonnable attendue.

La comptabilité proposée pour le POFEE tient compte de la structure économique de la transaction en faisant une distinction entre les coûts pris en charge par les contribuables de ceux pris en charge par les usagers d'électricité.

Les principes comptables du secteur public n'abordent pas la principale question comptable relative au POFEE – ils n'autorisent pas plus qu'ils n'interdisent de façon explicite la comptabilisation, l'évaluation, la présentation ou la divulgation des activités à tarifs réglementés.

En l'absence d'une position nette sur une question, le principe comptable courant stipule qu'une entité doit se référer à d'autres principes comptables. Cette directive des NCSP est inscrite à la section PS1150.07 du Manuel de comptabilité pour le secteur public du Canada (MCSP).

Cette directive a été appliquée de façon appropriée en évaluant la comptabilité relative au POFEE.

Comme toujours, la province préparera ses états financiers consolidés conformément aux NCSP, qui comprendront les transactions découlant du POFEE.

Légifération des traitements comptables

La province tient résolument à présenter des rapports financiers de qualité, qui favorisent la transparence et la responsabilisation dans la production de rapports destinés au grand public, à l'Assemblée législative et à d'autres usagers.

Pour les Comptes publics de 2015-2016, le gouvernement a adopté un règlement d'une durée limitée qui régit le traitement comptable de certains avoirs nets de retraite afin de permettre aux hauts fonctionnaires du Secrétariat du Conseil du Trésor et du ministère des Finances d'approuver les Comptes publics conformes avec l'incidence financière de l'interprétation faite par la vérificatrice générale des normes comptables pour le secteur public (NCSP). Ce règlement est le **seul** exemple de légifération d'un traitement comptable, et celle-ci n'est pas compatible avec les exigences des NCSP.

La *Loi de 2017 sur le Plan ontarien pour des frais d'électricité équitables* et ses règlements connexes **ne** créent **pas** de règles comptables et **ne** régissent **pas** la comptabilité. Il est important de faire une distinction entre une légifération de la comptabilité et la légifération sur le droit du gouvernement de recouvrer les sommes dues à l'avenir par des utilisateurs particuliers qui, en l'absence de législation, auraient été recouvrées auprès d'utilisateurs particuliers à mesure que les coûts étaient encourus.

Comme toujours, la province préparera ses états financiers consolidés conformément aux NCSP.

FW_ AG QAs.pdf

From: [Lyon, Sam \(ENERGY\)](#)
To: [Armstrong, Hillary \(ENERGY\)](#)
Subject: FW: AG QAs
Date: October 24, 2017 11:18:04 AM
Attachments: [QA_AG Report OFHP_Technical Briefing_Oct16_Clean_200.docx](#)

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Sent with BlackBerry Work (www.blackberry.com)

From: Hendy, Adam (ENERGY) <Adam.Hendy@ontario.ca>
Date: Tuesday, Oct 24, 2017, 11:15 AM
To: Lyon, Sam (ENERGY) <Sam.Lyon@ontario.ca>
Subject: AG QAs

Attached.

QA_AG Report OFHP_Technical Briefing_Oct16_Cl.pdf

Q&As – OAG’s Special Report on Ontario’s Fair Hydro Plan

Q. Why did the government introduce Ontario 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. Since 2003, nearly \$70 billion¹ has been invested in the electricity system, including more than \$37² billion in electricity generation to ensure the system is clean and reliable.

Ontario Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province’s history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers 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.

In developing the policy to refinance the Global Adjustment (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.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

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. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

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.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan 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. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

¹ Ministry of Energy, *2017 Long-Term Energy Plan*

² Ministry of Energy, *2017 Long-Term Energy Plan*

With respect to the \$4 billion³ figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴. The preliminary estimate from March 2017 was about \$28 billion⁵.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion⁶ to \$18.5 billion⁷. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion⁸ to \$18 billion⁹.

Q. Have the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? I understand that the Office of the Auditor General (OAG) has asked what are the factors that resulted in the changes in estimates from March 1 to August 31?

With respect to the \$4 billion¹⁰ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak

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, submission to Financial Accountability Officer

⁶ Ministry of Energy

⁷ Ministry of Energy

⁸ Ministry of Energy

⁹ Ministry of Energy

¹⁰ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

debt over the thirty year life of OFHP will be below \$20 billion¹¹. The preliminary estimate from March 2017 was about \$28 billion¹².

The revised estimates are the result of the following factors:

- The Independent Electricity System Operator (IESO) updated its long-term cost projections for the electricity system and residential bills;
- The Ontario Energy Board (OEB) provided “actual data” with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
- Based on expert third-party advice the interest rate assumptions for OFHP were updated (i.e., from 5%¹³ down to 4.5%¹⁴).

In addition, for the August 31, 2017 estimate, the Ministry of Energy converted debt and interest amounts from calendar year to Regulated Price Plan (RPP) periods.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion¹⁵ to \$18.5 billion¹⁶. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion¹⁷ to \$18 billion¹⁸.

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 is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

¹¹ Ministry of Energy

¹² Ministry of Energy, submission to Financial Accountability Officer

¹³ Ministry of Energy

¹⁴ Navigant Consulting, *Assessment of the Alignment of the Costs and Benefits of Clean Energy Assets*

¹⁵ Ministry of Energy

¹⁶ Ministry of Energy

¹⁷ Ministry of Energy

¹⁸ Ministry of Energy

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. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Act? Would 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).

OPG currently manages approximately \$20 billion¹⁹ 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 program 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.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors²⁰, 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 billion²¹ and two commercial paper programs.

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

Q. The Financial Accountability Office (FAO) suggested that using Ontario Power Generation as the borrowing agent will cost \$4 billion more?

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

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak

¹⁹ Ontario Financing Authority

²⁰ Ontario Power Generation

²¹ Ontario Power Generation

debt over the thirty year life of OFHP will be below \$20 billion²². The preliminary estimate from March 2017 was about \$28 billion²³.

The FAO report itself concludes by saying “the FAO’s estimates are subject to many assumptions and uncertainties (...) Fiscal impact may differ significantly from the FAO’s estimates.”

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion²⁴ to \$18.5 billion²⁵. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion²⁶ to \$18 billion²⁷.

Q. Do you disagree with the FAO on financial costs?

With respect to the \$4 billion²⁸ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion²⁹. The preliminary estimate from March 2017 was about \$28 billion³⁰.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

²² Ministry of Energy

²³ Ministry of Energy, submission to Financial Accountability Officer

²⁴ Ministry of Energy

²⁵ Ministry of Energy

²⁶ Ministry of Energy

²⁷ Ministry of Energy

²⁸ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

²⁹ Ministry of Energy

³⁰ Ministry of Energy, submission to Financial Accountability Officer

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion³¹ to \$18.5 billion³². The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The Ministry estimates of total interest cost also decreased from \$25 billion³³ to \$18 billion³⁴.

Q. The OAG's report claims that consumers will pay an additional \$4 billion in interest costs over the life of OFHP since OPG and its Financing Entity will pay a higher rate of interest compared to the Province. Why not have the Province borrow for the OFHP?

The policy objective of OFHP 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 – not the tax-base.

We believe 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. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since the early 2000s³⁵.

The \$4 billion³⁶ figure in the Office of the Auditor General's report was sourced from the FAO's May 2017 report and is important to note, that the FAO's calculation was based on preliminary estimates of the program when peak debt estimates for the thirty year program were substantially higher and interest costs were forecast to be higher than current projections.

Q. Why did the IESO change its accounting practices?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in their financial results.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's 2016 annual report, which was published online in March 2017.

The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements.

³¹ Ministry of Energy

³² Ministry of Energy

³³ Ministry of Energy

³⁴ Ministry of Energy

³⁵ Ministry of Finance

³⁶ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

Additionally this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

This change has no impact to the province's annual deficit, net debt, accumulated deficit or on the ratepayers of Ontario.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. Why did the government not use the Canadian Public Sector Accounting Standards (PSAS)? How was Ontario's Fair Hydro Plan (OFHP) financing structure determined?

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18 as well as in the following years. Presenting its financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS is, however, silent on the recognition, measurement, presentation or 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. In this case, the Independent Electricity System Operator (IESO) consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.

This financing structure is similar to several jurisdictions in the U.S., and uses a form of securitization that is commonly used in the financial markets. It ensures the impact of the plan will be transparent. Under this system, credit rating agencies, securities regulators and the public at large get full information and full reporting of the impacts of the OFHP that are visible and specific.

Q. What is the Global Adjustment (GA)?

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. The 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 accounts for 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 reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's 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 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.

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.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've 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.

Moving forward, Ontario is developing its 2017 Long-Term Energy Plan (2017 LTEP) which will focus on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to \$5.2 billion³⁷ over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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).

In development and implementation of Global Adjustment (GA) refinancing, 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.

³⁷ Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal* (Brattle Group)

Document Search

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

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

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

The Ministry does not intend to spend more than \$60,000 on this request. Although the retainer agreement includes a cap of up to \$500,000, as of September 21, 2017, only \$41,775.75 has actually been spent.

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 has 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 has been regularly providing AG batches of responsive documents.

This request remains a priority for the Ministry of Energy and we will continue to make effort to deliver all responsive records to the Auditor General as soon as possible. There is currently a team of 12 Ministry staff reviewing for responsive records.

Response Prepared Based on Ministers' Speaking Points

Q. How do you respond to the Auditor General's claim that the government ignored warnings regarding a potential adverse audit opinion of Ontario's public accounts?

The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

In regards to rate-regulated accounting, PSAS are silent on the use of regulated accounting:

- PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
- US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference.

Many entities in Canada, including OPG and Hydro One use rate-regulated accounting:

- The OAG can refer to the CPA Canada research study that was shared.
- Rate-regulated accounting is well understood in the electricity sector.

- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America, including AESO, ISO New England, NYISO, MISO, PJM and ERCOT.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

TBS's Detailed QAs re Ontario's Fair Hydro Plan

Q. The Auditor General says that the accounting structure for Ontario's Fair Hydro Plan is not transparent, has poor value for money, and is not in accordance with Public Sector Accounting Standards. How do you respond?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results is transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The Ministry of Energy would welcome further questions about OFHP and the government's investments in a reliable energy system.

Q. The Auditor General makes two recommendations in her report – to record the true financial impact of Ontario's Fair Hydro Plan; and to use a financing structure that is the least costly for Ontarians. Will you adopt these recommendations?

The government does not agree with the assertions and conclusions expressed in the report.

In developing OFHP, 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.

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

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion³⁸. The preliminary estimate from March 2017 was about \$28 billion³⁹.

The Province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

³⁸ Ministry of Energy

³⁹ Ministry of Energy, submission to Financial Accountability Officer

Q. Both the Auditor General and the Financial Accountability Officer (FAO) have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history.

In developing OFHP, 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.

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

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

Q. The Auditor General says that you are “obfuscating” the true financial impact of Ontario’s Fair Hydro Plan through a “needlessly complex” accounting structure. How do you respond?

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. How can you justify the \$4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the Province, instead of the Province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴⁰. The preliminary estimate from March 2017 was about \$28 billion⁴¹.

Q. The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of 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 CEA.

⁴⁰ Ministry of Energy

⁴¹ Ministry of Energy, submission to Financial Accountability Officer

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. What will happen if interest rates rise? The Financial Accountability Officer (FAO) estimates that if interest rates were to rise, the true cost of Ontario’s Fair Hydro Plan could be between \$69 and \$93 billion. How can you justify shifting this heavy burden onto future generations?

The implementation of Ontario’s Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs of OFHP, and while total borrowing costs will not be known until the program is complete, accumulated interest is expected to be considerably less than the estimates cited in the May 2017 report of the FAO.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report, and borrowing costs are now forecast to be substantially lower than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴². The preliminary estimate from March 2017 was about \$28 billion⁴³.

Government Officials

Q. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario’s Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

⁴² Ministry of Energy

⁴³ Ministry of Energy, submission to Financial Accountability Officer

In developing Ontario's Fair Hydro Plan (OFHP), 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.

Multiple options were considered in creating the OFHP framework – such as to have local distribution companies finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution companies to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

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

Audit Opinion

The government just received another qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end. This change was supported by IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Q. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The Province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you concerned that the Auditor General will issue an adverse opinion on the Province's Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the Province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministry of Energy, Finance and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and third-party accounting, financing and energy experts to ensure due diligence.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all independent auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, 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.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?

There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), 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.

The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Independent Electricity System Operator (IESO)

The Auditor General was critical of the Independent Electricity System Operator's accounting changes, which formed part of her basis for a qualified opinion in the 2016-17 Public Accounts. Are these accounting changes inappropriate?

On recognizing market accounts' assets:

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen 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.

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

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General (OAG) at that time.

This change has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

On rate-regulated accounting:

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Rate-regulated Accounting

Q. Why use rate-regulated accounting? What is its benefit?

In certain circumstances, an organization may be required to incur a large expenditure that will be recovered from ratepayers in the future.

For example, damage caused by an ice storm that results in extraordinary costs to restore a disruption of electricity services for customers. Such costs are subject to application and approval for recovery by the regulator over a specific time period.

What rate-regulated accounting does is it allows organizations to recognize those costs, which can be significant within a year but will generate benefits over time, to be matched over the same period that the amounts are recovered from ratepayers.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

“The entity’s rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers” [ASC 980-10-15-2].

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

Legislated Accounting

Q. The Auditor General says that you are essentially making up your own accounting rules. How are Ontarians supposed to believe things like a “balanced budget” when you keep changing the rules?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

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

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The recording of any asset resulting from transactions of OFHP will be assessed for recognition and measurement based on PSAS, and where appropriate, other accounting guidance where PSAS is silent on the issue.

Q. The Auditor General says that the Province legislated accounting through the Ontario Fair Hydro Plan Act, which is not allowed according to Public Sector Accounting Standards (PSAS). Is this true?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

The role of the Ontario Energy Board (OEB) and its mandate is provided in legislation. It is not uncommon for government policy, through regulations, to provide the ground rules over which the OEB is to preside.

This is the case with Ontario's Fair Hydro Plan (OFHP) itself, as the Act and the various regulations provide the direction and processes over which the OEB is to exercise oversight, review, and make conclusion on submissions brought forward.

Relationship with the Office of the Auditor General

Q. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

The government is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

If pressed:

The Auditor General was informed throughout the course of this process.

If asked about the Ministry of Energy emails:

The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General. For questions related to the Ministry of Energy, please contact them directly.

Future Governments

Q. The Auditor General says that you are essentially handcuffing future governments with your financing structure. Why should future governments have to pay for your decisions?

By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade government policies have supported rebuilding the electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than \$70 billion⁴⁴ has been invested to modernize the system.

The government heard from people across the Province that the price of electricity had risen too quickly, which is why Ontario's Fair Hydro Plan (OFHP) will ensure costs are shared more fairly over the years ahead.

The Ontario electricity sector invested in renewing the provincial electricity system, including many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. 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.

In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and ensures the goals underlying the program are achieved in a cost-effective manner.

⁴⁴ Ministry of Energy, 2017 Long-Term Energy Plan

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

For further questions related to Ontario's Fair Hydro Plan, please contact the Ministry of Energy.

Asset Sales

Q. Will you buy back Hydro One so that it is back under public control?

Maximizing the value of designated assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The Trillium Trust Act, 2014, provides for the dedication to the Trillium Trust of net revenue gains associated with the sale of designated assets to support investments in transit, transportation and other priority infrastructure across the province.

The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the Ontario Electricity Financial Corporation (OEFC), which manages and pays down the debt and other liabilities of the former Ontario Hydro.

The government is on track to generate, over time, \$4 billion⁴⁵ in net revenue gains to be invested in transit and infrastructure, along with \$5 billion⁴⁶ to reduce debt, from broadening Hydro One's ownership.

The government will remain, by law, the largest single shareholder in Hydro One, restricting the Province from selling down to less than 40%⁴⁷ of the voting securities in Hydro One – and no other single shareholder or group of shareholders working in concert will be permitted to hold more than 10%⁴⁸ of the company's shares.

⁴⁵ Ontario Financing Authority

⁴⁶ Ontario Financing Authority

⁴⁷ Ontario Financing Authority

⁴⁸ Ontario Financing Authority

FW_ AG fact sheet fact check.pdf

From: [Lightbody, Ava \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#)
Cc: [Bergman, Mark \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Subject: FW: AG fact sheet fact check
Date: October 16, 2017 3:09:44 PM

Hi Tim,

Edits to the AG fact check [\\etcptovspifs003\PD\EnergyPolicy\Economics\Files\OFHP\20171016 ag fac tcheck\Fact Sheet - MOE - AG Special Report v6-EPE.doc](#)

Ava

From: Lightbody, Ava (ENERGY)
Sent: October-16-17 2:34 PM
To: Cayley, Daniel (ENERGY)
Cc: Bergman, Mark (ENERGY)
Subject: FW: AG fact sheet fact check

Hello,

Edits to the AG fact check:
[\\etcptovspifs003\PD\EnergyPolicy\Economics\Files\OFHP\20171016 ag fac tcheck\Fact Sheet - MOE - AG Special Report v6-EPE.doc](#)

Thanks,
Ava

From: Cayley, Daniel (ENERGY)
Sent: October-16-17 9:22 AM
To: Lightbody, Ava (ENERGY)
Cc: Bergman, Mark (ENERGY)
Subject: FW: AG fact sheet fact check

Please review asap after our meeting this morning.

Daniel

From: Cox, Hilary (ENERGY)
Sent: October 15, 2017 5:00 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: AG fact sheet fact check

Hi Guys -

Please fact check the attached fact sheet prepared by MO and return for ADM approval by 3 pm tomorrow.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Sunday, October 15, 2017 4:20 PM
To: Cox, Hilary (ENERGY)
Subject: FW: AG fact sheet fact check

Hi Hilary,

Please see below and attached. Can you please have staff review the fact sheet?

Thanks,
Martin

From: Nikolaichuk, Colin (ENERGY)
Sent: Sunday, October 15, 2017 4:06 PM
To: Schlaepfer, Martin (ENERGY)
Cc: Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Den Heijer, Kevin (ENERGY); Berry, James (ENERGY)
Subject: AG fact sheet fact check

Hi Martin,

We've put together a fact sheet that we may be handing out to media in conjunction with the tech briefing and Ministers' media avail. Would it be possible to have officials fact check our fact sheet?

Many thanks,
Colin

Colin Nikolaichuk | Press Secretary
Office of the Hon. Glenn Thibeault | Minister of Energy
T: 416-325-2690 C: 647-504-4928
colin.nikolaichuk@ontario.ca

FW_ By Wednesday at 3 pm -Rate Mitigation Imple...(1).pdf

From: [Cayley, Daniel \(ENERGY\)](#)
To: [Lightbody, Ava \(ENERGY\)](#)
Cc: [Bergman, Mark \(ENERGY\)](#); [Ho, Larissa \(ENERGY\)](#)
Subject: FW: By Wednesday at 3 pm -Rate Mitigation Implementation Meeting
Date: November 21, 2017 9:29:00 AM
Attachments: [Action Items_Nov 1_v2.docx](#)
[2017-10-27 OFHP Matrix - Week of Oct 31_Clean.docx](#)
[20171109_OFHP_Update_for_Minister_EPE_Clean.pptx](#)
[2017 Outstanding Business Issues - Week of Oct 30 - ENE.DOCX](#)

Ava – please update for tomorrow at noon.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: November 20, 2017 6:33 PM
To: Yordi, Samer (ENERGY); Edwards, Matthew (ENERGY); Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF)
Subject: FW: By Wednesday at 3 pm -Rate Mitigation Implementation Meeting

Hi All –

Please use attached action items and OFHP matrix from the last OFHP morning group meeting to update for this Thursday's group. I've also attached the OFHP update for Minister from last week as that is likely even more recent than these materials.

We'll also need to update the business issues list per OFHP Minister's update and next steps. Will get back to everyone tomorrow with who should update on what business issues.

Appreciate this back by Wednesday at 3 pm please.

HC

Action Items_ Nov 1_v2.pdf

Action Items

November 1, 2017

Agenda

1) GA Refinancing

- o General Business Update (OPG / IESO / ENERGY)
 - Rating agencies (i.e., DBRS) would like to interview IESO as part of the ratings process
 - Energy to prepare a letter to OPG to clarify that although the FAA Letter includes negative amounts, OPG can still incur charges (e.g., interest). Alternatively, this matter could be address through regulation
 - IESO meeting with OPG and dealers tomorrow to finalize outstanding issues (e.g., agreement, security)
 - OPG Board meeting on Novermeber 15 to approve critical business items
 - By the end of November IESO has to post its quarterly financial statements up to the end of September, which will include a regulatory asset of approximately \$800 million
 - OFA has intercept letter for ENERGY and IESO to sign for enhanced Line of Credit
- o Provincial Protection and Assurances Agreement (OFA / OPG)
 - OFA working with OPG, MOF, ENERGY, Blakes and Tories to finalize agreement by the end of the week
- o Commercial Agreement (OPG/ IESO)
 - Work ongoing between OPG and IESO
- o OPG's Financing Plan (OPG)
 - OPG to share draft with Ministry as soon as possible. OPG expects to have draft document by the end of next week
 - OPG expects to go to market by end of November – to include an offering memorandum, which goes to identified investors. OPG to prepare a process “road map” that outlines the diffent steps of going to market
 - Ministry to determine whether a NR or statement would need to be issued about a quiet period while OPG goes to market
 - Potential Technical Media briefing on OPG financing plan in early December – OPG to work on outline of deck
- o Regulatory Amendments (ENERGY)
 - To enable IESO to recove from the GA its carrying costs associated with the Letter of Credit
 - To the General regulation to address methodology for recovery in the event of default (i.e., acceleration) and potentially negative FAA amounts
 - Energy to prepare a Minister letter to OPG outlining the policy intent of proposed amendments and indicate that the ministry's plan to obtain approval of the ammendents at LRC on November 20 or Decemeber 11

2) Sepcial Report – Debrief

3) Other OFHP Initiatives

- o RRRP, OESP and FN (SNAP)
 - Reg tracking to LRC in December for OESP
- o Affordability Fund (CRED)
 - Next Trustees meeting is November 2nd.

2017-10-27 OFHP Matrix - Week of Oct 31_Clean.pdf

Implementation of Ontario's Fair Hydro Plan

Week of October 31, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> - OPG continuing to work with rating agencies - Ongoing Business Items: - Provincial Protection and Assurance Agreement - OFA / OPG / MOF / ENERGY and OPGD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB - Commercial Agreement - OPG and IESO working to finalize Agreement - Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account - ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit - OPG Financing Plan - OPG to provide ENERGY a draft - Acceleration and negative FAA - ENE and OPG considering further amendments to O. Reg. 206/17 - Subordinate Debt Loan Agreement - Equity Injection Process - OPG seeking Board approval of Master Subscription Agreement on September 29. - Province to finalize internal mechanisms by October - Payment in Lieu of Taxes Exemption - MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	- October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) - Week of November 6, 2017 – OPG Draft Financing Plan - November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit - November 13, 2017 – OPG Board meeting - Late November or early December – OPG Initial debt issuance - December (TBD) – LRC

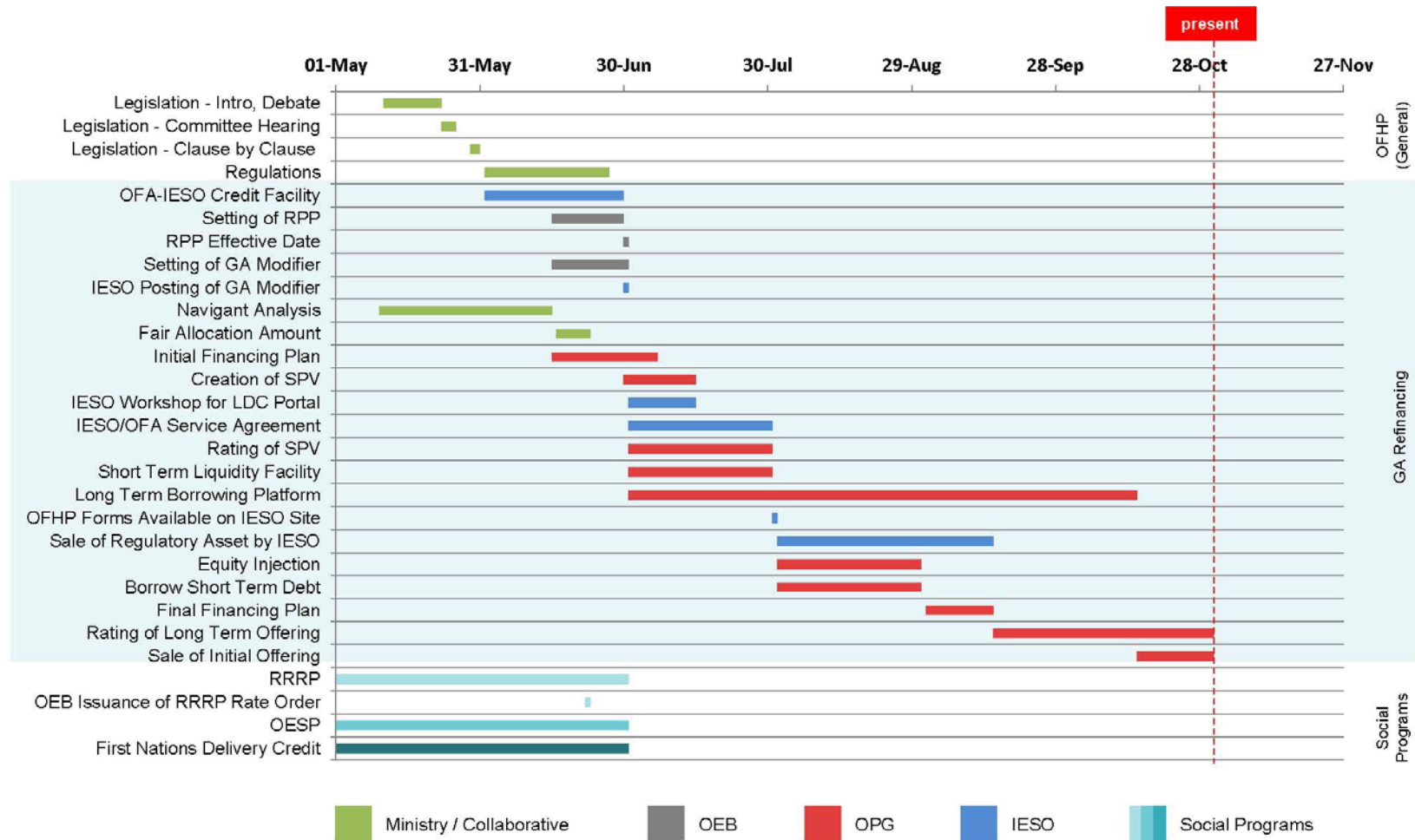
Item	Key Deliverables / Considerations	Timing / Next Steps
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
ENERGY, LSB and LDCs	<u>Recent Action Items</u> - All LDCs have indicated they have implemented the program - IESO has begun to submit reimbursement claims to the Ministry	Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) 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
4) 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
5) 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 meeting is scheduled for November 2, 2017	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-back - Report back to TB/MBC through the PRRT process with final program details and a

Item	Key Deliverables / Considerations	Timing / Next Steps
		performance management framework including outcome measures and targets Late 2017/early 2018: 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
6) Engagement with Officers of the Legislature		
ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> - AG special report on OFHP and Government Response released October 17, 2017 - Search for records responding to AG request (emails, responsive documents) completed week of October 25	TBD – AG Annual Report
7) Bill Presentment (SNAP/LSB)		
ENERGY	<u>Recent Action Items</u> Ongoing Ministry work re bill presentment	2017-2018 – Bill redesign
8) 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
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
ENERGY, LSB, OEB and IESO	OEB: Directive / Letter (TBD) <u>Considerations</u>	Continue this work as part of 2017 LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• 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.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Ontario's Fair Hydro Plan – Minister's Update

November 16, 2017

CONFIDENTIAL

Context

- On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (OFHP). Effective July 1, 2017, OFHP has lowered electricity bills by 25 per cent on average for residential electricity customers 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 the reduction.
- The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced on January 1, 2017.
- OFHP also includes initiatives to reduce costs for low-income, rural/remote, and First Nations consumers, as well as measures to benefit larger consumers.
- Through the Rate Mitigation Implementation Group and subcommittees, the Ministry of Energy continues to work through implementation of the following OFHP initiatives:
 - GA Refinancing;
 - Electricity Support Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program, First Nation On-Reserve Delivery Credit); and
 - The Affordability Fund.

1) Global Adjustment (GA) Refinancing

- The Ontario Fair Hydro Act, 2017, enables 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 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 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 GA refinancing and optimize ratepayer impacts, OPG and the Province have been working with ENERGY agencies, key ministries, and external advisors 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 were signed by the Lieutenant Governor on November 1, 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.

Next Step:

- Ongoing business issues (see next section).

2) Business Items – Change of Law Protection Agreement

- To purchase the regulatory asset from 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.
- 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
 - 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.
- 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.

Next Steps:

- Finalize the Change of Law Protection Agreement

2) Business Items – OPG Financing Plan / Market Activities

- 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.
 - For GA Refinancing to proceed as planned under the legislation, OPG needs to go to market so that the GA deferral can be funded. Until such time that this takes place, IESO must manage the reduction in GA received from electricity consumers.
- 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 set out an approach to appropriately manage a potential acceleration of debt repayment in the event of a default, including mitigating impacts on CEAs payable by specified consumers.
 - Additional proposed amendments would clarify the operation of O. Reg. 206/17, including a mechanism for the recovery of financing entity carrying costs after the moratorium period when the FAA remains less than the amount of such carrying costs.

Next Steps:

- OPG is expected to complete its Financing Plan in November and to proceed with the initial debt issuance in late November or December.
- The proposed amendments are expected to proceed to LRC on November 20, 2017.

2) Business Items – IESO Cost Recovery for Security Vehicle

- In order for OPG to market the debt, a 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 costs associated with the security arrangement, including carrying costs and any default costs.
 - Note: the risk of LDC default is considered to be low. However, OPG advised regulatory amendments are necessary to provide security to the market should such a default occur.
- Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act) made under the *Electricity Act, 1998* have been developed in order enable amounts related to the security arrangement to be recovered through from consumers through the Global Adjustment (GA).
 - ENERGY consulted with IESO, OPG/Tory's and the OEB during the development of the proposed amendments.
 - 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 specified consumers, as defined in the legislation, through the GA.

Next Steps:

- The proposed amendments are expected to proceed to LRC on November 20, 2017, packaged with the proposed amendments to O. Reg. 206/17.

2) Business Items – Equity Injections

- 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 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

2) Business Items – Subordinated Debt Agreement

- OPG intends to lend the equity injection from the Province to the Trust by way of subordinated debt and junior 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.
- 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.
 - 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.

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 November (TBD).

2) Business Items – PILs Exemption

- It is currently contemplated that the first financing entity to be established by OPG, in its capacity as Financial Services Manager, 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);
 - 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, establish other financing entities in the future for purposes of the OFHP, the Ministry of Finance will 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.

3) Social Programs – Regulations

- On July 1, 2017, a number of amended and new regulations, needed to implement the Fair Hydro Plan, came into force:
 1. **Created a new Regulation (O. Reg. 197/17 First Nations Delivery Credit)** made under the *Ontario Energy Board Act, 1998* to enable the provision of a First Nations Delivery Credit.
 2. **Created a new Regulation (O. Reg. 198/17 Distribution Rate-Protected Residential Consumers)** made under the *Ontario Energy Board Act, 1998* to enable the provision of enhanced distribution rate protection to full-time residential customers of prescribed LDCs.
 3. **Amended O. Reg. 442/01(Rural or Remote Electricity Rate Protection)** made under the *Ontario Energy Board Act, 1998* to enable tax-based funds to support the provision of RRRP to Hydro One's low-density residential classified customers (R2).
 4. **Created a new Invoicing Regulation (O. Reg. 196/17 Invoicing Requirements)** made under the *Ontario Fair Hydro Plan Act, 2017* to communicate Ontario's Fair Hydro Plan (OFHP), and its associated bill impacts, to consumers.
 5. **Amended O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity)** made under the *Ontario Energy Board Act, 1998* to remove the requirement for electricity vendors and USMPs to include informational messaging about the Debt Retirement Charge (DRC) in order to create more space on invoices for new OFHP messaging.
 6. **Amended the O. Reg 363/16 (General)** under the *Ontario Rebate for Electricity Consumers Act, 2016* to provide clarity on how the proposed First Nations Delivery Credit should be treated with respect to the calculation of the 8% provincial rebate.
 7. **Amended O. Reg. 314/15 (Ontario Electricity Support Program)** made under the *Ontario Energy Board Act, 1998* to enable MCSS staff to sign up social assistance clients for the Ontario Electricity Support Program.

3) First Nations Delivery Credit (FNDC)

- Section 79.4 of the OEB Act provides for a delivery credit to offset the costs that make up the delivery line for on-reserve consumers, paid for through funds appropriated by the Legislature. It also provides for regulation making authority to define who is an on-reserve consumer and what areas constitute a “reserve”
- The central piece of the FNDC regulation surrounds the eligibility criteria. The regulation limits eligibility to all First Nations residential on-reserve customers, regardless of whether the customer is seasonal or permanent. The definition of key terms, such as “reserve”, “member of a band”, are taken directly from the traditional meaning provided in the Indian Act.
- The 11 affected LDCs already have set processes in place to identify First Nations customers living on reserve based on their HST exemption status.
- Data reported by IESO reveals that over 20,000 customers are receiving FNDC – this was the target number pre-launch and reflects a successful rollout.
- The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), have crafted the policy in a manner which best reflects the needs and wishes of First Nations in Ontario.
 - Some leaders of First Nations that do not have reserve lands have expressed concern about being excluded from eligibility. (e.g. the Algonguins of Ontario and non-status First Nation groups).
 - Ontario and non-status First Nation groups).
 - COO has advocated for the expansion of the FNDC to include Band owned buildings. The Chiefs Committee on Energy continued to advocate for inclusion of band owned buildings at a meeting with Ministry staff on November 9, 2017.

3) Distribution Rate Protection – Implementation

- All eligible LDCs have indicated they are in position to provide distribution rate protection for electricity consumed on or after July 1st, 2017.
- The OEB followed the criteria in the new regulation (O. Reg. 198/17), as outlined in the chevrons below, to set the maximum monthly distribution charge.



- On June 22, 2017, the OEB released its decision and set the maximum monthly charge at \$36.43/month. The maximum charge will be updated at least once annually going forward.
 - The regulation stipulates that each year the maximum monthly charge would be no lower than the previous year's maximum charge.
- Affected LDCs have implemented the required billing system changes, and benefits have begun to flow to consumers as July billing cycles are completed.
- The OEB's June 22 decision also lowered the RRRP regulatory charge to reflect the shift of legacy Hydro One R2 customer costs from the rate-base to the tax-base. The new RRRP charge (0.03¢/kWh) dropped from \$1.66/month for the average customer to \$0.24.
- Ministry staff are updating program costs projections. Hydro One's future distribution rates (currently before the OEB) are the top cost drivers. The Ministry is working with the OEB to consider how the OEB's cost forecast report (contemplated in O. Reg 198/17) will be provided to the Ministry.

3) Ontario Electricity Support Program Regulation (OESP)

- As part of the FHP, recent amendments to Section 79.2.2 of the OEBA gave the Ministry of Community and Social Services (MCSS) and the OEB authority to share personal information. This authority is required to align OESP delivery with other social assistance (SA) programs and automate OESP enrolment in a way that meets privacy requirements under the *Freedom of Information and Protection of Privacy Act, 1990*.
 - The purpose of this exercise is to increase OESP uptake, which is one of the approved activities in the FHP TB Minute (March 1, 2017).
- Implementation activities underway by MCSS:
 - In order to ensure all eligible SA clients receive OESP, as part of 2018-19 PRRT, MCSS is requesting the extension of the 20 Temporary FTEs approved in 2017-18 to 2018-19. Additionally, MCSS is targeting to report back to TB/MBC in December 2017 in order to acquire an additional 30 temporary FTEs to support call centre activities
 - MCSS has developed an MOU with the OEB on data sharing and respective roles / responsibilities for aligning OESP with SA program delivery. Data exchange has occurred, and MCSS has determined that only 20% of SA clients with electricity bills are currently enrolled (about 90,000 of the 113,000 clients are not enrolled).
 - MCSS has already begun to directly contact these clients by phone and letters. The call center is now operational, as of October 2017, and executing enrollment for SA clients. As of November 1, OESP posters and brochures are being distributed to SA offices.
 - Software system upgrades are underway to enable more streamlined automatic enrolment, but in the meantime, OESP applications will still be manual. The automatic enrolment solution is anticipated for early 2018-2019.

Next Steps:

- Provisions in s. 79.2 of the OEBA need to be proclaimed to shift the OESP from the rate-base to the tax-base.. This is will align with the depletion of the OESP variance account which is expected (projected for Feb/March 2018).
- The Ministry is also drafting amendments to the OESP regulation (O.Reg. 314/15) to support transition of program administration authorities/responsibilities to the Ministry
 - The OIC and regulatory package is scheduled for LRC on December 11.
- The Ministry is working with the OEB and will continue to do so over the next several months to transition OESP administration to government-
- Wet signature issue is being addressed. CRA approved OEB's proposed approach for electronic signature, and technical changes are underway. Once completed (expected Q1 2018) the MOU between CRA and MOF will be updated to reflect change.

4) Affordability Fund

- Ontario's Fair Hydro Plan established an Affordability Fund to help Ontarians who do not qualify for low-income conservation programs to make energy efficiency improvements to their homes, which could not otherwise be done without the support.
- The Affordability Fund, established through the tax base, is being administered by an independent Trust.

Next Steps:

- Consultations with electricity distributors were undertaken over summer 2017, including an August 1st session with over 30 electricity distributors participating. Feedback highlighted the importance of program design to be an iterative process and to be flexible to accommodate future changes.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an "Application for Support".
 - Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.
- The Trust, working with Hydro One, is currently negotiating program implementation agreements with electricity distributors, which outline program delivery guidelines and budgets.
 - The Trust expects to enter into agreements with interested distributions starting mid to late December 2017.
 - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In October 2017, through the 2018-19 PRRT process, ENERGY provided TB/MBC with a report back on the Affordability Fund including program application process, eligibility criteria, program monitoring and spending to date. ENERGY also stated that it will continue to assess the need for an additional funding request, considering Fund results and continued identified need.
- The Trust is expected to report Q3 2017-18 results to the Ministry in January 2018.

5) Industrial Conservation Initiative (ICI)

- On April 10, 2017, Ontario amended O. Reg. 429/04 to allow smaller manufacturers and greenhouses with an average monthly peak demand of greater than 500 kilowatts (kW) and less than 1 megawatt (MW) to participate in ICI, in addition to the consumers over 1 MW who were already eligible.
- ICI was previously expanded on January 1, 2017, when the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed.
- Newly eligible ICI participants that opted in to the program began being billed as Class A (i.e., program participants) consumers for their July 2017 consumption.
- Prior to the expansions, there were approximately 300 ICI participants. According to data provided by IESO, approximately 1100 participants have opted in for the current adjustment period.

Next Steps:

- ENERGY is continuing to work with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) on outreach campaigns to promote awareness of the ICI program.

6) OFHP Billing Requirements

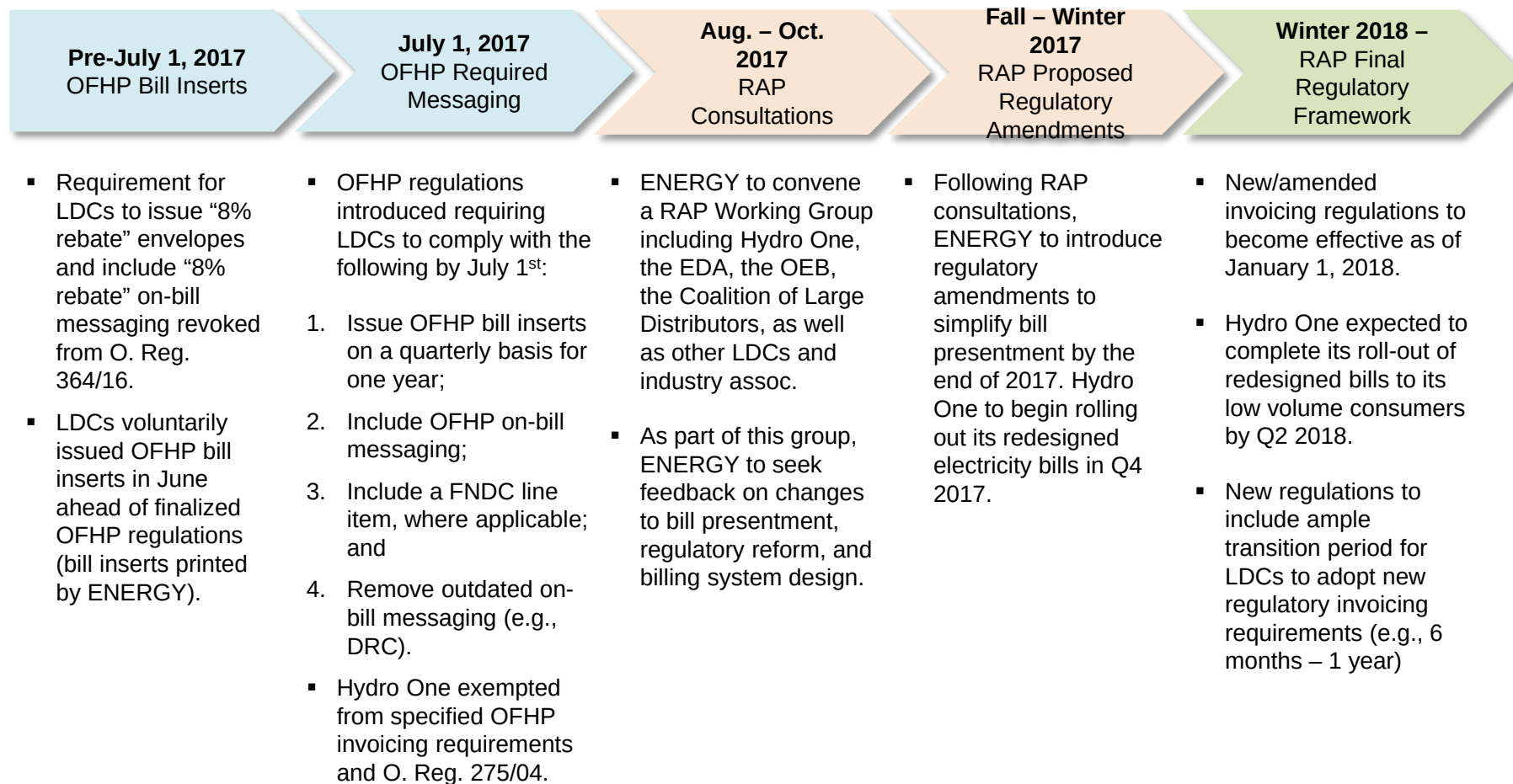
- The Ministry recently introduced new billing requirements under the *Ontario's Fair Hydro Plan Act, 2017* (OFHPA) and the *Ontario Energy Board Act, 1998* to support transparency and communication of the changes introduced by Ontario's Fair Hydro Plan (OFHP).
- These new billing requirements require electricity vendors and unit-sub meter providers (USMPs) to:
 - Include standardized informational messaging related to OFHP on all bills, per O. Reg. 196/17;
 - Accompany paper bills with a descriptive OFHP bill insert once per quarter, beginning with the first bill issued on or after July 1, 2017 until the first bill issued on or after July 1, 2018 (seasonal customers only to receive bill inserts semi-annually), per O. Reg. 196/17; and
 - Include a "First Nations Delivery Credit" as a visible line item on the bills of on-reserve customers and demonstrate the associated savings, as applicable, per O. Reg. 197/17.
- In anticipation of these new requirements, the Ministry amended O. Reg. 364/16 to revoke the "8% Provincial Rebate" messaging requirements from bills and envelopes in advance of July 1, 2017. Note: the requirement to include an 8% rebate line item remains.
- In addition, as of July 1, 2017, the requirement to include informational messaging about the Debt Retirement Charge (DRC) on bills was revoked. However, bills are still required to include a DRC line item (even for \$00.00 charges) and a definition in the "Glossary of Terms".
- As of July 2017, Hydro One has also been exempted from the application of O. Reg. 275/04, and specified OFHP invoicing requirements so that they may proceed with their planned bill redesign unencumbered by regulation. Hydro One is still required to issue quarterly OFHP bill inserts to its customers.
- Note: Vendors may petition the Minister for minor adjustments to these regulatory requirements due to technical and/or operational limitations. Minor exemptions due to message character limits have been granted to Hydro Ottawa, Enercare and IESO.

6) Redesign Action Plan (RAP)

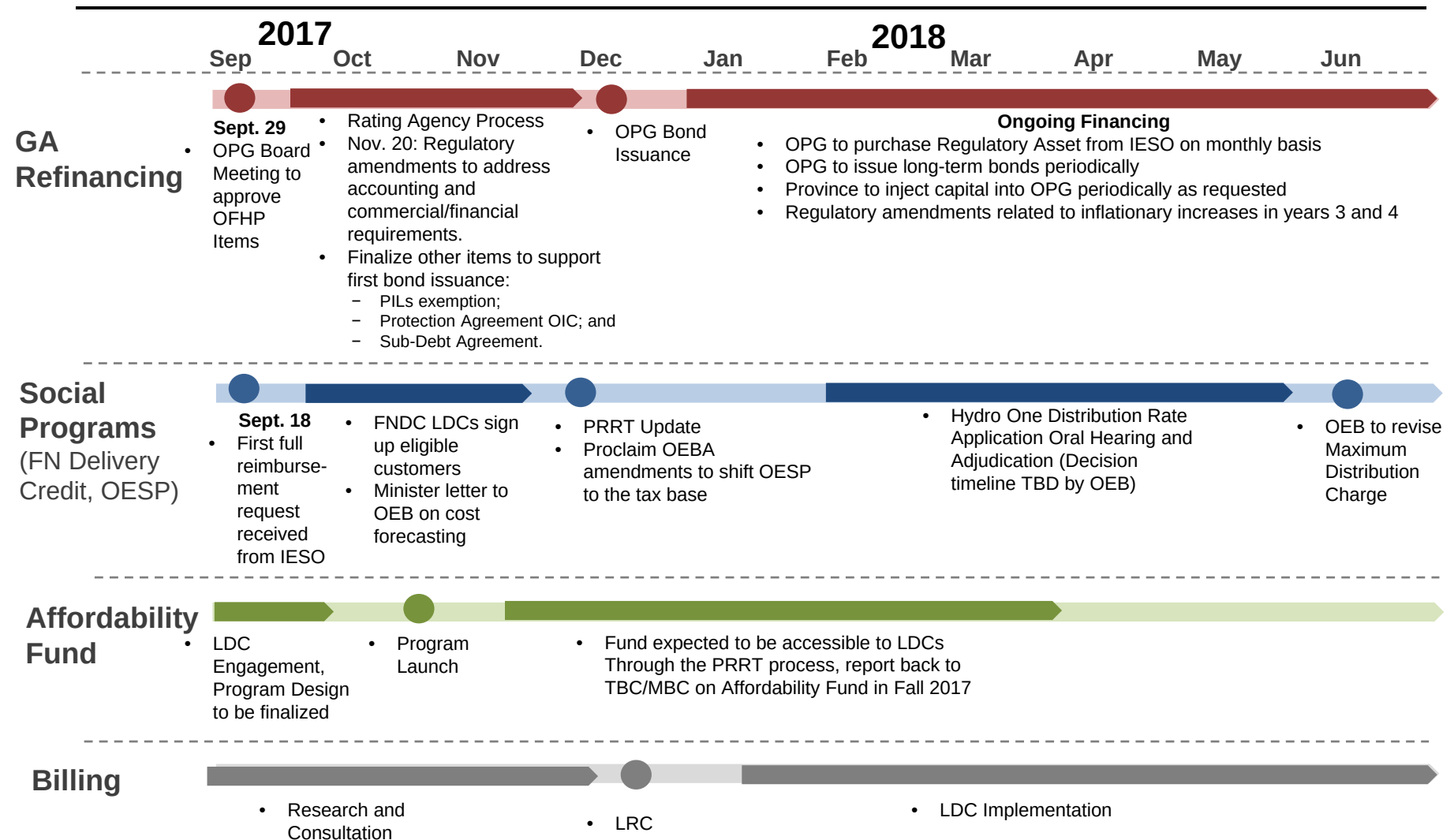
- The Ministry believes there is also an opportunity to further revise the regulatory framework on invoicing to improve the value of electricity bills to all consumers.
- In pursuit of this effort, the Ministry launched a Redesign Action Plan (RAP) this summer with the aim of improving electricity bills by:
 - Enhancing the customer experience (e.g., providing more useful information);
 - Better communicating government initiatives and programs (e.g., personalizing OFHP initiatives);
 - Consolidating the regulatory framework; and
 - Promoting greater understanding (e.g., clarifying terminology and calculations).
- The Ministry has convened a “RAP Working Group” consisting of Hydro One, the Electricity Distributors Association (EDA), the Coalition of Large Distributors (CLD), as well as additional LDCs, the OEB and relevant industry associations.
 - Three meetings have been held to date: kick-off meeting, bill design workshop and technical implementation issues. LDCs have been supportive of the Ministry’s approach.
 - The Ministry undertook consumer research on bill redesign in partnership with the OEB and IPSOS, through the OEB’s Consumer Panel. On September 19th and 21st Consumer Panel meetings were held in Sudbury, Toronto, Kingston and London. The Ministry is examining opportunities to conduct additional quantitative research to verify the qualitative findings from the Consumer Panel.
- Based on these consultation and research efforts, the Ministry aims to introduce new regulations and regulatory amendments at the end of 2017. These regulations would come into effect as of January 1, 2018, and require a transition period for distributors to comply.

6) Billing Requirements – Proposed Timeline

- Following the introduction of the OFHP invoicing requirements, the Ministry recommends undertaking the Redesign Action Plan (RAP) in the following stages:

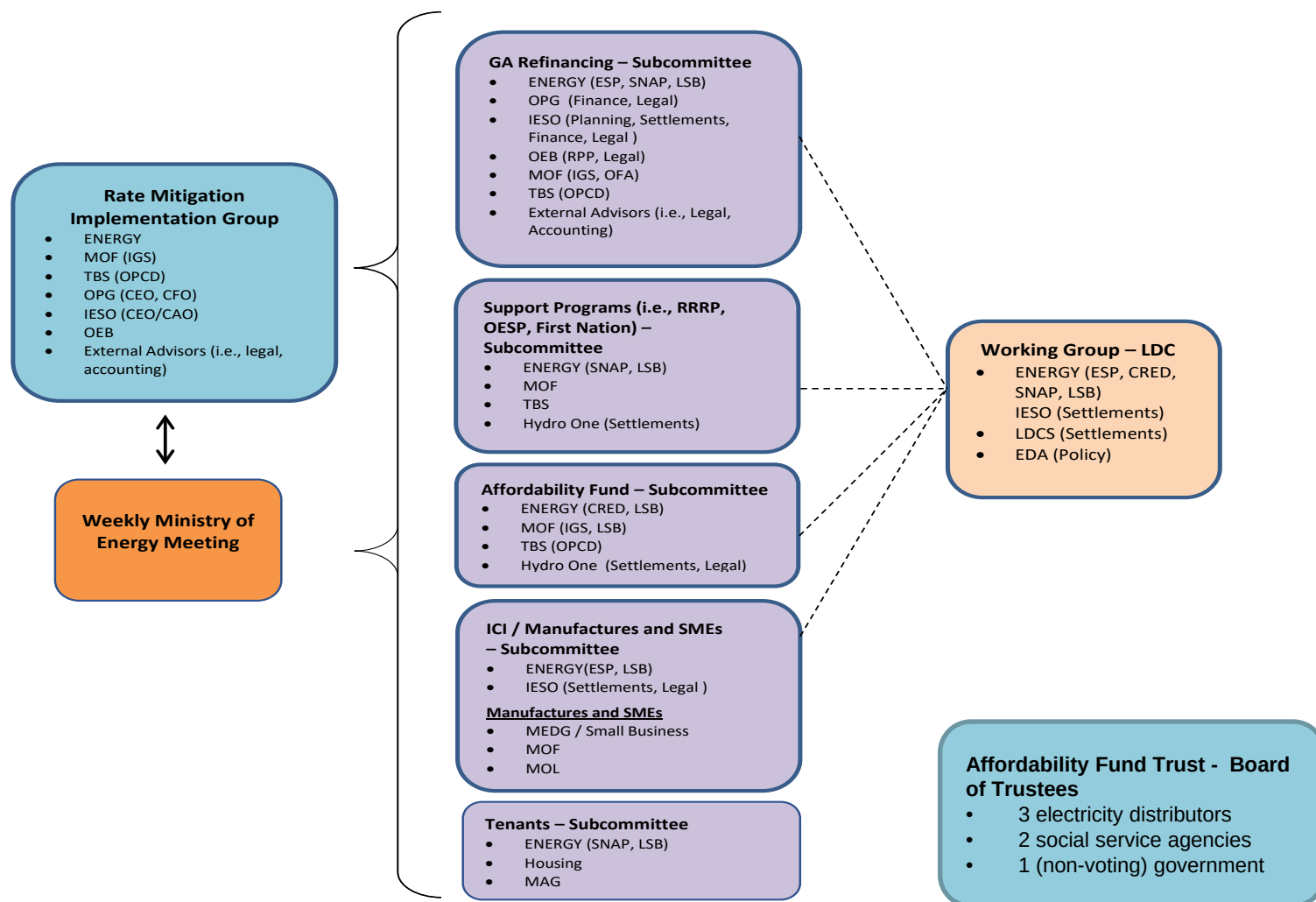


OFHP Key Milestones

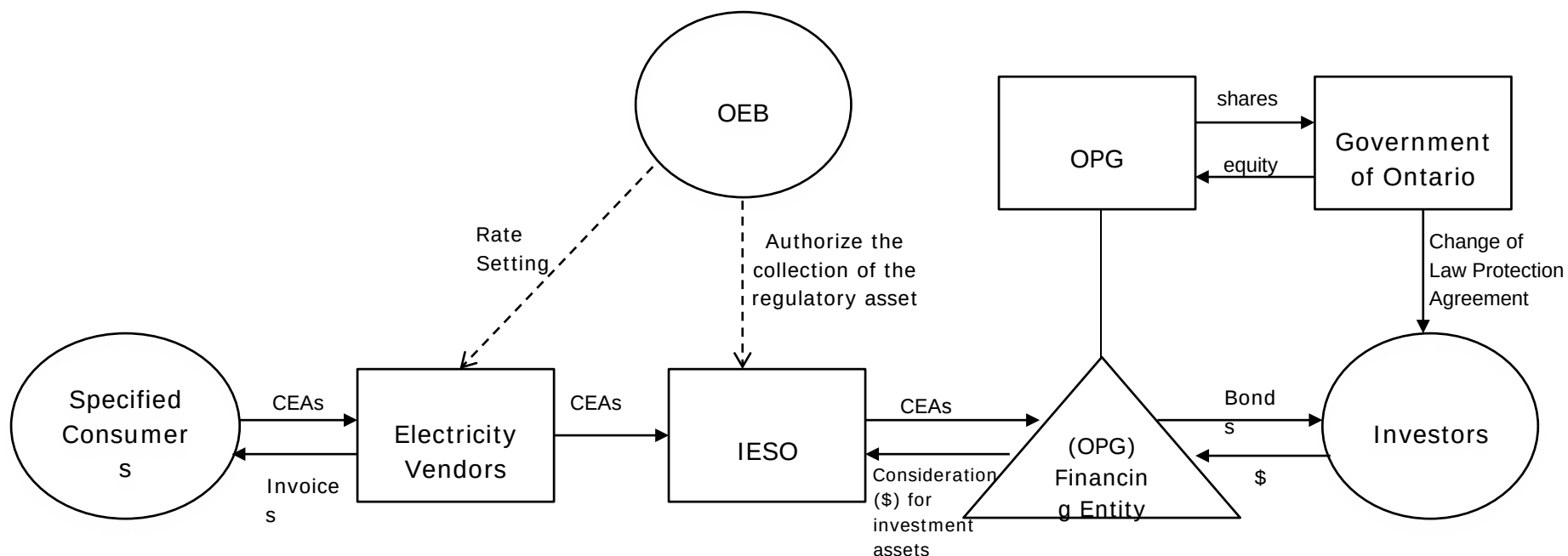


Appendix

Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan



Global Adjustment Refinancing – Roles and Responsibilities



Note: CEAs are “clean energy adjustments”

2017 Outstanding Business Issues - Week of O.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	Province to provide contingent supports to enable structure	- Draft Term Sheet - Performance Guarantee - Service Guarantee	MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. Timing: In advance of OPG Board Meeting on November 13, 2017
Equity Injection	Province to purchase shares of OPG on a monthly basis	- Master Subscription Agreement - Service Level Agreement - Notice of Subscription - Amendment to Articles	OFA / ENE to determine required monthly process and sign-off mechanism Timing: October for internal provincial mechanism
PILs Exemption	Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	Tax Regulation	MOF legal to draft comfort letter and regulation (currently with MOF for review) Timing: Fall for regulation
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: Fall
OPG Management Fees / OPG Fees and Interest Recovery	OPG is allowed to charge a management fee for its services, which will account for the amount of debt issued, OPG performance, fees charged for comparable services, and ensure OPG operates on a commercial basis.	- Amendments to Ontario Regulation 206/17 (General) - Amendments to O. Reg. 206/17 (General)	- ENE, OPG, OEB and OFA finalized regulatory amendments to enable OPG to establish and charge fees in its role as Financial Service Matter (FSM), provide a methodology for the calculation of those fees and define the role of the OEB in reviewing and approving those fees - Regulatory amendments were also finalized to enable the FSM to recover fees and interest amounts from IESO

	OPG accounting advice that interest and fees must be recovered during “inflationary cap” period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers during the inflationary cap period will be zero		during the inflationary cap period, and would enable IESO to record such amounts in the variance account Timing: LRC on October 30, 2017
Acceleration and Negative Fair Allocation Amounts (FAA)	OPG has advised that additional amendments to O. Reg. 206/17 (General) may be required to satisfy accounting requirements, that would address unintended consequences of negative FAA amounts and the impacts of a potential acceleration	Amendments to O. Reg. 206/17 (General)	ENE and OPG considering further amendments to the General Reg. Timing: LRC on November 20, 2017 and/or December 2017
Letter of Credit	OPG has advised that an IESO Letter of Credit is required to backstop smaller Local Distribution Companies (LDCs) that do not have credit ratings	Amendments to O. Reg. 429/04	ENE, IESO, and OPG considering amendments to O. Reg. 429/04 to enable the recovery of Letter of Credit carrying costs from specified consumers Timing: LRC on November 20, 2017 and/or December 2017

FW_ By Wednesday at 3 pm -Rate Mitigation Imple....pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Yordi, Samer \(ENERGY\)](#); [Edwards, Matthew \(ENERGY\)](#); [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#); [Montgomery, Kaitlin \(MOF\)](#); [Katona, Keley \(MOF\)](#)
Subject: FW: By Wednesday at 3 pm -Rate Mitigation Implementation Meeting
Date: November 21, 2017 1:18:00 PM
Attachments: [Action Items_Nov 1_v2.docx](#)
[20171109_OFHP Update for Minister EPE_Clean.pptx](#)
[2017 OHHP Martix and Outstanding Business Issues - Week of Nov 20.DOCX.....docx](#)

Hi All –

Slight change of plan – Steen would like us to update a merged OFHP Matrix/Business Issues list – template attached. Keley, I understand that Energy will now be functioning as the point person on getting business issues updates from MOF? Please confirm and I will action out the business issues for updating by divisions here.

HC

From: Cox, Hilary (ENERGY)
Sent: November 20, 2017 6:33 PM
To: Yordi, Samer (ENERGY) <Samer.Yordi@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: FW: By Wednesday at 3 pm -Rate Mitigation Implementation Meeting

Hi All –

Please use attached action items and OFHP matrix from the last OFHP morning group meeting to update for this Thursday's group. I've also attached the OFHP update for Minister from last week as that is likely even more recent than these materials.

We'll also need to update the business issues list per OFHP Minister's update and next steps. Will get back to everyone tomorrow with who should update on what business issues.

Appreciate this back by Wednesday at 3 pm please.

HC

Action Items_ Nov 1_v2_1.pdf

Action Items

November 1, 2017

Agenda

1) GA Refinancing

- o General Business Update (OPG / IESO / ENERGY)
 - Rating agencies (i.e., DBRS) would like to interview IESO as part of the ratings process
 - Energy to prepare a letter to OPG to clarify that although the FAA Letter includes negative amounts, OPG can still incur charges (e.g., interest). Alternatively, this matter could be address through regulation
 - IESO meeting with OPG and dealers tomorrow to finalize outstanding issues (e.g., agreement, security)
 - OPG Board meeting on Novermeber 15 to approve critical business items
 - By the end of November IESO has to post its quarterly financial statements up to the end of September, which will include a regulatory asset of approximately \$800 million
 - OFA has intercept letter for ENERGY and IESO to sign for enhanced Line of Credit
- o Provincial Protection and Assurances Agreement (OFA / OPG)
 - OFA working with OPG, MOF, ENERGY, Blakes and Tories to finalize agreement by the end of the week
- o Commercial Agreement (OPG/ IESO)
 - Work ongoing between OPG and IESO
- o OPG's Financing Plan (OPG)
 - OPG to share draft with Ministry as soon as possible. OPG expects to have draft document by the end of next week
 - OPG expects to go to market by end of November – to include an offering memorandum, which goes to identified investors. OPG to prepare a process “road map” that outlines the diffent steps of going to market
 - Ministry to determine whether a NR or statement would need to be issued about a quiet period while OPG goes to market
 - Potential Technical Media briefing on OPG financing plan in early December – OPG to work on outline of deck
- o Regulatory Amendments (ENERGY)
 - To enable IESO to recove from the GA its carrying costs associated with the Letter of Credit
 - To the General regulation to address methodology for recovery in the event of default (i.e., acceleration) and potentially negative FAA amounts
 - Energy to prepare a Minister letter to OPG outlining the policy intent of proposed amendments and indicate that the ministry's plan to obtain approval of the ammendents at LRC on November 20 or Decemeber 11

2) Sepcial Report – Debrief

3) Other OFHP Initiatives

- o RRRP, OESP and FN (SNAP)
 - Reg tracking to LRC in December for OESP
- o Affordability Fund (CRED)
 - Next Trustees meeting is November 2nd.

20171109_OFHP_Update_for_Minister_EPE_Clean_1.pdf

Ontario's Fair Hydro Plan – Minister's Update

November 16, 2017

CONFIDENTIAL

Context

- On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (OFHP). Effective July 1, 2017, OFHP has lowered electricity bills by 25 per cent on average for residential electricity customers 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 the reduction.
- The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced on January 1, 2017.
- OFHP also includes initiatives to reduce costs for low-income, rural/remote, and First Nations consumers, as well as measures to benefit larger consumers.
- Through the Rate Mitigation Implementation Group and subcommittees, the Ministry of Energy continues to work through implementation of the following OFHP initiatives:
 - GA Refinancing;
 - Electricity Support Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program, First Nation On-Reserve Delivery Credit); and
 - The Affordability Fund.

1) Global Adjustment (GA) Refinancing

- The Ontario Fair Hydro Act, 2017, enables 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 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 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 GA refinancing and optimize ratepayer impacts, OPG and the Province have been working with ENERGY agencies, key ministries, and external advisors 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 were signed by the Lieutenant Governor on November 1, 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.

Next Step:

- Ongoing business issues (see next section).

2) Business Items – Change of Law Protection Agreement

- To purchase the regulatory asset from 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.
- 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
 - 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.
- 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.

Next Steps:

- Finalize the Change of Law Protection Agreement

2) Business Items – OPG Financing Plan / Market Activities

- 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.
 - For GA Refinancing to proceed as planned under the legislation, OPG needs to go to market so that the GA deferral can be funded. Until such time that this takes place, IESO must manage the reduction in GA received from electricity consumers.
- 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 set out an approach to appropriately manage a potential acceleration of debt repayment in the event of a default, including mitigating impacts on CEAs payable by specified consumers.
 - Additional proposed amendments would clarify the operation of O. Reg. 206/17, including a mechanism for the recovery of financing entity carrying costs after the moratorium period when the FAA remains less than the amount of such carrying costs.

Next Steps:

- OPG is expected to complete its Financing Plan in November and to proceed with the initial debt issuance in late November or December.
- The proposed amendments are expected to proceed to LRC on November 20, 2017.

2) Business Items – IESO Cost Recovery for Security Vehicle

- In order for OPG to market the debt, a 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 costs associated with the security arrangement, including carrying costs and any default costs.
 - Note: the risk of LDC default is considered to be low. However, OPG advised regulatory amendments are necessary to provide security to the market should such a default occur.
- Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act) made under the *Electricity Act, 1998* have been developed in order enable amounts related to the security arrangement to be recovered through from consumers through the Global Adjustment (GA).
 - ENERGY consulted with IESO, OPG/Tory's and the OEB during the development of the proposed amendments.
 - 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 specified consumers, as defined in the legislation, through the GA.

Next Steps:

- The proposed amendments are expected to proceed to LRC on November 20, 2017, packaged with the proposed amendments to O. Reg. 206/17.

2) Business Items – Equity Injections

- 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 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

2) Business Items – Subordinated Debt Agreement

- OPG intends to lend the equity injection from the Province to the Trust by way of subordinated debt and junior 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.
- 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.
 - 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.

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 November (TBD).

2) Business Items – PILs Exemption

- It is currently contemplated that the first financing entity to be established by OPG, in its capacity as Financial Services Manager, 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);
 - 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, establish other financing entities in the future for purposes of the OFHP, the Ministry of Finance will 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.

3) Social Programs – Regulations

- On July 1, 2017, a number of amended and new regulations, needed to implement the Fair Hydro Plan, came into force:
 1. **Created a new Regulation (O. Reg. 197/17 First Nations Delivery Credit)** made under the *Ontario Energy Board Act, 1998* to enable the provision of a First Nations Delivery Credit.
 2. **Created a new Regulation (O. Reg. 198/17 Distribution Rate-Protected Residential Consumers)** made under the *Ontario Energy Board Act, 1998* to enable the provision of enhanced distribution rate protection to full-time residential customers of prescribed LDCs.
 3. **Amended O. Reg. 442/01(Rural or Remote Electricity Rate Protection)** made under the *Ontario Energy Board Act, 1998* to enable tax-based funds to support the provision of RRRP to Hydro One's low-density residential classified customers (R2).
 4. **Created a new Invoicing Regulation (O. Reg. 196/17 Invoicing Requirements)** made under the *Ontario Fair Hydro Plan Act, 2017* to communicate Ontario's Fair Hydro Plan (OFHP), and its associated bill impacts, to consumers.
 5. **Amended O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity)** made under the *Ontario Energy Board Act, 1998* to remove the requirement for electricity vendors and USMPs to include informational messaging about the Debt Retirement Charge (DRC) in order to create more space on invoices for new OFHP messaging.
 6. **Amended the O. Reg 363/16 (General)** under the *Ontario Rebate for Electricity Consumers Act, 2016* to provide clarity on how the proposed First Nations Delivery Credit should be treated with respect to the calculation of the 8% provincial rebate.
 7. **Amended O. Reg. 314/15 (Ontario Electricity Support Program)** made under the *Ontario Energy Board Act, 1998* to enable MCSS staff to sign up social assistance clients for the Ontario Electricity Support Program.

3) First Nations Delivery Credit (FNDC)

- Section 79.4 of the OEB Act provides for a delivery credit to offset the costs that make up the delivery line for on-reserve consumers, paid for through funds appropriated by the Legislature. It also provides for regulation making authority to define who is an on-reserve consumer and what areas constitute a “reserve”
- The central piece of the FNDC regulation surrounds the eligibility criteria. The regulation limits eligibility to all First Nations residential on-reserve customers, regardless of whether the customer is seasonal or permanent. The definition of key terms, such as “reserve”, “member of a band”, are taken directly from the traditional meaning provided in the Indian Act.
- The 11 affected LDCs already have set processes in place to identify First Nations customers living on reserve based on their HST exemption status.
- Data reported by IESO reveals that over 20,000 customers are receiving FNDC – this was the target number pre-launch and reflects a successful rollout.
- The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), have crafted the policy in a manner which best reflects the needs and wishes of First Nations in Ontario.
 - Some leaders of First Nations that do not have reserve lands have expressed concern about being excluded from eligibility. (e.g. the Algonguins of Ontario and non-status First Nation groups).
 - Ontario and non-status First Nation groups).
 - COO has advocated for the expansion of the FNDC to include Band owned buildings. The Chiefs Committee on Energy continued to advocate for inclusion of band owned buildings at a meeting with Ministry staff on November 9, 2017.

3) Distribution Rate Protection – Implementation

- All eligible LDCs have indicated they are in position to provide distribution rate protection for electricity consumed on or after July 1st, 2017.
- The OEB followed the criteria in the new regulation (O. Reg. 198/17), as outlined in the chevrons below, to set the maximum monthly distribution charge.



- On June 22, 2017, the OEB released its decision and set the maximum monthly charge at \$36.43/month. The maximum charge will be updated at least once annually going forward.
 - The regulation stipulates that each year the maximum monthly charge would be no lower than the previous year's maximum charge.
- Affected LDCs have implemented the required billing system changes, and benefits have begun to flow to consumers as July billing cycles are completed.
- The OEB's June 22 decision also lowered the RRRP regulatory charge to reflect the shift of legacy Hydro One R2 customer costs from the rate-base to the tax-base. The new RRRP charge (0.03¢/kWh) dropped from \$1.66/month for the average customer to \$0.24.
- Ministry staff are updating program costs projections. Hydro One's future distribution rates (currently before the OEB) are the top cost drivers. The Ministry is working with the OEB to consider how the OEB's cost forecast report (contemplated in O. Reg 198/17) will be provided to the Ministry.

3) Ontario Electricity Support Program Regulation (OESP)

- As part of the FHP, recent amendments to Section 79.2.2 of the OEBA gave the Ministry of Community and Social Services (MCSS) and the OEB authority to share personal information. This authority is required to align OESP delivery with other social assistance (SA) programs and automate OESP enrolment in a way that meets privacy requirements under the *Freedom of Information and Protection of Privacy Act, 1990*.
 - The purpose of this exercise is to increase OESP uptake, which is one of the approved activities in the FHP TB Minute (March 1, 2017).
- Implementation activities underway by MCSS:
 - In order to ensure all eligible SA clients receive OESP, as part of 2018-19 PRRT, MCSS is requesting the extension of the 20 Temporary FTEs approved in 2017-18 to 2018-19. Additionally, MCSS is targeting to report back to TB/MBC in December 2017 in order to acquire an additional 30 temporary FTEs to support call centre activities
 - MCSS has developed an MOU with the OEB on data sharing and respective roles / responsibilities for aligning OESP with SA program delivery. Data exchange has occurred, and MCSS has determined that only 20% of SA clients with electricity bills are currently enrolled (about 90,000 of the 113,000 clients are not enrolled).
 - MCSS has already begun to directly contact these clients by phone and letters. The call center is now operational, as of October 2017, and executing enrollment for SA clients. As of November 1, OESP posters and brochures are being distributed to SA offices.
 - Software system upgrades are underway to enable more streamlined automatic enrolment, but in the meantime, OESP applications will still be manual. The automatic enrolment solution is anticipated for early 2018-2019.

Next Steps:

- Provisions in s. 79.2 of the OEBA need to be proclaimed to shift the OESP from the rate-base to the tax-base.. This is will align with the depletion of the OESP variance account which is expected (projected for Feb/March 2018).
- The Ministry is also drafting amendments to the OESP regulation (O.Reg. 314/15) to support transition of program administration authorities/responsibilities to the Ministry
 - The OIC and regulatory package is scheduled for LRC on December 11.
- The Ministry is working with the OEB and will continue to do so over the next several months to transition OESP administration to government-
- Wet signature issue is being addressed. CRA approved OEB's proposed approach for electronic signature, and technical changes are underway. Once completed (expected Q1 2018) the MOU between CRA and MOF will be updated to reflect change.

4) Affordability Fund

- Ontario's Fair Hydro Plan established an Affordability Fund to help Ontarians who do not qualify for low-income conservation programs to make energy efficiency improvements to their homes, which could not otherwise be done without the support.
- The Affordability Fund, established through the tax base, is being administered by an independent Trust.

Next Steps:

- Consultations with electricity distributors were undertaken over summer 2017, including an August 1st session with over 30 electricity distributors participating. Feedback highlighted the importance of program design to be an iterative process and to be flexible to accommodate future changes.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an "Application for Support".
 - Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.
- The Trust, working with Hydro One, is currently negotiating program implementation agreements with electricity distributors, which outline program delivery guidelines and budgets.
 - The Trust expects to enter into agreements with interested distributions starting mid to late December 2017.
 - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In October 2017, through the 2018-19 PRRT process, ENERGY provided TB/MBC with a report back on the Affordability Fund including program application process, eligibility criteria, program monitoring and spending to date. ENERGY also stated that it will continue to assess the need for an additional funding request, considering Fund results and continued identified need.
- The Trust is expected to report Q3 2017-18 results to the Ministry in January 2018.

5) Industrial Conservation Initiative (ICI)

- On April 10, 2017, Ontario amended O. Reg. 429/04 to allow smaller manufacturers and greenhouses with an average monthly peak demand of greater than 500 kilowatts (kW) and less than 1 megawatt (MW) to participate in ICI, in addition to the consumers over 1 MW who were already eligible.
- ICI was previously expanded on January 1, 2017, when the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed.
- Newly eligible ICI participants that opted in to the program began being billed as Class A (i.e., program participants) consumers for their July 2017 consumption.
- Prior to the expansions, there were approximately 300 ICI participants. According to data provided by IESO, approximately 1100 participants have opted in for the current adjustment period.

Next Steps:

- ENERGY is continuing to work with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) on outreach campaigns to promote awareness of the ICI program.

6) OFHP Billing Requirements

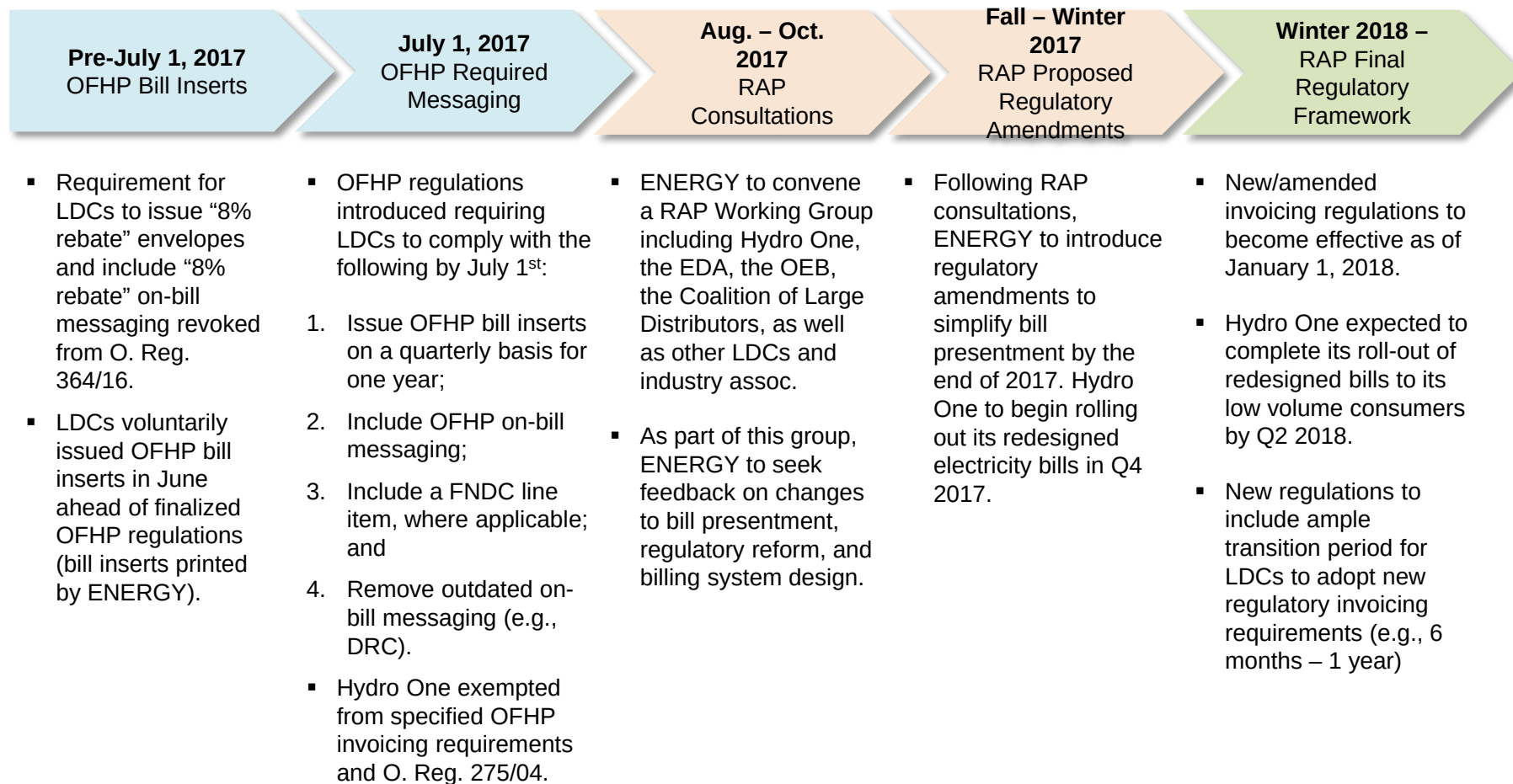
- The Ministry recently introduced new billing requirements under the *Ontario's Fair Hydro Plan Act, 2017* (OFHPA) and the *Ontario Energy Board Act, 1998* to support transparency and communication of the changes introduced by Ontario's Fair Hydro Plan (OFHP).
- These new billing requirements require electricity vendors and unit-sub meter providers (USMPs) to:
 - Include standardized informational messaging related to OFHP on all bills, per O. Reg. 196/17;
 - Accompany paper bills with a descriptive OFHP bill insert once per quarter, beginning with the first bill issued on or after July 1, 2017 until the first bill issued on or after July 1, 2018 (seasonal customers only to receive bill inserts semi-annually), per O. Reg. 196/17; and
 - Include a "First Nations Delivery Credit" as a visible line item on the bills of on-reserve customers and demonstrate the associated savings, as applicable, per O. Reg. 197/17.
- In anticipation of these new requirements, the Ministry amended O. Reg. 364/16 to revoke the "8% Provincial Rebate" messaging requirements from bills and envelopes in advance of July 1, 2017. Note: the requirement to include an 8% rebate line item remains.
- In addition, as of July 1, 2017, the requirement to include informational messaging about the Debt Retirement Charge (DRC) on bills was revoked. However, bills are still required to include a DRC line item (even for \$00.00 charges) and a definition in the "Glossary of Terms".
- As of July 2017, Hydro One has also been exempted from the application of O. Reg. 275/04, and specified OFHP invoicing requirements so that they may proceed with their planned bill redesign unencumbered by regulation. Hydro One is still required to issue quarterly OFHP bill inserts to its customers.
- Note: Vendors may petition the Minister for minor adjustments to these regulatory requirements due to technical and/or operational limitations. Minor exemptions due to message character limits have been granted to Hydro Ottawa, Enercare and IESO.

6) Redesign Action Plan (RAP)

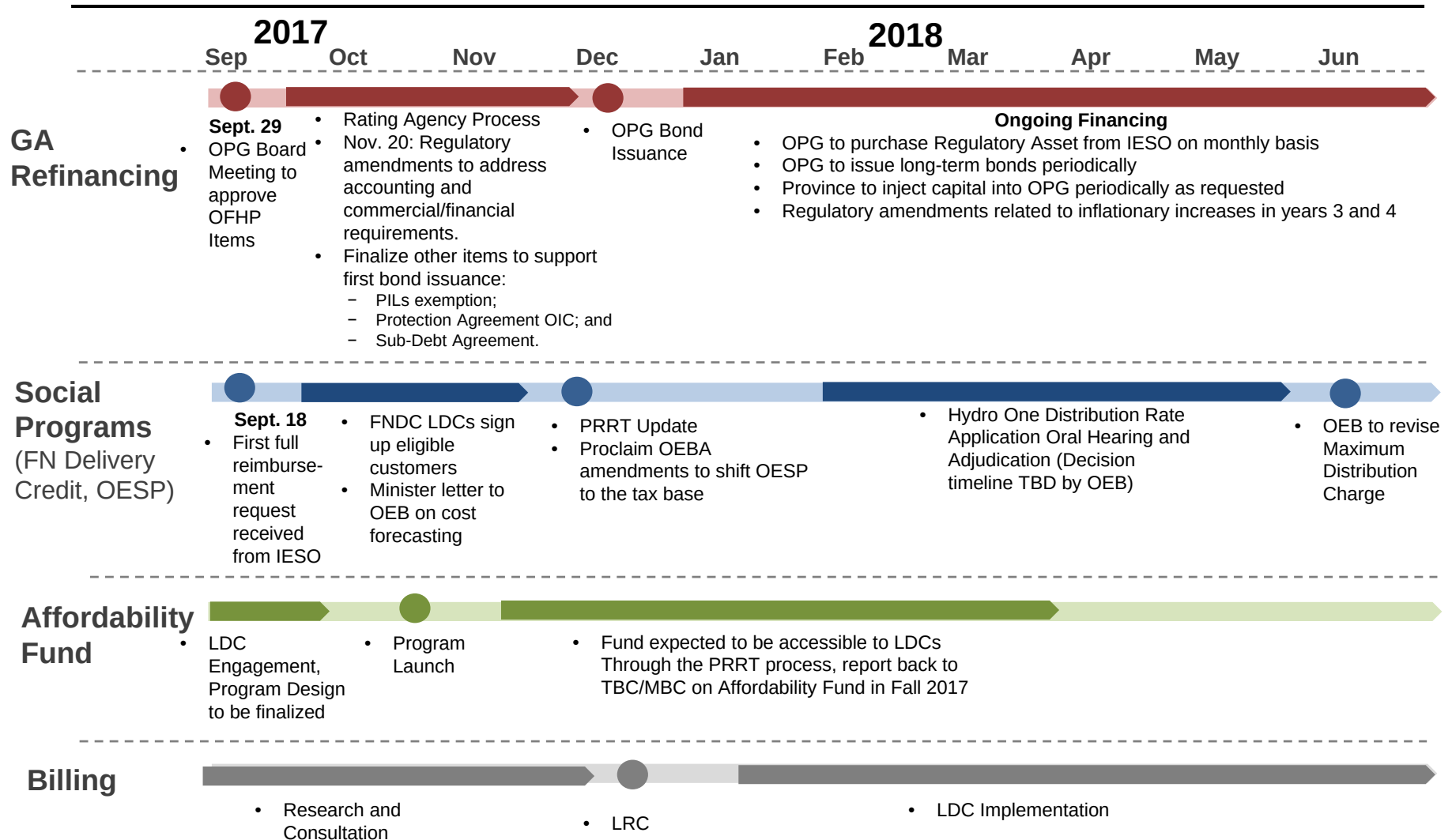
- The Ministry believes there is also an opportunity to further revise the regulatory framework on invoicing to improve the value of electricity bills to all consumers.
- In pursuit of this effort, the Ministry launched a Redesign Action Plan (RAP) this summer with the aim of improving electricity bills by:
 - Enhancing the customer experience (e.g., providing more useful information);
 - Better communicating government initiatives and programs (e.g., personalizing OFHP initiatives);
 - Consolidating the regulatory framework; and
 - Promoting greater understanding (e.g., clarifying terminology and calculations).
- The Ministry has convened a “RAP Working Group” consisting of Hydro One, the Electricity Distributors Association (EDA), the Coalition of Large Distributors (CLD), as well as additional LDCs, the OEB and relevant industry associations.
 - Three meetings have been held to date: kick-off meeting, bill design workshop and technical implementation issues. LDCs have been supportive of the Ministry’s approach.
 - The Ministry undertook consumer research on bill redesign in partnership with the OEB and IPSOS, through the OEB’s Consumer Panel. On September 19th and 21st Consumer Panel meetings were held in Sudbury, Toronto, Kingston and London. The Ministry is examining opportunities to conduct additional quantitative research to verify the qualitative findings from the Consumer Panel.
- Based on these consultation and research efforts, the Ministry aims to introduce new regulations and regulatory amendments at the end of 2017. These regulations would come into effect as of January 1, 2018, and require a transition period for distributors to comply.

6) Billing Requirements – Proposed Timeline

- Following the introduction of the OFHP invoicing requirements, the Ministry recommends undertaking the Redesign Action Plan (RAP) in the following stages:

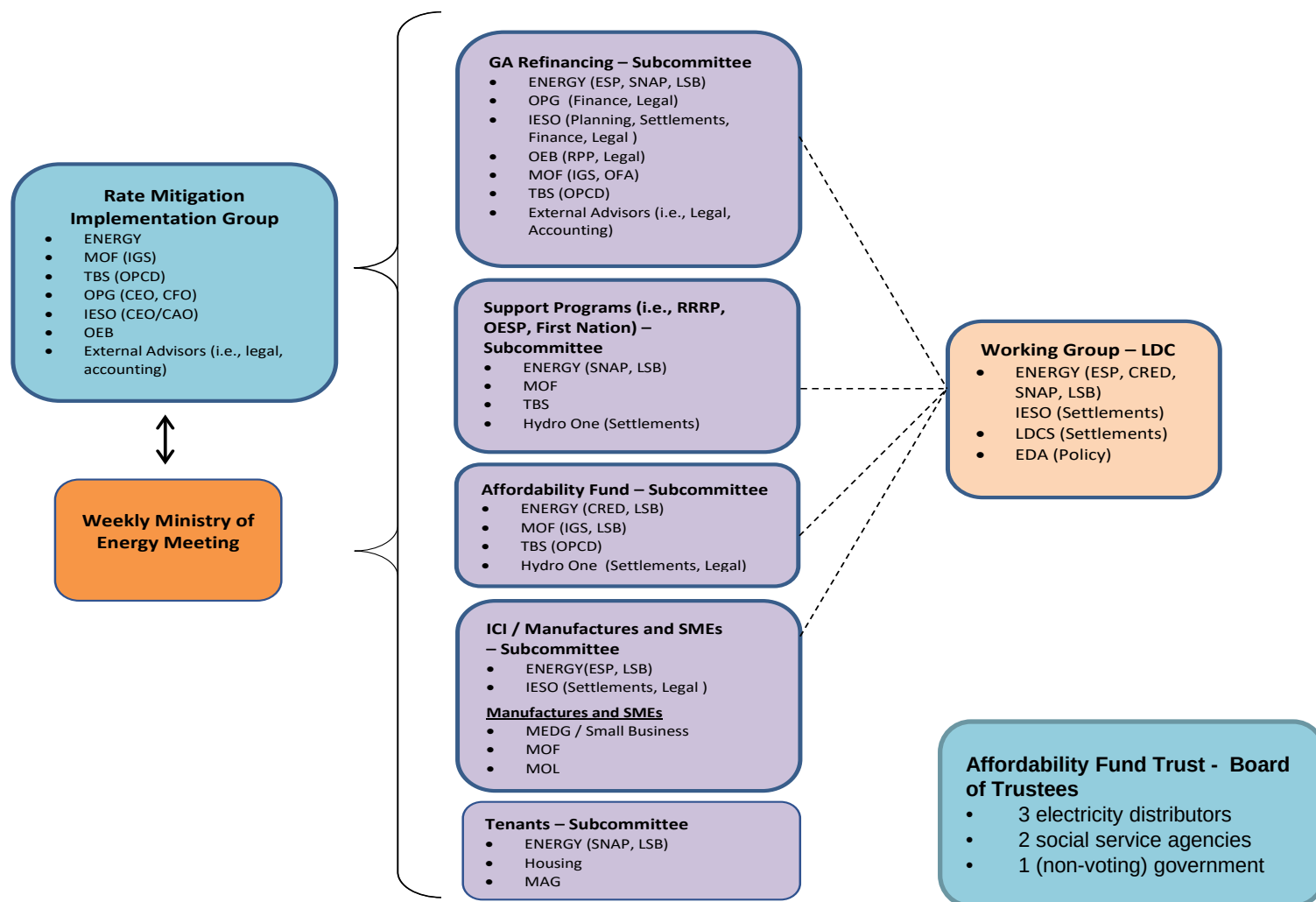


OFHP Key Milestones

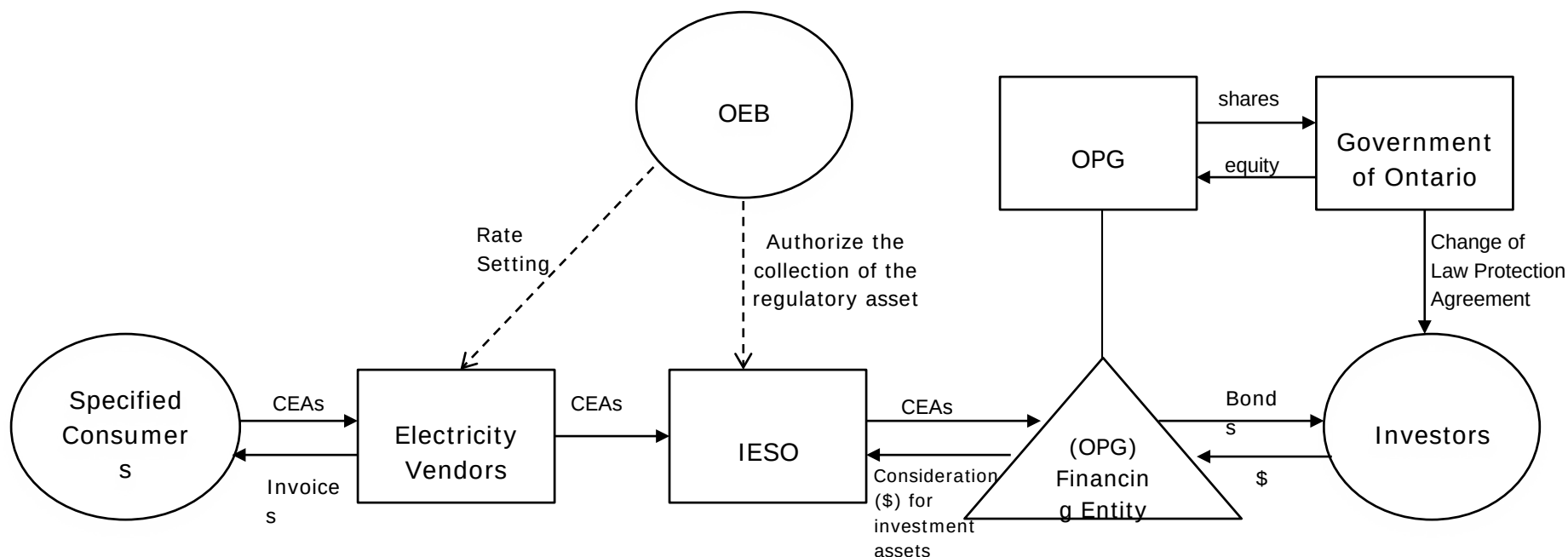


Appendix

Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan



Global Adjustment Refinancing – Roles and Responsibilities



Note: CEAs are "clean energy adjustments"

2017 OHHP Martix and Outstanding Business Iss.pdf

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 Protection and Assurance Agreement	Province to provide contingent supports to enable structure	- Draft Term Sheet - Performance Guarantee - Service Guarantee	MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. Timing: In advance of OPG Board Meeting on November 13, 2017
OPG's Financing Plan			Timing: Late November or early December – OPG Initial debt issuance
Equity Injection	Province to purchase shares of OPG on a monthly basis	- Master Subscription Agreement - Service Level Agreement - Notice of Subscription - Amendment to Articles	OFA / ENE to determine required monthly process and sign-off mechanism Timing: October for internal provincial mechanism
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: Fall
PILs Exemption	Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	- Comfort Letter - Tax Regulation	MOF legal to draft comfort letter and regulation (currently with MOF for review) Timing: Fall for regulation
OPG / IESO Commercial Agreement			OPG and IESO working to finalize Agreement Timing:

Commented [HS(1)]: ESP to update

Commented [HS(2)]: ESP to update

Commented [HS(3)]: SNAP to Update

Commented [HS(4)]: SNAP to update

Commented [HS(5)]: ESP to update

Commented [HS(6)]: ESP to update. Should likely call IESO.

Issue	Overview	Supporting Documentation	Timing / Next Steps

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

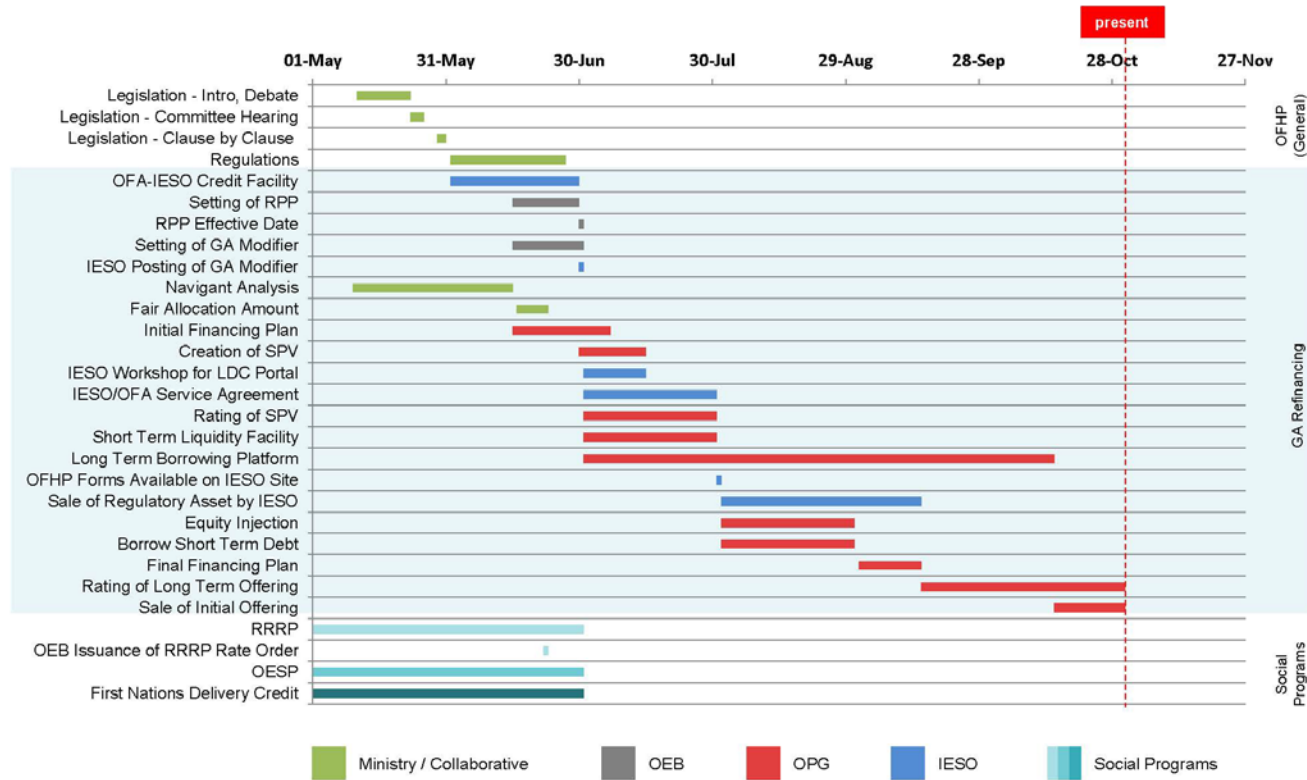
Item	Key Deliverables / Considerations	Timing / Next Steps
1) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
ENERGY, LSB and LDCs	<u>Recent Action Items</u> - All LDCs have indicated they have implemented the program - IESO has begun to submit reimbursement claims to the Ministry	Discussions 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	- 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
	- 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	
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 meeting is scheduled for November 2, 2017	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-back

Item	Key Deliverables / Considerations	Timing / Next Steps
		- Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets Late 2017/early 2018: - 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
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	Continue this work as part of 2017 LTEP implementation

Item	Key Deliverables / Considerations	Timing / Next Steps
	- 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.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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FW_ FHP.pdf

From: [Cayley, Daniel \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#)
Subject: FW: FHP
Date: October 12, 2017 3:42:00 PM

This is the item that from Steen's list. Can we just share the FAA letter with Ron?

From: Hume, Steen (ENERGY)
Sent: October 10, 2017 1:50 PM
To: Christie, Tim (ENERGY)
Cc: Cayley, Daniel (ENERGY); Cox, Hilary (ENERGY)
Subject: FW: FHP

Hi Tim. Can we prepare a response for this request. I suspect we'll also need to loop in IESO?

Thanks, Steen

From: Ronald Kwan [<mailto:Ronald.Kwan@ofina.on.ca>]
Sent: October 10, 2017 1:38 PM
To: Hume, Steen (ENERGY)
Subject: FHP

Hi Steen,

Would you be able to share the latest projection on the annual GA deferral. The Provincial share of financing is needed to update the Province's interest on debt forecast for fiscal planning and borrowing and debt management purposes.

Thanks,
Ron

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

FW_ Final AG Report Materials(1).pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Subject: FW: Final AG Report Materials
Date: October 17, 2017 11:18:11 AM
Attachments: [FINAL OFHP - Media Briefing.pdf](#)
[Fact Sheet - Oct. 17 - FINAL FR.PDF](#)
[Fact Sheet - Oct. 17 - FINAL.PDF](#)
[QA_AG Report OFHP_Technical Briefing_Oct16_Clean_400.docx](#)

Final final for this afternoon.

HC

From: Schlaepfer, Martin (ENERGY)
Sent: October 17, 2017 11:17 AM
To: Kwamena, Boafoa (CAB) <Boafoa.Kwamena@ontario.ca>; MacIntyre, Kyle (TBS) <Kyle.MacIntyre@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>; Farrow, Alicia (CAB) <Alicia.Farrow@ontario.ca>; Ue, Allison (TBS) <Allison.Ue@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Bromm, William (CAB) <William.Bromm2@ontario.ca>
Subject: Final AG Report Materials

Hi everyone,

Attached are the final materials in pdf, including the French Fact Sheet. QAs also attached in word. A Deloitte handout should be arriving momentarily.

Materials remain unchanged from the previous version. Just sharing so everyone has all in one place.

Thanks,
Martin

Martin Schlaepfer
Director of Operations
Deputy Minister's Office
Ministry of Energy
T: 416-326-7688
E: martin.schlaepfer@ontario.ca

FINAL OFHP - Media Briefing.pdf

Ontario's Fair Hydro Plan – Status Update

Technical Briefing

October 17, 2017

Ontario's Electricity System

- Ontario's electricity system is a \$20 billion annual sector that serves the needs of nearly 5 million homes, businesses, farms and industries – with costs transparently recovered.
- The Ontario Energy Board (OEB) is the independent regulator of Ontario's energy sector. It approves rates and prices that are reasonable to consumers and allow utilities and generators to invest in the system.
- The Independent Electricity System Operator (IESO) is a not-for-profit entity that manages the province's power system to ensure Ontarians receive power when and where they need it. It also manages contracts with non-regulated generators. In addition, the IESO plans and prepares for future electricity needs, and works with its partners to guide conservation-related efforts.
- Ontario Power Generation (OPG) is wholly-owned by the Province of Ontario and produces almost half of the electricity used in Ontario. OPG owns and operates: two nuclear stations, 66 hydroelectric stations, two biomass stations and one thermal station.

Ontario's Fair Hydro Plan

- Ontario's Fair Hydro Plan (OFHP) is delivering rate relief to residential consumers, farms, most small businesses, long-term care homes and condominiums. This includes the 8% rebate equivalent to the provincial portion of the HST that came into effect on January 1, 2017.
- OFHP is comprised of a series of initiatives, some of which will be borne by taxpayers where appropriate, such as sales tax relief and shifting electricity social programs to the tax-base, and some will be borne by ratepayers, such as spreading the generation investment costs and benefits across ratepayers more fairly.
- The government, OPG, IESO, OEB, key stakeholders and legal, financial and energy sector third-party experts continue to implement OFHP.
- Since the March 2, 2017 OFHP announcement, a number of key milestones have been reached in the implementation of OFHP, including:
 - May 1, 2017: Partial Global Adjustment (GA) refinancing incorporated into the OEB's Regulated Price Plan (RPP) report;
 - June 1, 2017: The *Fair Hydro Act, 2017* (FHA) received Royal Assent;
 - June 15, 2017: Regulations to enable new and enhanced electricity social programs and shift associated program cost from the rate-base to tax-base came into effect; and
 - July 1, 2017: The full 25 per cent reduction of electricity bill came into effect on July 1, 2017, including the 8% rebate.

Funding Electricity Social Programs and 8% Rebate From Provincial Revenues

- The government made the decision to provide rate relief to specific residential consumer groups by introducing an 8% rebate equivalent to the provincial portion of HST as well as new and enhanced electricity social programs. At the same time, the Government made a policy decision that the 8% rebate and the social programs would be more appropriately funded from the tax-base, not the rate-base.
- The new and enhanced existing electricity social programs include:
 - Enhanced Rural or Remote Rate Protection through the creation of new Distribution Rate Protection;
 - Expanded Ontario Electricity Support Program;
 - New First Nations On-Reserve Delivery Credit; and
 - New Affordability Fund.
- Local Distribution Companies have implemented these measures and benefits are flowing to customers.

Fiscal Cost to the Province (\$M)	16-17	17-18	18-19	19-20	20-21	5-Year Total
RRRP Enhancements	-	459	472	484	497	1,912
Ontario Electricity Support Program	-	186	261	325	375	1,147
On-Reserve First Nation Delivery Credit	-	20	20	20	20	80
Affordability Fund	200	-	-	-	-	200
Ontario Rebate for Electricity Consumers (i.e., 8% Rebate)	300	883	860	861	871	3,775
Total Fiscal Cost to the Province	500	1,548	1,613	1,690	1,763	7,114

Note: Program costs are subject to change based on variables that affect consumption levels, such as weather.

Global Adjustment (GA) Refinancing Through the Rate-Base

- Since 2003, nearly \$70 billion has been invested in the electricity system, including more than \$37 billion in electricity generation to ensure the system is clean and reliable.
- The majority of the province's electricity generators are under 20-year contracts. Analysis conducted by Navigant Consulting confirms that many of these generators will be able to operate beyond their contract lives.
- Refinancing the GA, which pays for the bulk of the recent investments in the electricity system, provides significant and immediate rate relief by matching the cost of electricity investments with the expected useful life of the generation that has been built.
- Electricity consumers will benefit from the ongoing useful life of these generating assets, and will be responsible for the costs of these assets over the same timeframe.
- The GA refinancing program ensures that costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.
- In developing GA refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts (e.g. Navigant, KPMG, EY and Deloitte) to provide advice and ensure due diligence was completed.

GA Refinancing – Update

- Since the March 2017 announcement of Ontario's Fair Hydro Plan (OFHP), the total cost of refinancing the Global Adjustment (GA) has been revised downwards substantially:
 - Current government estimates forecast the peak debt over the thirty year life of OFHP will be below \$20 billion. The preliminary estimate from March 2017 was about \$28 billion.
- The revised debt estimates are the result of the following factors:
 - The IESO updated its long-term cost projections for the electricity system and residential bills;
 - The OEB provided “actual data” with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
 - Based on Navigant's analysis, the interest rate assumptions for OFHP were updated (i.e., from 5% to 4.5%).
- It should be noted that a number of variables, 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.
- Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

GA Refinancing – Role of Ontario Power Generation (OPG)

- With respect to delivery, OPG has been identified as the Financial Services Manager (FSM) to develop the financing plans and act as the financing entity (i.e., Fair Hydro Plan Trust) responsible for managing the debt obligations associated with GA refinancing.
 - OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in the most efficient and cost-effective manner.
 - OPG is currently in preliminary discussions with rating agencies and plans to be in the market in November 2017.
- OPG currently manages approximately \$20 billion nuclear funds and as an entity regulated by the OEB, OPG also has extensive experience with regulatory deferral and variance accounts.
- OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative.
 - For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

GA Refinancing – Role of the Independent Electricity System Operator (IESO)

- The IESO administers \$17 billion of the \$20 billion annual electricity system, settling transactions between generators and consumers of electricity.
 - Market accounts and liabilities are included on IESO financial statements to provide increased transparency around the value of transactions that flow through the market.
 - The IESO is a corporation established pursuant to Part II of the Electricity Act, 1998, and prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS).
- Under Ontario's Fair Hydro Plan (OFHP), IESO continues to invoice eligible customers – but not collect – the full amount of Global Adjustment (GA) every month.
- The IESO's right to recover these costs from future ratepayers, constitutes a regulatory asset. The regulatory asset, is transferred to the Fair Hydro Plan Trust.
- The IESO will reflect the impact of the GA refinancing using rate-regulated accounting:
 - Rate-regulated accounting better reflects the economic substance of IESO's operations and enhances the relevance, transparency and accountability of its financial reporting;
 - Rate-regulated accounting is well understood in the electricity sector. Other Canadian electricity entities use rate-regulated accounting – Ontario Power Generation, Toronto Hydro, Fortis Inc.; and
 - The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America – AESO (Alberta), ISO New England, NYISO (New York), MISO (Midwest United States), PJM (Eastern United States) and ERCOT (Texas).
- KPMG issued a clean opinion in the audit of IESO's December 31, 2016 financial statements that included recognition of rate-regulated assets and market accounts.
- Deloitte was also consulted and confirmed that an entity reporting under PSAS could have regulatory assets if rate-regulated. The IESO is rate-regulated by the OEB in accordance with the Electricity Act, 1998 (Electricity Act) and the Ontario Energy Board Act (OEBA).

GA Refinancing – Accounting Considerations

- The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.
- PSAS is silent on the use of regulated accounting:
 - PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
 - US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference in this scenario.
- Section PS 1150.07 from the Public Sector Accounting Handbook:
 - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.*
- In the development of Global Adjustment (GA) refinancing, the government consulted with several third party advisors (e.g., KPMG, EY, Deloitte) in the application of accounting standards. This is normal course of business governments take for complex transactions.
- OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Questions?

Fact Sheet - Oct. 17 - FINAL FR.PDF

Rapport spécial de la vérificatrice générale sur le Plan ontarien pour des frais d'électricité équitables

17 octobre 2017

Le rapport spécial du Bureau de la vérificatrice générale est axé sur le cadre financier et comptable du Plan ontarien pour des frais d'électricité équitables, qui procure la plus importante réduction des tarifs d'électricité de l'histoire de la province en réduisant la facture d'électricité des consommateurs résidentiels de 25 % en moyenne, tout en faisant en sorte que les augmentations ne dépassent pas le taux d'inflation pendant quatre ans. Pas moins d'un demi-million de petites entreprises et d'exploitations agricoles profitent également de cette réduction.

Refinancement du rajustement global (RG)

- Pour alléger le fardeau qui pèse actuellement sur les contribuables et partager les coûts plus équitablement, le Plan ontarien pour des frais d'électricité équitables prévoit le refinancement d'une partie du rajustement global (RG), ce qui permettra de recouvrer certains coûts associés aux investissements effectués récemment dans le réseau d'électricité.
- Le refinancement du RG aura pour effet de réduire immédiatement et considérablement les tarifs en répartissant le coût des investissements dans le réseau d'électricité au cours de la durée utile prévue de l'infrastructure de production qui a été construite.
- Dans le cadre de l'élaboration de la politique de refinancement du RG, le gouvernement a tenu compte de diverses options de mise en œuvre et consulté des experts indépendants des secteurs des services juridiques, de la comptabilité, des finances et de l'énergie afin d'obtenir des conseils et veiller à l'exécution d'un processus de diligence raisonnable.
- La structure de refinancement du RG respecte efficacement les objectifs du programme de refinancement et permet de veiller à ce que les charges reportées soient imputées à l'assiette tarifaire, représentant les bénéficiaires du réseau d'électricité, et non à l'assiette fiscale.

Cadre comptable du Plan ontarien pour des frais d'électricité équitables

- Les états financiers du gouvernement sont établis conformément aux normes comptables pour le secteur public, et l'on continuera de suivre ces normes pour ce qui est des transactions découlant du Plan ontarien pour des frais d'électricité équitables en 2017-2018 et lors des exercices futurs.
- Dans le cadre de l'élaboration de la structure de refinancement du RG, le gouvernement et ses organismes ont consulté plusieurs conseillers indépendants (p. ex., KPMG, EY, Deloitte) au sujet de l'application des normes comptables. Il s'agit d'une mesure normale pour un gouvernement dans le cas des transactions complexes.
- La Société indépendante d'exploitation du réseau d'électricité (SIERE) reflètera l'incidence du refinancement du RG par la comptabilisation des activités à tarifs réglementés :

- La comptabilisation des activités à tarifs réglementés reflète davantage la réalité économique des opérations de la SIERE et accroît la pertinence et la transparence de son information financière, en plus d'améliorer le processus de reddition de comptes connexe;
- La comptabilisation des activités à tarifs réglementés est une méthode bien connue dans le secteur de l'électricité. D'autres organisations canadiennes du secteur de l'électricité utilisent cette méthode, soit Ontario Power Generation, Toronto Hydro et Fortis Inc.;
- La reconnaissance des actifs réglementaires fait en sorte que la SIERE est alignée sur six autres exploitants de réseau indépendants d'Amérique du Nord – AESO, en Alberta, ISO, en Nouvelle-Angleterre, NYISO, à New York, MISO, dans le Midwest des États-Unis, PJM, dans l'est des États-Unis, et ERCOT, au Texas.
- Les normes comptables pour le secteur public ne font pas état de la comptabilisation des activités à tarifs réglementés :
 - On y reconnaît qu'on ne fournit aucune ligne directrice sur les transactions possibles et on y indique qu'il est nécessaire de se reporter à cette fin à d'autres sources conformes au cadre de celles-ci;
 - La SIERE a consulté les normes US GAAP, qui contiennent les lignes directrices les plus complètes sur la comptabilisation des activités à tarifs réglementés et constituent la source la plus appropriée à consulter dans ce cas-ci.
- La firme KPMG a publié une opinion claire dans sa vérification des états financiers de la SIERE du 31 décembre 2016, dans lesquels elle reconnaît les actifs liés à des activités à tarifs réglementés et les comptes de marché.
- Deloitte a également été consulté et a confirmé qu'une entité utilisant les normes comptables pour le secteur public peut avoir des actifs réglementaires si elle est soumise à une réglementation tarifaire. La SIERE est assujettie à la réglementation tarifaire de la Commission de l'énergie de l'Ontario (CEO) en vertu de la *Loi de 1998 sur l'électricité* et de la *Loi sur la Commission de l'énergie de l'Ontario*.

Ontario Power Generation en tant que gestionnaire des services financiers

- Ontario Power Generation (OPG) a été désigné gestionnaire des services financiers responsable d'élaborer les plans de financement et d'agir en tant qu'entité de financement (c.-à-d. comme Fonds du Plan pour des frais d'électricité équitables) responsable de la gestion des obligations liées au refinancement du RG.
- OPG possède le financement et l'expertise commerciale nécessaires pour aider au refinancement du RG et veillera à ce que cela soit réalisé de manière efficace et rentable.
- OPG gère actuellement environ 20 milliards de dollars de fonds liés au nucléaire et en tant qu'entité réglementée par la Commission de l'énergie de l'Ontario (CEO), OPG possède une vaste expérience des comptes de report et d'écart réglementaires.
- OPG a également développé de solides relations avec les investisseurs et dispose des appuis nécessaires au sein du secteur financier structuré qui serait le marché cible pour financer le Plan ontarien pour des frais d'électricité équitables.
 - Par exemple, le financement du projet Lower Mattagami a attiré une vaste clientèle composée d'environ 80 investisseurs institutionnels, y compris d'importants investisseurs sur le marché canadien des obligations finançant les services publics d'électricité.
- De plus, la structure du Plan ontarien pour des frais d'électricité équitables incite OPG, en tant que gestionnaire des services financiers, à minimiser le coût d'emprunt en basant une partie de ses frais de gestion sur sa capacité à obtenir des taux d'intérêt inférieurs aux taux d'intérêt prévus.

- OPG est actuellement en discussions préliminaires avec des agences de notation et prévoit entrer sur le marché en novembre 2017.

Rapport du Bureau de la responsabilité financière sur les coûts du Plan ontarien pour des frais d'électricité équitables

- Le rapport du Bureau de la responsabilité financière s'appuyait sur les estimations initiales du ministère de l'Énergie de mars 2017. L'analyse subséquente effectuée par le ministère a permis d'affiner certaines variables, y compris le coût d'emprunt et les prévisions des coûts du réseau électrique.
- Les estimations d'emprunt total imputé au Plan ontarien pour des frais d'électricité équitables sur une période de trente ans ont été considérablement révisées par le gouvernement depuis que le Bureau de la responsabilité financière a publié son rapport en mai 2017. Les coûts d'emprunt devraient maintenant être nettement inférieurs aux estimations initiales.
- Les estimations actuelles du gouvernement prévoient qu'à son point culminant, sur une période de trente ans, la dette imputable au Plan ontarien pour des frais d'électricité équitables sera inférieure à 20 milliards de dollars. L'estimation préliminaire de mars 2017 était d'environ 28 milliards de dollars.
- Le rapport du Bureau de la responsabilité financière conclut en disant que « les estimations du Bureau de la responsabilité financière sont sujettes à de nombreuses hypothèses et incertitudes... Les répercussions fiscales peuvent être nettement différentes des prévisions du Bureau. »
- OPG est à mettre en place le processus pour recueillir les fonds nécessaires pour financer ces coûts reportés et, bien que les coûts d'emprunt totaux ne seront pas connus avant la fin de la transaction, les intérêts accumulés devraient être nettement inférieurs aux estimations prévues dans le rapport du Bureau de la responsabilité financière.
- Le gouvernement continuera également d'identifier et de mettre en œuvre des initiatives pour réduire les coûts du réseau électrique, et ainsi réduire le coût du programme de refinancement du RG. De plus amples informations seront publiées dans le Plan énergétique à long terme de 2017 (PELT de 2017), qui sera publié le 26 octobre 2017.

Fact Sheet - Oct. 17 - FINAL.PDF

Auditor General's Special Report on the Ontario Fair Hydro Plan

October 17, 2017

The special report from the Office of the Auditor General (OAG) focuses on the financial and accounting framework of Ontario's Fair Hydro Plan (OFHP), which is delivering the single largest reduction in electricity rates in the province's history by lowering electricity bills by an average of 25% for residential consumers, and holding increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting.

Refinancing the Global Adjustment (GA)

- To relieve the current burden on ratepayers and share costs more fairly, OFHP is refinancing a portion of the GA, which recovers costs associated with recent investments in the electricity system.
- Refinancing the GA provides significant and immediate rate relief by spreading the cost of electricity system investments over the expected useful life of the generation assets that have been built.
- 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.
- The GA refinancing design effectively achieves the goals of the refinancing program and ensures that the deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

Ontario's Fair Hydro Plan Accounting

- The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.
- In the development of GA refinancing, the government and its agencies consulted with several third party advisors (e.g., KPMG, EY, Deloitte) in the application of accounting standards. This is normal course of business governments take for complex transactions.
- The Independent Electricity System Operator (IESO) will reflect the impact of the GA refinancing using rate-regulated accounting:
 - Rate-regulated accounting better reflects the economic substance of IESO's operations and enhances the relevance, transparency and accountability of its financial reporting;
 - Rate-regulated accounting is well understood in the electricity sector. Other Canadian electricity entities use rate-regulated accounting – Ontario Power Generation, Toronto Hydro, Fortis Inc.; and

- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America – AESO (Alberta), ISO New England, NYISO (New York), MISO (Midwest United States), PJM (Eastern United States) and ERCOT (Texas).
- PSAS is silent on the use of regulated accounting:
 - PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
 - The IESO consulted US GAAP, which has the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference in this scenario.
- KPMG issued a clean opinion in the audit of IESO's December 31, 2016 financial statements that included recognition of rate-regulated assets and market accounts.
- Deloitte was also consulted and confirmed that an entity reporting under PSAS could have regulatory assets if rate-regulated. The IESO is rate-regulated by the Ontario Energy Board (OEB) in accordance with the Electricity Act and the Ontario Energy Board Act.

Ontario Power Generation as Financial Services Manager

- Ontario Power Generation (OPG) has been identified as the Financial Services Manager (FSM) to develop the financing plans and act as the financing entity (i.e., Fair Hydro Plan Trust) responsible for managing the debt obligations associated with GA refinancing.
- 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.
- OPG currently manages approximately \$20 billion in nuclear funds and as an entity regulated by the Ontario Energy Board (OEB), OPG has extensive experience with regulatory deferral and variance accounts.
- OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative.
 - For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.
- Further, the structure of the OFHP incents OPG, in its role as FSM, to keep the cost of borrowing to a minimum by basing a portion of its management fees on its ability to achieve lower than forecast interest rates.
- OPG is currently in preliminary discussions with rating agencies and plans to be in the market in November 2017.

Financial Accountability Office's Report on the Costs of the Ontario's Fair Hydro Plan

- The Financial Accountability Office's (FAO) 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.
- Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since FAO released its report in May 2017. The borrowing costs are now forecast to be substantially lower than original estimates.

- Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion. The preliminary estimate from March 2017 was about \$28 billion.
- The FAO report concludes by saying “the FAO’s estimates are subject to many assumptions and uncertainties ... Fiscal impact may differ significantly from the FAO’s estimates.”
- OPG is now beginning the process of raising funds to finance these deferred costs, and while total borrowing costs will not be known until the transaction is complete, accumulated interest is projected to be considerably less than the estimates in the report of the FAO.
- The government will also continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

QA_AG Report OFHP_Technical Briefing_Oct16_Cl_1.pdf

Q&As – OAG’s Special Report on Ontario’s Fair Hydro Plan

Q. Why did the government introduce Ontario 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. Since 2003, nearly \$70 billion¹ has been invested in the electricity system, including more than \$37² billion in electricity generation to ensure the system is clean and reliable.

Ontario Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province’s history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers 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.

In developing the policy to refinance the Global Adjustment (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.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

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. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

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.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan 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. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

¹ Ministry of Energy, *2017 Long-Term Energy Plan*

² Ministry of Energy, *2017 Long-Term Energy Plan*

With respect to the \$4 billion³ figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴. The preliminary estimate from March 2017 was about \$28 billion⁵.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion⁶ to \$18.5 billion⁷. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion⁸ to \$18 billion⁹.

Q. Have the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? I understand that the Office of the Auditor General (OAG) has asked what are the factors that resulted in the changes in estimates from March 1 to August 31?

With respect to the \$4 billion¹⁰ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak

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, submission to Financial Accountability Officer

⁶ Ministry of Energy

⁷ Ministry of Energy

⁸ Ministry of Energy

⁹ Ministry of Energy

¹⁰ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

debt over the thirty year life of OFHP will be below \$20 billion¹¹. The preliminary estimate from March 2017 was about \$28 billion¹².

The revised estimates are the result of the following factors:

- The Independent Electricity System Operator (IESO) updated its long-term cost projections for the electricity system and residential bills;
- The Ontario Energy Board (OEB) provided “actual data” with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
- Based on expert third-party advice the interest rate assumptions for OFHP were updated (i.e., from 5%¹³ down to 4.5%¹⁴).

In addition, for the August 31, 2017 estimate, the Ministry of Energy converted debt and interest amounts from calendar year to Regulated Price Plan (RPP) periods.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion¹⁵ to \$18.5 billion¹⁶. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion¹⁷ to \$18 billion¹⁸.

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 is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

¹¹ Ministry of Energy

¹² Ministry of Energy, submission to Financial Accountability Officer

¹³ Ministry of Energy

¹⁴ Navigant Consulting, *Assessment of the Alignment of the Costs and Benefits of Clean Energy Assets*

¹⁵ Ministry of Energy

¹⁶ Ministry of Energy

¹⁷ Ministry of Energy

¹⁸ Ministry of Energy

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. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Act? Would 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).

OPG currently manages approximately \$20 billion¹⁹ 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 program 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.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors²⁰, 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 billion²¹ and two commercial paper programs.

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

Q. The Financial Accountability Office (FAO) suggested that using Ontario Power Generation as the borrowing agent will cost \$4 billion more?

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

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion²². The preliminary estimate from March 2017 was about \$28 billion²³.

¹⁹ Ontario Financing Authority

²⁰ Ontario Power Generation

²¹ Ontario Power Generation

²² Ministry of Energy

²³ Ministry of Energy, submission to Financial Accountability Officer

The FAO report itself concludes by saying “the FAO’s estimates are subject to many assumptions and uncertainties (...) Fiscal impact may differ significantly from the FAO’s estimates.”

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion²⁴ to \$18.5 billion²⁵. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion²⁶ to \$18 billion²⁷.

Q. Do you disagree with the FAO on financial costs?

With respect to the \$4 billion²⁸ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion²⁹. The preliminary estimate from March 2017 was about \$28 billion³⁰.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion³¹ to \$18.5 billion³². The higher March 2017 estimate was used by the FAO in its May 2017 report.

²⁴ Ministry of Energy

²⁵ Ministry of Energy

²⁶ Ministry of Energy

²⁷ Ministry of Energy

²⁸ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

²⁹ Ministry of Energy

³⁰ Ministry of Energy, submission to Financial Accountability Officer

³¹ Ministry of Energy

³² Ministry of Energy

If pressed on interest costs:

The Ministry estimates of total interest cost also decreased from \$25 billion³³ to \$18 billion³⁴.

Q. The OAG's report claims that consumers will pay an additional \$4 billion in interest costs over the life of OFHP since OPG and its Financing Entity will pay a higher rate of interest compared to the Province. Why not have the Province borrow for the OFHP?

The policy objective of OFHP 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 – not the tax-base.

We believe 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. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since the early 2000s³⁵.

The \$4 billion³⁶ figure in the Office of the Auditor General's report was sourced from the FAO's May 2017 report and is important to note, that the FAO's calculation was based on preliminary estimates of the program when peak debt estimates for the thirty year program were substantially higher and interest costs were forecast to be higher than current projections.

Q. Why did the IESO change its accounting practices?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in their financial results.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's 2016 annual report, which was published online in March 2017.

The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements.

Additionally this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

This change has no impact to the province's annual deficit, net debt, accumulated deficit or on the ratepayers of Ontario.

³³ Ministry of Energy

³⁴ Ministry of Energy

³⁵ Ministry of Finance

³⁶ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. Why did the government not use the Canadian Public Sector Accounting Standards (PSAS)? How was Ontario's Fair Hydro Plan (OFHP) financing structure determined?

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18 as well as in the following years. Presenting its financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS is, however, silent on the recognition, measurement, presentation or 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. In this case, the Independent Electricity System Operator (IESO) consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.

This financing structure is similar to several jurisdictions in the U.S., and uses a form of securitization that is commonly used in the financial markets. It ensures the impact of the plan will be transparent. Under this system, credit rating agencies, securities regulators and the public at large get full information and full reporting of the impacts of the OFHP that are visible and specific.

Q. What is the Global Adjustment (GA)?

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. The 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 accounts for 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 reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's 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 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.

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.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've 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.

Moving forward, Ontario is developing its 2017 Long-Term Energy Plan (2017 LTEP) which will focus on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to \$5.2 billion³⁷ over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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).

In development and implementation of Global Adjustment (GA) refinancing, 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.

Document Search

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

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the Auditor General's (AG) office.

³⁷ Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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

The Ministry of Energy does not intend to spend more than \$60,000 on this request. Although the retainer agreement includes a cap of up to \$500,000, as of September 21, 2017, only \$41,775.75 has actually been spent.

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

The Ministry of Energy conducted a search consistent with the 40 plus search terms provided to the Auditor General (AG). In order to manage the approximately 2.2 million records that resulted from the search of 81 custodians, the Ministry has 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 has been regularly providing AG batches of responsive documents.

This request remains a priority for the Ministry and we will continue to make effort to deliver all responsive records to the Auditor General as soon as possible. There is currently a team of 12 Ministry staff reviewing for responsive records.

Response Prepared Based on Ministers' Speaking Points

Q. How do you respond to the Auditor General's claim that the government ignored warnings regarding a potential adverse audit opinion of Ontario's public accounts?

The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

In regards to rate-regulated accounting, PSAS are silent on the use of regulated accounting:

- PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
- US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference.

Many entities in Canada, including OPG and Hydro One use rate-regulated accounting:

- The OAG can refer to the CPA Canada research study that was shared.
- Rate-regulated accounting is well understood in the electricity sector.
- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America, including AESO, ISO New England, NYISO, MISO, PJM and ERCOT.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

TBS's Detailed QAs re Ontario's Fair Hydro Plan

Q. The Auditor General says that the accounting structure for Ontario's Fair Hydro Plan is not transparent, has poor value for money, and is not in accordance with Public Sector Accounting Standards. How do you respond?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results is transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The Ministry of Energy would welcome further questions about OFHP and the government's investments in a reliable energy system.

Q. The Auditor General makes two recommendations in her report – to record the true financial impact of Ontario's Fair Hydro Plan; and to use a financing structure that is the least costly for Ontarians. Will you adopt these recommendations?

The government does not agree with the assertions and conclusions expressed in the report.

In developing OFHP, 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.

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

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion³⁸. The preliminary estimate from March 2017 was about \$28 billion³⁹.

The Province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

³⁸ Ministry of Energy

³⁹ Ministry of Energy, submission to Financial Accountability Officer

Q. Both the Auditor General and the Financial Accountability Officer (FAO) have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history.

In developing OFHP, 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.

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

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

Q. The Auditor General says that you are “obfuscating” the true financial impact of Ontario’s Fair Hydro Plan through a “needlessly complex” accounting structure. How do you respond?

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. How can you justify the \$4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the Province, instead of the Province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴⁰. The preliminary estimate from March 2017 was about \$28 billion⁴¹.

Q. The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of 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 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

⁴⁰ Ministry of Energy

⁴¹ Ministry of Energy, submission to Financial Accountability Officer

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. What will happen if interest rates rise? The Financial Accountability Officer (FAO) estimates that if interest rates were to rise, the true cost of Ontario's Fair Hydro Plan could be between \$69 and \$93 billion. How can you justify shifting this heavy burden onto future generations?

The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs of OFHP, and while total borrowing costs will not be known until the program is complete, accumulated interest is expected to be considerably less than the estimates cited in the May 2017 report of the FAO.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report, and borrowing costs are now forecast to be substantially lower than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴². The preliminary estimate from March 2017 was about \$28 billion⁴³.

Government Officials

Q. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), 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.

⁴² Ministry of Energy

⁴³ Ministry of Energy, submission to Financial Accountability Officer

Multiple options were considered in creating the OFHP framework – such as to have local distribution companies finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution companies to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

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

Audit Opinion

The government just received another qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end. This change was supported by IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Q. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The Province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you concerned that the Auditor General will issue an adverse opinion on the Province's Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the Province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministry of Energy, Finance and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and third-party accounting, financing and energy experts to ensure due diligence.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all independent auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, 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.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?

There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), 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.

The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Independent Electricity System Operator (IESO)

The Auditor General was critical of the Independent Electricity System Operator's accounting changes, which formed part of her basis for a qualified opinion in the 2016-17 Public Accounts. Are these accounting changes inappropriate?

On recognizing market accounts' assets:

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen 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.

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

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General (OAG) at that time.

This change has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

On rate-regulated accounting:

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Rate-regulated Accounting

Q. Why use rate-regulated accounting? What is its benefit?

In certain circumstances, an organization may be required to incur a large expenditure that will be recovered from ratepayers in the future.

For example, damage caused by an ice storm that results in extraordinary costs to restore a disruption of electricity services for customers. Such costs are subject to application and approval for recovery by the regulator over a specific time period.

What rate-regulated accounting does is it allows organizations to recognize those costs, which can be significant within a year but will generate benefits over time, to be matched over the same period that the amounts are recovered from ratepayers.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

“The entity’s rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers” [ASC 980-10-15-2].

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

Legislated Accounting

Q. The Auditor General says that you are essentially making up your own accounting rules. How are Ontarians supposed to believe things like a “balanced budget” when you keep changing the rules?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

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

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The recording of any asset resulting from transactions of OFHP will be assessed for recognition and measurement based on PSAS, and where appropriate, other accounting guidance where PSAS is silent on the issue.

Q. The Auditor General says that the Province legislated accounting through the Ontario Fair Hydro Plan Act, which is not allowed according to Public Sector Accounting Standards (PSAS). Is this true?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

The role of the Ontario Energy Board (OEB) and its mandate is provided in legislation. It is not uncommon for government policy, through regulations, to provide the ground rules over which the OEB is to preside.

This is the case with Ontario's Fair Hydro Plan (OFHP) itself, as the Act and the various regulations provide the direction and processes over which the OEB is to exercise oversight, review, and make conclusion on submissions brought forward.

Relationship with the Office of the Auditor General

Q. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

The government is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

If pressed:

The Auditor General was informed throughout the course of this process.

If asked about the Ministry of Energy emails:

The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General. For questions related to the Ministry of Energy, please contact them directly.

Future Governments

Q. The Auditor General says that you are essentially handcuffing future governments with your financing structure. Why should future governments have to pay for your decisions?

By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade government policies have supported rebuilding the electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than \$70 billion⁴⁴ has been invested to modernize the system.

The government heard from people across the Province that the price of electricity had risen too quickly, which is why Ontario's Fair Hydro Plan (OFHP) will ensure costs are shared more fairly over the years ahead.

The Ontario electricity sector invested in renewing the provincial electricity system, including many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. 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.

In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and ensures the goals underlying the program are achieved in a cost-effective manner.

⁴⁴ Ministry of Energy, *2017 Long-Term Energy Plan*

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

For further questions related to Ontario's Fair Hydro Plan, please contact the Ministry of Energy.

Asset Sales

Q. Will you buy back Hydro One so that it is back under public control?

Maximizing the value of designated assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The Trillium Trust Act, 2014, provides for the dedication to the Trillium Trust of net revenue gains associated with the sale of designated assets to support investments in transit, transportation and other priority infrastructure across the province.

The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the Ontario Electricity Financial Corporation (OEFC), which manages and pays down the debt and other liabilities of the former Ontario Hydro.

The government is on track to generate, over time, \$4 billion⁴⁵ in net revenue gains to be invested in transit and infrastructure, along with \$5 billion⁴⁶ to reduce debt, from broadening Hydro One's ownership.

The government will remain, by law, the largest single shareholder in Hydro One, restricting the Province from selling down to less than 40%⁴⁷ of the voting securities in Hydro One – and no other single shareholder or group of shareholders working in concert will be permitted to hold more than 10%⁴⁸ of the company's shares.

⁴⁵ Ontario Financing Authority

⁴⁶ Ontario Financing Authority

⁴⁷ Ontario Financing Authority

⁴⁸ Ontario Financing Authority

FW_ Final AG Report Materials.pdf

From: [Evans, Karen \(ENERGY\)](#)
To: [McMichael, Rhonda \(CAB\)](#); [Yoo, Sarah \(CAB\)](#)
Cc: [Barbaro, Rachel \(ENERGY\)](#); [Lyon, Sam \(ENERGY\)](#); [Biggs, Megan \(ENERGY\)](#)
Subject: FW: Final AG Report Materials
Date: October 17, 2017 12:04:46 PM
Attachments: [FINAL OFHP - Media Briefing.pdf](#)
[Fact Sheet - Oct. 17 - FINAL FR.PDF](#)
[Fact Sheet - Oct. 17 - FINAL.PDF](#)
[QA_AG Report OFHP_Technical Briefing_Oct16_Clean_400.docx](#)

Finals attached

There is a single question with an answer from Deloitte which is still in approvals.

Will send soonest,

Karen

From: Schlaepfer, Martin (ENERGY)
Sent: October-17-17 11:25 AM
To: HARTWICK Ken -FINANCE; KING Catriona -OFFCORPSEC; DYKXHOORN Sandra -STAKEREL; Kim Marshall; Kate Longmoore; 'Jordan Penic'; Hume, Steen (ENERGY); Calwell, Carolyn (ENERGY); Nelms, Scott (MOF); Evans, Karen (ENERGY); Murray, Maud (ENERGY)
Cc: Cox, Hilary (ENERGY); Ridd, Carl (ENERGY); Cengarle, John (MOF); Pau, Joseph (MEDG/MRIS)
Subject: Final AG Report Materials

Hi everyone,

Attached are the final materials in pdf, including the French Fact Sheet. QAs also attached in word. A Deloitte handout will be coming momentarily.

The technical briefing begins at 1pm in the Kenora / Nipissing / Nipigon room of the 2nd floor of Macdonald Block (900 Bay street). Please arrive by 12:45. We will be regrouping here on the 4th floor of Hearst outside the Executive Boardroom at 12:30, so that we can walk down for 12:45pm. Folks are welcome to join if they are unsure of where they are going.

Thanks,
Martin

Martin Schlaepfer

Director of Operations
Deputy Minister's Office
Ministry of Energy

T: 416-326-7688

E: martin.schlaepfer@ontario.ca

FINAL OFHP - Media Briefing_1.pdf

Ontario's Fair Hydro Plan – Status Update

Technical Briefing

October 17, 2017

Ontario's Electricity System

- Ontario's electricity system is a \$20 billion annual sector that serves the needs of nearly 5 million homes, businesses, farms and industries – with costs transparently recovered.
- The Ontario Energy Board (OEB) is the independent regulator of Ontario's energy sector. It approves rates and prices that are reasonable to consumers and allow utilities and generators to invest in the system.
- The Independent Electricity System Operator (IESO) is a not-for-profit entity that manages the province's power system to ensure Ontarians receive power when and where they need it. It also manages contracts with non-regulated generators. In addition, the IESO plans and prepares for future electricity needs, and works with its partners to guide conservation-related efforts.
- Ontario Power Generation (OPG) is wholly-owned by the Province of Ontario and produces almost half of the electricity used in Ontario. OPG owns and operates: two nuclear stations, 66 hydroelectric stations, two biomass stations and one thermal station.

Ontario's Fair Hydro Plan

- Ontario's Fair Hydro Plan (OFHP) is delivering rate relief to residential consumers, farms, most small businesses, long-term care homes and condominiums. This includes the 8% rebate equivalent to the provincial portion of the HST that came into effect on January 1, 2017.
- OFHP is comprised of a series of initiatives, some of which will be borne by taxpayers where appropriate, such as sales tax relief and shifting electricity social programs to the tax-base, and some will be borne by ratepayers, such as spreading the generation investment costs and benefits across ratepayers more fairly.
- The government, OPG, IESO, OEB, key stakeholders and legal, financial and energy sector third-party experts continue to implement OFHP.
- Since the March 2, 2017 OFHP announcement, a number of key milestones have been reached in the implementation of OFHP, including:
 - May 1, 2017: Partial Global Adjustment (GA) refinancing incorporated into the OEB's Regulated Price Plan (RPP) report;
 - June 1, 2017: The *Fair Hydro Act, 2017* (FHA) received Royal Assent;
 - June 15, 2017: Regulations to enable new and enhanced electricity social programs and shift associated program cost from the rate-base to tax-base came into effect; and
 - July 1, 2017: The full 25 per cent reduction of electricity bill came into effect on July 1, 2017, including the 8% rebate.

Funding Electricity Social Programs and 8% Rebate From Provincial Revenues

- The government made the decision to provide rate relief to specific residential consumer groups by introducing an 8% rebate equivalent to the provincial portion of HST as well as new and enhanced electricity social programs. At the same time, the Government made a policy decision that the 8% rebate and the social programs would be more appropriately funded from the tax-base, not the rate-base.
- The new and enhanced existing electricity social programs include:
 - Enhanced Rural or Remote Rate Protection through the creation of new Distribution Rate Protection;
 - Expanded Ontario Electricity Support Program;
 - New First Nations On-Reserve Delivery Credit; and
 - New Affordability Fund.
- Local Distribution Companies have implemented these measures and benefits are flowing to customers.

Fiscal Cost to the Province (\$M)	16-17	17-18	18-19	19-20	20-21	5-Year Total
RRRP Enhancements	-	459	472	484	497	1,912
Ontario Electricity Support Program	-	186	261	325	375	1,147
On-Reserve First Nation Delivery Credit	-	20	20	20	20	80
Affordability Fund	200	-	-	-	-	200
Ontario Rebate for Electricity Consumers (i.e., 8% Rebate)	300	883	860	861	871	3,775
Total Fiscal Cost to the Province	500	1,548	1,613	1,690	1,763	7,114

Note: Program costs are subject to change based on variables that affect consumption levels, such as weather.

Global Adjustment (GA) Refinancing Through the Rate-Base

- Since 2003, nearly \$70 billion has been invested in the electricity system, including more than \$37 billion in electricity generation to ensure the system is clean and reliable.
- The majority of the province's electricity generators are under 20-year contracts. Analysis conducted by Navigant Consulting confirms that many of these generators will be able to operate beyond their contract lives.
- Refinancing the GA, which pays for the bulk of the recent investments in the electricity system, provides significant and immediate rate relief by matching the cost of electricity investments with the expected useful life of the generation that has been built.
- Electricity consumers will benefit from the ongoing useful life of these generating assets, and will be responsible for the costs of these assets over the same timeframe.
- The GA refinancing program ensures that costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.
- In developing GA refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts (e.g. Navigant, KPMG, EY and Deloitte) to provide advice and ensure due diligence was completed.

GA Refinancing – Update

- Since the March 2017 announcement of Ontario's Fair Hydro Plan (OFHP), the total cost of refinancing the Global Adjustment (GA) has been revised downwards substantially:
 - Current government estimates forecast the peak debt over the thirty year life of OFHP will be below \$20 billion. The preliminary estimate from March 2017 was about \$28 billion.
- The revised debt estimates are the result of the following factors:
 - The IESO updated its long-term cost projections for the electricity system and residential bills;
 - The OEB provided “actual data” with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
 - Based on Navigant's analysis, the interest rate assumptions for OFHP were updated (i.e., from 5% to 4.5%).
- It should be noted that a number of variables, 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.
- Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

GA Refinancing – Role of Ontario Power Generation (OPG)

- With respect to delivery, OPG has been identified as the Financial Services Manager (FSM) to develop the financing plans and act as the financing entity (i.e., Fair Hydro Plan Trust) responsible for managing the debt obligations associated with GA refinancing.
 - OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in the most efficient and cost-effective manner.
 - OPG is currently in preliminary discussions with rating agencies and plans to be in the market in November 2017.
- OPG currently manages approximately \$20 billion nuclear funds and as an entity regulated by the OEB, OPG also has extensive experience with regulatory deferral and variance accounts.
- OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative.
 - For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

GA Refinancing – Role of the Independent Electricity System Operator (IESO)

- The IESO administers \$17 billion of the \$20 billion annual electricity system, settling transactions between generators and consumers of electricity.
 - Market accounts and liabilities are included on IESO financial statements to provide increased transparency around the value of transactions that flow through the market.
 - The IESO is a corporation established pursuant to Part II of the Electricity Act, 1998, and prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS).
- Under Ontario's Fair Hydro Plan (OFHP), IESO continues to invoice eligible customers – but not collect – the full amount of Global Adjustment (GA) every month.
- The IESO's right to recover these costs from future ratepayers, constitutes a regulatory asset. The regulatory asset, is transferred to the Fair Hydro Plan Trust.
- The IESO will reflect the impact of the GA refinancing using rate-regulated accounting:
 - Rate-regulated accounting better reflects the economic substance of IESO's operations and enhances the relevance, transparency and accountability of its financial reporting;
 - Rate-regulated accounting is well understood in the electricity sector. Other Canadian electricity entities use rate-regulated accounting – Ontario Power Generation, Toronto Hydro, Fortis Inc.; and
 - The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America – AESO (Alberta), ISO New England, NYISO (New York), MISO (Midwest United States), PJM (Eastern United States) and ERCOT (Texas).
- KPMG issued a clean opinion in the audit of IESO's December 31, 2016 financial statements that included recognition of rate-regulated assets and market accounts.
- Deloitte was also consulted and confirmed that an entity reporting under PSAS could have regulatory assets if rate-regulated. The IESO is rate-regulated by the OEB in accordance with the Electricity Act, 1998 (Electricity Act) and the Ontario Energy Board Act (OEBA).

GA Refinancing – Accounting Considerations

- The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.
- PSAS is silent on the use of regulated accounting:
 - PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
 - US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference in this scenario.
- Section PS 1150.07 from the Public Sector Accounting Handbook:
 - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.*
- In the development of Global Adjustment (GA) refinancing, the government consulted with several third party advisors (e.g., KPMG, EY, Deloitte) in the application of accounting standards. This is normal course of business governments take for complex transactions.
- OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Questions?

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Rapport spécial de la vérificatrice générale sur le Plan ontarien pour des frais d'électricité équitables

17 octobre 2017

Le rapport spécial du Bureau de la vérificatrice générale est axé sur le cadre financier et comptable du Plan ontarien pour des frais d'électricité équitables, qui procure la plus importante réduction des tarifs d'électricité de l'histoire de la province en réduisant la facture d'électricité des consommateurs résidentiels de 25 % en moyenne, tout en faisant en sorte que les augmentations ne dépassent pas le taux d'inflation pendant quatre ans. Pas moins d'un demi-million de petites entreprises et d'exploitations agricoles profitent également de cette réduction.

Refinancement du rajustement global (RG)

- Pour alléger le fardeau qui pèse actuellement sur les contribuables et partager les coûts plus équitablement, le Plan ontarien pour des frais d'électricité équitables prévoit le refinancement d'une partie du rajustement global (RG), ce qui permettra de recouvrer certains coûts associés aux investissements effectués récemment dans le réseau d'électricité.
- Le refinancement du RG aura pour effet de réduire immédiatement et considérablement les tarifs en répartissant le coût des investissements dans le réseau d'électricité au cours de la durée utile prévue de l'infrastructure de production qui a été construite.
- Dans le cadre de l'élaboration de la politique de refinancement du RG, le gouvernement a tenu compte de diverses options de mise en œuvre et consulté des experts indépendants des secteurs des services juridiques, de la comptabilité, des finances et de l'énergie afin d'obtenir des conseils et veiller à l'exécution d'un processus de diligence raisonnable.
- La structure de refinancement du RG respecte efficacement les objectifs du programme de refinancement et permet de veiller à ce que les charges reportées soient imputées à l'assiette tarifaire, représentant les bénéficiaires du réseau d'électricité, et non à l'assiette fiscale.

Cadre comptable du Plan ontarien pour des frais d'électricité équitables

- Les états financiers du gouvernement sont établis conformément aux normes comptables pour le secteur public, et l'on continuera de suivre ces normes pour ce qui est des transactions découlant du Plan ontarien pour des frais d'électricité équitables en 2017-2018 et lors des exercices futurs.
- Dans le cadre de l'élaboration de la structure de refinancement du RG, le gouvernement et ses organismes ont consulté plusieurs conseillers indépendants (p. ex., KPMG, EY, Deloitte) au sujet de l'application des normes comptables. Il s'agit d'une mesure normale pour un gouvernement dans le cas des transactions complexes.
- La Société indépendante d'exploitation du réseau d'électricité (SIERE) reflètera l'incidence du refinancement du RG par la comptabilisation des activités à tarifs réglementés :

- La comptabilisation des activités à tarifs réglementés reflète davantage la réalité économique des opérations de la SIERE et accroît la pertinence et la transparence de son information financière, en plus d'améliorer le processus de reddition de comptes connexe;
- La comptabilisation des activités à tarifs réglementés est une méthode bien connue dans le secteur de l'électricité. D'autres organisations canadiennes du secteur de l'électricité utilisent cette méthode, soit Ontario Power Generation, Toronto Hydro et Fortis Inc.;
- La reconnaissance des actifs réglementaires fait en sorte que la SIERE est alignée sur six autres exploitants de réseau indépendants d'Amérique du Nord – AESO, en Alberta, ISO, en Nouvelle-Angleterre, NYISO, à New York, MISO, dans le Midwest des États-Unis, PJM, dans l'est des États-Unis, et ERCOT, au Texas.
- Les normes comptables pour le secteur public ne font pas état de la comptabilisation des activités à tarifs réglementés :
 - On y reconnaît qu'on ne fournit aucune ligne directrice sur les transactions possibles et on y indique qu'il est nécessaire de se reporter à cette fin à d'autres sources conformes au cadre de celles-ci;
 - La SIERE a consulté les normes US GAAP, qui contiennent les lignes directrices les plus complètes sur la comptabilisation des activités à tarifs réglementés et constituent la source la plus appropriée à consulter dans ce cas-ci.
- La firme KPMG a publié une opinion claire dans sa vérification des états financiers de la SIERE du 31 décembre 2016, dans lesquels elle reconnaît les actifs liés à des activités à tarifs réglementés et les comptes de marché.
- Deloitte a également été consulté et a confirmé qu'une entité utilisant les normes comptables pour le secteur public peut avoir des actifs réglementaires si elle est soumise à une réglementation tarifaire. La SIERE est assujettie à la réglementation tarifaire de la Commission de l'énergie de l'Ontario (CEO) en vertu de la *Loi de 1998 sur l'électricité* et de la *Loi sur la Commission de l'énergie de l'Ontario*.

Ontario Power Generation en tant que gestionnaire des services financiers

- Ontario Power Generation (OPG) a été désigné gestionnaire des services financiers responsable d'élaborer les plans de financement et d'agir en tant qu'entité de financement (c.-à-d. comme Fonds du Plan pour des frais d'électricité équitables) responsable de la gestion des obligations liées au refinancement du RG.
- OPG possède le financement et l'expertise commerciale nécessaires pour aider au refinancement du RG et veillera à ce que cela soit réalisé de manière efficace et rentable.
- OPG gère actuellement environ 20 milliards de dollars de fonds liés au nucléaire et en tant qu'entité réglementée par la Commission de l'énergie de l'Ontario (CEO), OPG possède une vaste expérience des comptes de report et d'écart réglementaires.
- OPG a également développé de solides relations avec les investisseurs et dispose des appuis nécessaires au sein du secteur financier structuré qui serait le marché cible pour financer le Plan ontarien pour des frais d'électricité équitables.
 - Par exemple, le financement du projet Lower Mattagami a attiré une vaste clientèle composée d'environ 80 investisseurs institutionnels, y compris d'importants investisseurs sur le marché canadien des obligations finançant les services publics d'électricité.
- De plus, la structure du Plan ontarien pour des frais d'électricité équitables incite OPG, en tant que gestionnaire des services financiers, à minimiser le coût d'emprunt en basant une partie de ses frais de gestion sur sa capacité à obtenir des taux d'intérêt inférieurs aux taux d'intérêt prévus.

- OPG est actuellement en discussions préliminaires avec des agences de notation et prévoit entrer sur le marché en novembre 2017.

Rapport du Bureau de la responsabilité financière sur les coûts du Plan ontarien pour des frais d'électricité équitables

- Le rapport du Bureau de la responsabilité financière s'appuyait sur les estimations initiales du ministère de l'Énergie de mars 2017. L'analyse subséquente effectuée par le ministère a permis d'affiner certaines variables, y compris le coût d'emprunt et les prévisions des coûts du réseau électrique.
- Les estimations d'emprunt total imputé au Plan ontarien pour des frais d'électricité équitables sur une période de trente ans ont été considérablement révisées par le gouvernement depuis que le Bureau de la responsabilité financière a publié son rapport en mai 2017. Les coûts d'emprunt devraient maintenant être nettement inférieurs aux estimations initiales.
- Les estimations actuelles du gouvernement prévoient qu'à son point culminant, sur une période de trente ans, la dette imputable au Plan ontarien pour des frais d'électricité équitables sera inférieure à 20 milliards de dollars. L'estimation préliminaire de mars 2017 était d'environ 28 milliards de dollars.
- Le rapport du Bureau de la responsabilité financière conclut en disant que « les estimations du Bureau de la responsabilité financière sont sujettes à de nombreuses hypothèses et incertitudes... Les répercussions fiscales peuvent être nettement différentes des prévisions du Bureau. »
- OPG est à mettre en place le processus pour recueillir les fonds nécessaires pour financer ces coûts reportés et, bien que les coûts d'emprunt totaux ne seront pas connus avant la fin de la transaction, les intérêts accumulés devraient être nettement inférieurs aux estimations prévues dans le rapport du Bureau de la responsabilité financière.
- Le gouvernement continuera également d'identifier et de mettre en œuvre des initiatives pour réduire les coûts du réseau électrique, et ainsi réduire le coût du programme de refinancement du RG. De plus amples informations seront publiées dans le Plan énergétique à long terme de 2017 (PELT de 2017), qui sera publié le 26 octobre 2017.

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Auditor General's Special Report on the Ontario Fair Hydro Plan

October 17, 2017

The special report from the Office of the Auditor General (OAG) focuses on the financial and accounting framework of Ontario's Fair Hydro Plan (OFHP), which is delivering the single largest reduction in electricity rates in the province's history by lowering electricity bills by an average of 25% for residential consumers, and holding increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting.

Refinancing the Global Adjustment (GA)

- To relieve the current burden on ratepayers and share costs more fairly, OFHP is refinancing a portion of the GA, which recovers costs associated with recent investments in the electricity system.
- Refinancing the GA provides significant and immediate rate relief by spreading the cost of electricity system investments over the expected useful life of the generation assets that have been built.
- 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.
- The GA refinancing design effectively achieves the goals of the refinancing program and ensures that the deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

Ontario's Fair Hydro Plan Accounting

- The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.
- In the development of GA refinancing, the government and its agencies consulted with several third party advisors (e.g., KPMG, EY, Deloitte) in the application of accounting standards. This is normal course of business governments take for complex transactions.
- The Independent Electricity System Operator (IESO) will reflect the impact of the GA refinancing using rate-regulated accounting:
 - Rate-regulated accounting better reflects the economic substance of IESO's operations and enhances the relevance, transparency and accountability of its financial reporting;
 - Rate-regulated accounting is well understood in the electricity sector. Other Canadian electricity entities use rate-regulated accounting – Ontario Power Generation, Toronto Hydro, Fortis Inc.; and

- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America – AESO (Alberta), ISO New England, NYISO (New York), MISO (Midwest United States), PJM (Eastern United States) and ERCOT (Texas).
- PSAS is silent on the use of regulated accounting:
 - PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
 - The IESO consulted US GAAP, which has the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference in this scenario.
- KPMG issued a clean opinion in the audit of IESO's December 31, 2016 financial statements that included recognition of rate-regulated assets and market accounts.
- Deloitte was also consulted and confirmed that an entity reporting under PSAS could have regulatory assets if rate-regulated. The IESO is rate-regulated by the Ontario Energy Board (OEB) in accordance with the Electricity Act and the Ontario Energy Board Act.

Ontario Power Generation as Financial Services Manager

- Ontario Power Generation (OPG) has been identified as the Financial Services Manager (FSM) to develop the financing plans and act as the financing entity (i.e., Fair Hydro Plan Trust) responsible for managing the debt obligations associated with GA refinancing.
- 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.
- OPG currently manages approximately \$20 billion in nuclear funds and as an entity regulated by the Ontario Energy Board (OEB), OPG has extensive experience with regulatory deferral and variance accounts.
- OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative.
 - For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.
- Further, the structure of the OFHP incents OPG, in its role as FSM, to keep the cost of borrowing to a minimum by basing a portion of its management fees on its ability to achieve lower than forecast interest rates.
- OPG is currently in preliminary discussions with rating agencies and plans to be in the market in November 2017.

Financial Accountability Office's Report on the Costs of the Ontario's Fair Hydro Plan

- The Financial Accountability Office's (FAO) 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.
- Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since FAO released its report in May 2017. The borrowing costs are now forecast to be substantially lower than original estimates.

- Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion. The preliminary estimate from March 2017 was about \$28 billion.
- The FAO report concludes by saying “the FAO’s estimates are subject to many assumptions and uncertainties ... Fiscal impact may differ significantly from the FAO’s estimates.”
- OPG is now beginning the process of raising funds to finance these deferred costs, and while total borrowing costs will not be known until the transaction is complete, accumulated interest is projected to be considerably less than the estimates in the report of the FAO.
- The government will also continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

QA_AG Report OFHP_Technical Briefing_Oct16_Cl_2.pdf

Q&As – OAG’s Special Report on Ontario’s Fair Hydro Plan

Q. Why did the government introduce Ontario 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. Since 2003, nearly \$70 billion¹ has been invested in the electricity system, including more than \$37² billion in electricity generation to ensure the system is clean and reliable.

Ontario Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province’s history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers 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.

In developing the policy to refinance the Global Adjustment (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.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

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. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

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.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan 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. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

¹ Ministry of Energy, *2017 Long-Term Energy Plan*

² Ministry of Energy, *2017 Long-Term Energy Plan*

With respect to the \$4 billion³ figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴. The preliminary estimate from March 2017 was about \$28 billion⁵.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion⁶ to \$18.5 billion⁷. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion⁸ to \$18 billion⁹.

Q. Have the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? I understand that the Office of the Auditor General (OAG) has asked what are the factors that resulted in the changes in estimates from March 1 to August 31?

With respect to the \$4 billion¹⁰ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak

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, submission to Financial Accountability Officer

⁶ Ministry of Energy

⁷ Ministry of Energy

⁸ Ministry of Energy

⁹ Ministry of Energy

¹⁰ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

debt over the thirty year life of OFHP will be below \$20 billion¹¹. The preliminary estimate from March 2017 was about \$28 billion¹².

The revised estimates are the result of the following factors:

- The Independent Electricity System Operator (IESO) updated its long-term cost projections for the electricity system and residential bills;
- The Ontario Energy Board (OEB) provided “actual data” with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
- Based on expert third-party advice the interest rate assumptions for OFHP were updated (i.e., from 5%¹³ down to 4.5%¹⁴).

In addition, for the August 31, 2017 estimate, the Ministry of Energy converted debt and interest amounts from calendar year to Regulated Price Plan (RPP) periods.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion¹⁵ to \$18.5 billion¹⁶. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion¹⁷ to \$18 billion¹⁸.

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 is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

¹¹ Ministry of Energy

¹² Ministry of Energy, submission to Financial Accountability Officer

¹³ Ministry of Energy

¹⁴ Navigant Consulting, *Assessment of the Alignment of the Costs and Benefits of Clean Energy Assets*

¹⁵ Ministry of Energy

¹⁶ Ministry of Energy

¹⁷ Ministry of Energy

¹⁸ Ministry of Energy

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. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Act? Would 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).

OPG currently manages approximately \$20 billion¹⁹ 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 program 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.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors²⁰, 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 billion²¹ and two commercial paper programs.

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

Q. The Financial Accountability Office (FAO) suggested that using Ontario Power Generation as the borrowing agent will cost \$4 billion more?

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

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion²². The preliminary estimate from March 2017 was about \$28 billion²³.

¹⁹ Ontario Financing Authority

²⁰ Ontario Power Generation

²¹ Ontario Power Generation

²² Ministry of Energy

²³ Ministry of Energy, submission to Financial Accountability Officer

The FAO report itself concludes by saying “the FAO’s estimates are subject to many assumptions and uncertainties (...) Fiscal impact may differ significantly from the FAO’s estimates.”

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion²⁴ to \$18.5 billion²⁵. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion²⁶ to \$18 billion²⁷.

Q. Do you disagree with the FAO on financial costs?

With respect to the \$4 billion²⁸ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion²⁹. The preliminary estimate from March 2017 was about \$28 billion³⁰.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion³¹ to \$18.5 billion³². The higher March 2017 estimate was used by the FAO in its May 2017 report.

²⁴ Ministry of Energy

²⁵ Ministry of Energy

²⁶ Ministry of Energy

²⁷ Ministry of Energy

²⁸ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

²⁹ Ministry of Energy

³⁰ Ministry of Energy, submission to Financial Accountability Officer

³¹ Ministry of Energy

³² Ministry of Energy

If pressed on interest costs:

The Ministry estimates of total interest cost also decreased from \$25 billion³³ to \$18 billion³⁴.

Q. The OAG's report claims that consumers will pay an additional \$4 billion in interest costs over the life of OFHP since OPG and its Financing Entity will pay a higher rate of interest compared to the Province. Why not have the Province borrow for the OFHP?

The policy objective of OFHP 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 – not the tax-base.

We believe 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. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since the early 2000s³⁵.

The \$4 billion³⁶ figure in the Office of the Auditor General's report was sourced from the FAO's May 2017 report and is important to note, that the FAO's calculation was based on preliminary estimates of the program when peak debt estimates for the thirty year program were substantially higher and interest costs were forecast to be higher than current projections.

Q. Why did the IESO change its accounting practices?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in their financial results.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's 2016 annual report, which was published online in March 2017.

The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements.

Additionally this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

This change has no impact to the province's annual deficit, net debt, accumulated deficit or on the ratepayers of Ontario.

³³ Ministry of Energy

³⁴ Ministry of Energy

³⁵ Ministry of Finance

³⁶ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. Why did the government not use the Canadian Public Sector Accounting Standards (PSAS)? How was Ontario's Fair Hydro Plan (OFHP) financing structure determined?

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18 as well as in the following years. Presenting its financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS is, however, silent on the recognition, measurement, presentation or 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. In this case, the Independent Electricity System Operator (IESO) consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.

This financing structure is similar to several jurisdictions in the U.S., and uses a form of securitization that is commonly used in the financial markets. It ensures the impact of the plan will be transparent. Under this system, credit rating agencies, securities regulators and the public at large get full information and full reporting of the impacts of the OFHP that are visible and specific.

Q. What is the Global Adjustment (GA)?

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. The 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 accounts for 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 reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's 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 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.

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.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've 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.

Moving forward, Ontario is developing its 2017 Long-Term Energy Plan (2017 LTEP) which will focus on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to \$5.2 billion³⁷ over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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).

In development and implementation of Global Adjustment (GA) refinancing, 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.

Document Search

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

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the Auditor General's (AG) office.

³⁷ Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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

The Ministry of Energy does not intend to spend more than \$60,000 on this request. Although the retainer agreement includes a cap of up to \$500,000, as of September 21, 2017, only \$41,775.75 has actually been spent.

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

The Ministry of Energy conducted a search consistent with the 40 plus search terms provided to the Auditor General (AG). In order to manage the approximately 2.2 million records that resulted from the search of 81 custodians, the Ministry has 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 has been regularly providing AG batches of responsive documents.

This request remains a priority for the Ministry and we will continue to make effort to deliver all responsive records to the Auditor General as soon as possible. There is currently a team of 12 Ministry staff reviewing for responsive records.

Response Prepared Based on Ministers' Speaking Points

Q. How do you respond to the Auditor General's claim that the government ignored warnings regarding a potential adverse audit opinion of Ontario's public accounts?

The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

In regards to rate-regulated accounting, PSAS are silent on the use of regulated accounting:

- PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
- US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference.

Many entities in Canada, including OPG and Hydro One use rate-regulated accounting:

- The OAG can refer to the CPA Canada research study that was shared.
- Rate-regulated accounting is well understood in the electricity sector.
- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America, including AESO, ISO New England, NYISO, MISO, PJM and ERCOT.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

TBS's Detailed QAs re Ontario's Fair Hydro Plan

Q. The Auditor General says that the accounting structure for Ontario's Fair Hydro Plan is not transparent, has poor value for money, and is not in accordance with Public Sector Accounting Standards. How do you respond?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results is transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The Ministry of Energy would welcome further questions about OFHP and the government's investments in a reliable energy system.

Q. The Auditor General makes two recommendations in her report – to record the true financial impact of Ontario's Fair Hydro Plan; and to use a financing structure that is the least costly for Ontarians. Will you adopt these recommendations?

The government does not agree with the assertions and conclusions expressed in the report.

In developing OFHP, 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.

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

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion³⁸. The preliminary estimate from March 2017 was about \$28 billion³⁹.

The Province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

³⁸ Ministry of Energy

³⁹ Ministry of Energy, submission to Financial Accountability Officer

Q. Both the Auditor General and the Financial Accountability Officer (FAO) have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history.

In developing OFHP, 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.

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

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

Q. The Auditor General says that you are “obfuscating” the true financial impact of Ontario’s Fair Hydro Plan through a “needlessly complex” accounting structure. How do you respond?

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. How can you justify the \$4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the Province, instead of the Province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴⁰. The preliminary estimate from March 2017 was about \$28 billion⁴¹.

Q. The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of 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 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

⁴⁰ Ministry of Energy

⁴¹ Ministry of Energy, submission to Financial Accountability Officer

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. What will happen if interest rates rise? The Financial Accountability Officer (FAO) estimates that if interest rates were to rise, the true cost of Ontario's Fair Hydro Plan could be between \$69 and \$93 billion. How can you justify shifting this heavy burden onto future generations?

The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs of OFHP, and while total borrowing costs will not be known until the program is complete, accumulated interest is expected to be considerably less than the estimates cited in the May 2017 report of the FAO.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report, and borrowing costs are now forecast to be substantially lower than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴². The preliminary estimate from March 2017 was about \$28 billion⁴³.

Government Officials

Q. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), 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.

⁴² Ministry of Energy

⁴³ Ministry of Energy, submission to Financial Accountability Officer

Multiple options were considered in creating the OFHP framework – such as to have local distribution companies finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution companies to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

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

Audit Opinion

The government just received another qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end. This change was supported by IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Q. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The Province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you concerned that the Auditor General will issue an adverse opinion on the Province's Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the Province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministry of Energy, Finance and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and third-party accounting, financing and energy experts to ensure due diligence.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all independent auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, 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.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?

There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), 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.

The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Independent Electricity System Operator (IESO)

The Auditor General was critical of the Independent Electricity System Operator's accounting changes, which formed part of her basis for a qualified opinion in the 2016-17 Public Accounts. Are these accounting changes inappropriate?

On recognizing market accounts' assets:

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen 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.

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

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General (OAG) at that time.

This change has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

On rate-regulated accounting:

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Rate-regulated Accounting

Q. Why use rate-regulated accounting? What is its benefit?

In certain circumstances, an organization may be required to incur a large expenditure that will be recovered from ratepayers in the future.

For example, damage caused by an ice storm that results in extraordinary costs to restore a disruption of electricity services for customers. Such costs are subject to application and approval for recovery by the regulator over a specific time period.

What rate-regulated accounting does is it allows organizations to recognize those costs, which can be significant within a year but will generate benefits over time, to be matched over the same period that the amounts are recovered from ratepayers.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

“The entity’s rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers” [ASC 980-10-15-2].

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

Legislated Accounting

Q. The Auditor General says that you are essentially making up your own accounting rules. How are Ontarians supposed to believe things like a “balanced budget” when you keep changing the rules?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

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

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The recording of any asset resulting from transactions of OFHP will be assessed for recognition and measurement based on PSAS, and where appropriate, other accounting guidance where PSAS is silent on the issue.

Q. The Auditor General says that the Province legislated accounting through the Ontario Fair Hydro Plan Act, which is not allowed according to Public Sector Accounting Standards (PSAS). Is this true?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

The role of the Ontario Energy Board (OEB) and its mandate is provided in legislation. It is not uncommon for government policy, through regulations, to provide the ground rules over which the OEB is to preside.

This is the case with Ontario's Fair Hydro Plan (OFHP) itself, as the Act and the various regulations provide the direction and processes over which the OEB is to exercise oversight, review, and make conclusion on submissions brought forward.

Relationship with the Office of the Auditor General

Q. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

The government is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

If pressed:

The Auditor General was informed throughout the course of this process.

If asked about the Ministry of Energy emails:

The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General. For questions related to the Ministry of Energy, please contact them directly.

Future Governments

Q. The Auditor General says that you are essentially handcuffing future governments with your financing structure. Why should future governments have to pay for your decisions?

By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade government policies have supported rebuilding the electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than \$70 billion⁴⁴ has been invested to modernize the system.

The government heard from people across the Province that the price of electricity had risen too quickly, which is why Ontario's Fair Hydro Plan (OFHP) will ensure costs are shared more fairly over the years ahead.

The Ontario electricity sector invested in renewing the provincial electricity system, including many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. 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.

In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and ensures the goals underlying the program are achieved in a cost-effective manner.

⁴⁴ Ministry of Energy, *2017 Long-Term Energy Plan*

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

For further questions related to Ontario's Fair Hydro Plan, please contact the Ministry of Energy.

Asset Sales

Q. Will you buy back Hydro One so that it is back under public control?

Maximizing the value of designated assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The Trillium Trust Act, 2014, provides for the dedication to the Trillium Trust of net revenue gains associated with the sale of designated assets to support investments in transit, transportation and other priority infrastructure across the province.

The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the Ontario Electricity Financial Corporation (OEFC), which manages and pays down the debt and other liabilities of the former Ontario Hydro.

The government is on track to generate, over time, \$4 billion⁴⁵ in net revenue gains to be invested in transit and infrastructure, along with \$5 billion⁴⁶ to reduce debt, from broadening Hydro One's ownership.

The government will remain, by law, the largest single shareholder in Hydro One, restricting the Province from selling down to less than 40%⁴⁷ of the voting securities in Hydro One – and no other single shareholder or group of shareholders working in concert will be permitted to hold more than 10%⁴⁸ of the company's shares.

⁴⁵ Ontario Financing Authority

⁴⁶ Ontario Financing Authority

⁴⁷ Ontario Financing Authority

⁴⁸ Ontario Financing Authority

FW_ Final Products _ Government Response to Aud....pdf

From: [Ue, Allison \(TBS\)](#)
To: [Schlaepfer, Martin \(ENERGY\)](#)
Subject: FW: Final Products | Government Response to Auditor General
Date: October 17, 2017 12:32:46 PM
Attachments: [FINAL OFHP - Media Briefing.pdf](#)
[Fact Sheet - Oct. 17 - FINAL FR.PDF](#)
[Fact Sheet - Oct. 17 - FINAL.PDF](#)
[QA_AG Report OFHP_Technical Briefing_Oct16_Clean_400.docx](#)

Hey - I assume this is the same as what was shared previously?

From: Gallant, Gabrielle (TBS) <Gabrielle.Gallant@ontario.ca>
Date: Tuesday, Oct 17, 2017, 12:18 PM
To: DiMuzio, Sofie (TBS) <Sofie.DiMuzio@ontario.ca>, Ue, Allison (TBS) <Allison.Ue@ontario.ca>
Cc: MacIntyre, Kyle (TBS) <Kyle.MacIntyre@ontario.ca>
Subject: FW: Final Products | Government Response to Auditor General

Apologies for the delay - sofie here you go. Allison, can you get all of this in front of the dep?

Gabrielle Gallant
Director of Communications & Operations
Office of the Honourable Liz Sandals
President of Treasury Board
gabrielle.gallant@ontario.ca
416-327-0345 | 647-643-9623

From: Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>
Date: Tuesday, Oct 17, 2017, 11:36 AM
To: Killorn, Bill (OPO) <Bill.Killorn@ontario.ca>, Beaudry, Jennifer (OPO) <Jennifer.Beaudry@ontario.ca>, McPhail, Blane (OPO) <Blane.McPhail@ontario.ca>, Ghiassi, Ali (MOF) <Ali.Ghiassi@ontario.ca>, Giroux Namian, Orli (MOF) <Orli.GirouxNamian@ontario.ca>, Pichelli, Jason (TBS) <Jason.Pichelli@ontario.ca>, Gallant, Gabrielle (TBS) <Gabrielle.Gallant@ontario.ca>
Cc: Berry, James (ENERGY) <James.Berry5@ontario.ca>, Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>, Nekolaichuk, Colin (ENERGY) <Colin.Nekolaichuk@ontario.ca>
Subject: Final Products | Government Response to Auditor General

Good Morning:

Please find enclosed FINAL products for today, as follows:

- Technical Briefing Deck – for Media 1pm technical briefing
- Fact Sheet (Bilingual) – for Caucus & Regional Media, as required. Not currently for use at 1pm.
- Q&A Document – final with edits / fact check from IESO and OPCD.

Many products floating overnight and this morning, please consider these finals.

Atel/

Andrew Teliszewsky

Chief of Staff | Office of Hon. Glenn Thibeault
Ministry of Energy

andrew.teliszewsky@ontario.ca

416-327-3550 (o)

416-436-6370 (m)

FINAL OFHP - Media Briefing_2.pdf

Ontario's Fair Hydro Plan – Status Update

Technical Briefing

October 17, 2017

Ontario's Electricity System

- Ontario's electricity system is a \$20 billion annual sector that serves the needs of nearly 5 million homes, businesses, farms and industries – with costs transparently recovered.
- The Ontario Energy Board (OEB) is the independent regulator of Ontario's energy sector. It approves rates and prices that are reasonable to consumers and allow utilities and generators to invest in the system.
- The Independent Electricity System Operator (IESO) is a not-for-profit entity that manages the province's power system to ensure Ontarians receive power when and where they need it. It also manages contracts with non-regulated generators. In addition, the IESO plans and prepares for future electricity needs, and works with its partners to guide conservation-related efforts.
- Ontario Power Generation (OPG) is wholly-owned by the Province of Ontario and produces almost half of the electricity used in Ontario. OPG owns and operates: two nuclear stations, 66 hydroelectric stations, two biomass stations and one thermal station.

Ontario's Fair Hydro Plan

- Ontario's Fair Hydro Plan (OFHP) is delivering rate relief to residential consumers, farms, most small businesses, long-term care homes and condominiums. This includes the 8% rebate equivalent to the provincial portion of the HST that came into effect on January 1, 2017.
- OFHP is comprised of a series of initiatives, some of which will be borne by taxpayers where appropriate, such as sales tax relief and shifting electricity social programs to the tax-base, and some will be borne by ratepayers, such as spreading the generation investment costs and benefits across ratepayers more fairly.
- The government, OPG, IESO, OEB, key stakeholders and legal, financial and energy sector third-party experts continue to implement OFHP.
- Since the March 2, 2017 OFHP announcement, a number of key milestones have been reached in the implementation of OFHP, including:
 - May 1, 2017: Partial Global Adjustment (GA) refinancing incorporated into the OEB's Regulated Price Plan (RPP) report;
 - June 1, 2017: The *Fair Hydro Act, 2017* (FHA) received Royal Assent;
 - June 15, 2017: Regulations to enable new and enhanced electricity social programs and shift associated program cost from the rate-base to tax-base came into effect; and
 - July 1, 2017: The full 25 per cent reduction of electricity bill came into effect on July 1, 2017, including the 8% rebate.

Funding Electricity Social Programs and 8% Rebate From Provincial Revenues

- The government made the decision to provide rate relief to specific residential consumer groups by introducing an 8% rebate equivalent to the provincial portion of HST as well as new and enhanced electricity social programs. At the same time, the Government made a policy decision that the 8% rebate and the social programs would be more appropriately funded from the tax-base, not the rate-base.
- The new and enhanced existing electricity social programs include:
 - Enhanced Rural or Remote Rate Protection through the creation of new Distribution Rate Protection;
 - Expanded Ontario Electricity Support Program;
 - New First Nations On-Reserve Delivery Credit; and
 - New Affordability Fund.
- Local Distribution Companies have implemented these measures and benefits are flowing to customers.

Fiscal Cost to the Province (\$M)	16-17	17-18	18-19	19-20	20-21	5-Year Total
RRRP Enhancements	-	459	472	484	497	1,912
Ontario Electricity Support Program	-	186	261	325	375	1,147
On-Reserve First Nation Delivery Credit	-	20	20	20	20	80
Affordability Fund	200	-	-	-	-	200
Ontario Rebate for Electricity Consumers (i.e., 8% Rebate)	300	883	860	861	871	3,775
Total Fiscal Cost to the Province	500	1,548	1,613	1,690	1,763	7,114

Note: Program costs are subject to change based on variables that affect consumption levels, such as weather.

Global Adjustment (GA) Refinancing Through the Rate-Base

- Since 2003, nearly \$70 billion has been invested in the electricity system, including more than \$37 billion in electricity generation to ensure the system is clean and reliable.
- The majority of the province's electricity generators are under 20-year contracts. Analysis conducted by Navigant Consulting confirms that many of these generators will be able to operate beyond their contract lives.
- Refinancing the GA, which pays for the bulk of the recent investments in the electricity system, provides significant and immediate rate relief by matching the cost of electricity investments with the expected useful life of the generation that has been built.
- Electricity consumers will benefit from the ongoing useful life of these generating assets, and will be responsible for the costs of these assets over the same timeframe.
- The GA refinancing program ensures that costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.
- In developing GA refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts (e.g. Navigant, KPMG, EY and Deloitte) to provide advice and ensure due diligence was completed.

GA Refinancing – Update

- Since the March 2017 announcement of Ontario's Fair Hydro Plan (OFHP), the total cost of refinancing the Global Adjustment (GA) has been revised downwards substantially:
 - Current government estimates forecast the peak debt over the thirty year life of OFHP will be below \$20 billion. The preliminary estimate from March 2017 was about \$28 billion.
- The revised debt estimates are the result of the following factors:
 - The IESO updated its long-term cost projections for the electricity system and residential bills;
 - The OEB provided “actual data” with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
 - Based on Navigant's analysis, the interest rate assumptions for OFHP were updated (i.e., from 5% to 4.5%).
- It should be noted that a number of variables, 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.
- Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

GA Refinancing – Role of Ontario Power Generation (OPG)

- With respect to delivery, OPG has been identified as the Financial Services Manager (FSM) to develop the financing plans and act as the financing entity (i.e., Fair Hydro Plan Trust) responsible for managing the debt obligations associated with GA refinancing.
 - OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in the most efficient and cost-effective manner.
 - OPG is currently in preliminary discussions with rating agencies and plans to be in the market in November 2017.
- OPG currently manages approximately \$20 billion nuclear funds and as an entity regulated by the OEB, OPG also has extensive experience with regulatory deferral and variance accounts.
- OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative.
 - For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

GA Refinancing – Role of the Independent Electricity System Operator (IESO)

- The IESO administers \$17 billion of the \$20 billion annual electricity system, settling transactions between generators and consumers of electricity.
 - Market accounts and liabilities are included on IESO financial statements to provide increased transparency around the value of transactions that flow through the market.
 - The IESO is a corporation established pursuant to Part II of the Electricity Act, 1998, and prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS).
- Under Ontario's Fair Hydro Plan (OFHP), IESO continues to invoice eligible customers – but not collect – the full amount of Global Adjustment (GA) every month.
- The IESO's right to recover these costs from future ratepayers, constitutes a regulatory asset. The regulatory asset, is transferred to the Fair Hydro Plan Trust.
- The IESO will reflect the impact of the GA refinancing using rate-regulated accounting:
 - Rate-regulated accounting better reflects the economic substance of IESO's operations and enhances the relevance, transparency and accountability of its financial reporting;
 - Rate-regulated accounting is well understood in the electricity sector. Other Canadian electricity entities use rate-regulated accounting – Ontario Power Generation, Toronto Hydro, Fortis Inc.; and
 - The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America – AESO (Alberta), ISO New England, NYISO (New York), MISO (Midwest United States), PJM (Eastern United States) and ERCOT (Texas).
- KPMG issued a clean opinion in the audit of IESO's December 31, 2016 financial statements that included recognition of rate-regulated assets and market accounts.
- Deloitte was also consulted and confirmed that an entity reporting under PSAS could have regulatory assets if rate-regulated. The IESO is rate-regulated by the OEB in accordance with the Electricity Act, 1998 (Electricity Act) and the Ontario Energy Board Act (OEBA).

GA Refinancing – Accounting Considerations

- The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.
- PSAS is silent on the use of regulated accounting:
 - PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
 - US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference in this scenario.
- Section PS 1150.07 from the Public Sector Accounting Handbook:
 - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.*
- In the development of Global Adjustment (GA) refinancing, the government consulted with several third party advisors (e.g., KPMG, EY, Deloitte) in the application of accounting standards. This is normal course of business governments take for complex transactions.
- OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Questions?

Fact Sheet - Oct. 17 - FINAL FR_2.PDF

Rapport spécial de la vérificatrice générale sur le Plan ontarien pour des frais d'électricité équitables

17 octobre 2017

Le rapport spécial du Bureau de la vérificatrice générale est axé sur le cadre financier et comptable du Plan ontarien pour des frais d'électricité équitables, qui procure la plus importante réduction des tarifs d'électricité de l'histoire de la province en réduisant la facture d'électricité des consommateurs résidentiels de 25 % en moyenne, tout en faisant en sorte que les augmentations ne dépassent pas le taux d'inflation pendant quatre ans. Pas moins d'un demi-million de petites entreprises et d'exploitations agricoles profitent également de cette réduction.

Refinancement du rajustement global (RG)

- Pour alléger le fardeau qui pèse actuellement sur les contribuables et partager les coûts plus équitablement, le Plan ontarien pour des frais d'électricité équitables prévoit le refinancement d'une partie du rajustement global (RG), ce qui permettra de recouvrer certains coûts associés aux investissements effectués récemment dans le réseau d'électricité.
- Le refinancement du RG aura pour effet de réduire immédiatement et considérablement les tarifs en répartissant le coût des investissements dans le réseau d'électricité au cours de la durée utile prévue de l'infrastructure de production qui a été construite.
- Dans le cadre de l'élaboration de la politique de refinancement du RG, le gouvernement a tenu compte de diverses options de mise en œuvre et consulté des experts indépendants des secteurs des services juridiques, de la comptabilité, des finances et de l'énergie afin d'obtenir des conseils et veiller à l'exécution d'un processus de diligence raisonnable.
- La structure de refinancement du RG respecte efficacement les objectifs du programme de refinancement et permet de veiller à ce que les charges reportées soient imputées à l'assiette tarifaire, représentant les bénéficiaires du réseau d'électricité, et non à l'assiette fiscale.

Cadre comptable du Plan ontarien pour des frais d'électricité équitables

- Les états financiers du gouvernement sont établis conformément aux normes comptables pour le secteur public, et l'on continuera de suivre ces normes pour ce qui est des transactions découlant du Plan ontarien pour des frais d'électricité équitables en 2017-2018 et lors des exercices futurs.
- Dans le cadre de l'élaboration de la structure de refinancement du RG, le gouvernement et ses organismes ont consulté plusieurs conseillers indépendants (p. ex., KPMG, EY, Deloitte) au sujet de l'application des normes comptables. Il s'agit d'une mesure normale pour un gouvernement dans le cas des transactions complexes.
- La Société indépendante d'exploitation du réseau d'électricité (SIERE) reflètera l'incidence du refinancement du RG par la comptabilisation des activités à tarifs réglementés :

- La comptabilisation des activités à tarifs réglementés reflète davantage la réalité économique des opérations de la SIERE et accroît la pertinence et la transparence de son information financière, en plus d'améliorer le processus de reddition de comptes connexe;
- La comptabilisation des activités à tarifs réglementés est une méthode bien connue dans le secteur de l'électricité. D'autres organisations canadiennes du secteur de l'électricité utilisent cette méthode, soit Ontario Power Generation, Toronto Hydro et Fortis Inc.;
- La reconnaissance des actifs réglementaires fait en sorte que la SIERE est alignée sur six autres exploitants de réseau indépendants d'Amérique du Nord – AESO, en Alberta, ISO, en Nouvelle-Angleterre, NYISO, à New York, MISO, dans le Midwest des États-Unis, PJM, dans l'est des États-Unis, et ERCOT, au Texas.
- Les normes comptables pour le secteur public ne font pas état de la comptabilisation des activités à tarifs réglementés :
 - On y reconnaît qu'on ne fournit aucune ligne directrice sur les transactions possibles et on y indique qu'il est nécessaire de se reporter à cette fin à d'autres sources conformes au cadre de celles-ci;
 - La SIERE a consulté les normes US GAAP, qui contiennent les lignes directrices les plus complètes sur la comptabilisation des activités à tarifs réglementés et constituent la source la plus appropriée à consulter dans ce cas-ci.
- La firme KPMG a publié une opinion claire dans sa vérification des états financiers de la SIERE du 31 décembre 2016, dans lesquels elle reconnaît les actifs liés à des activités à tarifs réglementés et les comptes de marché.
- Deloitte a également été consulté et a confirmé qu'une entité utilisant les normes comptables pour le secteur public peut avoir des actifs réglementaires si elle est soumise à une réglementation tarifaire. La SIERE est assujettie à la réglementation tarifaire de la Commission de l'énergie de l'Ontario (CEO) en vertu de la *Loi de 1998 sur l'électricité* et de la *Loi sur la Commission de l'énergie de l'Ontario*.

Ontario Power Generation en tant que gestionnaire des services financiers

- Ontario Power Generation (OPG) a été désigné gestionnaire des services financiers responsable d'élaborer les plans de financement et d'agir en tant qu'entité de financement (c.-à-d. comme Fonds du Plan pour des frais d'électricité équitables) responsable de la gestion des obligations liées au refinancement du RG.
- OPG possède le financement et l'expertise commerciale nécessaires pour aider au refinancement du RG et veillera à ce que cela soit réalisé de manière efficace et rentable.
- OPG gère actuellement environ 20 milliards de dollars de fonds liés au nucléaire et en tant qu'entité réglementée par la Commission de l'énergie de l'Ontario (CEO), OPG possède une vaste expérience des comptes de report et d'écart réglementaires.
- OPG a également développé de solides relations avec les investisseurs et dispose des appuis nécessaires au sein du secteur financier structuré qui serait le marché cible pour financer le Plan ontarien pour des frais d'électricité équitables.
 - Par exemple, le financement du projet Lower Mattagami a attiré une vaste clientèle composée d'environ 80 investisseurs institutionnels, y compris d'importants investisseurs sur le marché canadien des obligations finançant les services publics d'électricité.
- De plus, la structure du Plan ontarien pour des frais d'électricité équitables incite OPG, en tant que gestionnaire des services financiers, à minimiser le coût d'emprunt en basant une partie de ses frais de gestion sur sa capacité à obtenir des taux d'intérêt inférieurs aux taux d'intérêt prévus.

- OPG est actuellement en discussions préliminaires avec des agences de notation et prévoit entrer sur le marché en novembre 2017.

Rapport du Bureau de la responsabilité financière sur les coûts du Plan ontarien pour des frais d'électricité équitables

- Le rapport du Bureau de la responsabilité financière s'appuyait sur les estimations initiales du ministère de l'Énergie de mars 2017. L'analyse subséquente effectuée par le ministère a permis d'affiner certaines variables, y compris le coût d'emprunt et les prévisions des coûts du réseau électrique.
- Les estimations d'emprunt total imputé au Plan ontarien pour des frais d'électricité équitables sur une période de trente ans ont été considérablement révisées par le gouvernement depuis que le Bureau de la responsabilité financière a publié son rapport en mai 2017. Les coûts d'emprunt devraient maintenant être nettement inférieurs aux estimations initiales.
- Les estimations actuelles du gouvernement prévoient qu'à son point culminant, sur une période de trente ans, la dette imputable au Plan ontarien pour des frais d'électricité équitables sera inférieure à 20 milliards de dollars. L'estimation préliminaire de mars 2017 était d'environ 28 milliards de dollars.
- Le rapport du Bureau de la responsabilité financière conclut en disant que « les estimations du Bureau de la responsabilité financière sont sujettes à de nombreuses hypothèses et incertitudes... Les répercussions fiscales peuvent être nettement différentes des prévisions du Bureau. »
- OPG est à mettre en place le processus pour recueillir les fonds nécessaires pour financer ces coûts reportés et, bien que les coûts d'emprunt totaux ne seront pas connus avant la fin de la transaction, les intérêts accumulés devraient être nettement inférieurs aux estimations prévues dans le rapport du Bureau de la responsabilité financière.
- Le gouvernement continuera également d'identifier et de mettre en œuvre des initiatives pour réduire les coûts du réseau électrique, et ainsi réduire le coût du programme de refinancement du RG. De plus amples informations seront publiées dans le Plan énergétique à long terme de 2017 (PELT de 2017), qui sera publié le 26 octobre 2017.

Fact Sheet - Oct. 17 - FINAL_2.PDF

Auditor General's Special Report on the Ontario Fair Hydro Plan

October 17, 2017

The special report from the Office of the Auditor General (OAG) focuses on the financial and accounting framework of Ontario's Fair Hydro Plan (OFHP), which is delivering the single largest reduction in electricity rates in the province's history by lowering electricity bills by an average of 25% for residential consumers, and holding increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting.

Refinancing the Global Adjustment (GA)

- To relieve the current burden on ratepayers and share costs more fairly, OFHP is refinancing a portion of the GA, which recovers costs associated with recent investments in the electricity system.
- Refinancing the GA provides significant and immediate rate relief by spreading the cost of electricity system investments over the expected useful life of the generation assets that have been built.
- 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.
- The GA refinancing design effectively achieves the goals of the refinancing program and ensures that the deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

Ontario's Fair Hydro Plan Accounting

- The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.
- In the development of GA refinancing, the government and its agencies consulted with several third party advisors (e.g., KPMG, EY, Deloitte) in the application of accounting standards. This is normal course of business governments take for complex transactions.
- The Independent Electricity System Operator (IESO) will reflect the impact of the GA refinancing using rate-regulated accounting:
 - Rate-regulated accounting better reflects the economic substance of IESO's operations and enhances the relevance, transparency and accountability of its financial reporting;
 - Rate-regulated accounting is well understood in the electricity sector. Other Canadian electricity entities use rate-regulated accounting – Ontario Power Generation, Toronto Hydro, Fortis Inc.; and

- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America – AESO (Alberta), ISO New England, NYISO (New York), MISO (Midwest United States), PJM (Eastern United States) and ERCOT (Texas).
- PSAS is silent on the use of regulated accounting:
 - PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
 - The IESO consulted US GAAP, which has the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference in this scenario.
- KPMG issued a clean opinion in the audit of IESO's December 31, 2016 financial statements that included recognition of rate-regulated assets and market accounts.
- Deloitte was also consulted and confirmed that an entity reporting under PSAS could have regulatory assets if rate-regulated. The IESO is rate-regulated by the Ontario Energy Board (OEB) in accordance with the Electricity Act and the Ontario Energy Board Act.

Ontario Power Generation as Financial Services Manager

- Ontario Power Generation (OPG) has been identified as the Financial Services Manager (FSM) to develop the financing plans and act as the financing entity (i.e., Fair Hydro Plan Trust) responsible for managing the debt obligations associated with GA refinancing.
- 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.
- OPG currently manages approximately \$20 billion in nuclear funds and as an entity regulated by the Ontario Energy Board (OEB), OPG has extensive experience with regulatory deferral and variance accounts.
- OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative.
 - For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.
- Further, the structure of the OFHP incents OPG, in its role as FSM, to keep the cost of borrowing to a minimum by basing a portion of its management fees on its ability to achieve lower than forecast interest rates.
- OPG is currently in preliminary discussions with rating agencies and plans to be in the market in November 2017.

Financial Accountability Office's Report on the Costs of the Ontario's Fair Hydro Plan

- The Financial Accountability Office's (FAO) 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.
- Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since FAO released its report in May 2017. The borrowing costs are now forecast to be substantially lower than original estimates.

- Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion. The preliminary estimate from March 2017 was about \$28 billion.
- The FAO report concludes by saying “the FAO’s estimates are subject to many assumptions and uncertainties ... Fiscal impact may differ significantly from the FAO’s estimates.”
- OPG is now beginning the process of raising funds to finance these deferred costs, and while total borrowing costs will not be known until the transaction is complete, accumulated interest is projected to be considerably less than the estimates in the report of the FAO.
- The government will also continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

QA_AG Report OFHP_Technical Briefing_Oct16_Cl_3.pdf

Q&As – OAG’s Special Report on Ontario’s Fair Hydro Plan

Q. Why did the government introduce Ontario 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. Since 2003, nearly \$70 billion¹ has been invested in the electricity system, including more than \$37² billion in electricity generation to ensure the system is clean and reliable.

Ontario Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province’s history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers 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.

In developing the policy to refinance the Global Adjustment (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.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

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. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

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.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan 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. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

¹ Ministry of Energy, *2017 Long-Term Energy Plan*

² Ministry of Energy, *2017 Long-Term Energy Plan*

With respect to the \$4 billion³ figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴. The preliminary estimate from March 2017 was about \$28 billion⁵.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion⁶ to \$18.5 billion⁷. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion⁸ to \$18 billion⁹.

Q. Have the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? I understand that the Office of the Auditor General (OAG) has asked what are the factors that resulted in the changes in estimates from March 1 to August 31?

With respect to the \$4 billion¹⁰ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak

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, submission to Financial Accountability Officer

⁶ Ministry of Energy

⁷ Ministry of Energy

⁸ Ministry of Energy

⁹ Ministry of Energy

¹⁰ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

debt over the thirty year life of OFHP will be below \$20 billion¹¹. The preliminary estimate from March 2017 was about \$28 billion¹².

The revised estimates are the result of the following factors:

- The Independent Electricity System Operator (IESO) updated its long-term cost projections for the electricity system and residential bills;
- The Ontario Energy Board (OEB) provided “actual data” with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
- Based on expert third-party advice the interest rate assumptions for OFHP were updated (i.e., from 5%¹³ down to 4.5%¹⁴).

In addition, for the August 31, 2017 estimate, the Ministry of Energy converted debt and interest amounts from calendar year to Regulated Price Plan (RPP) periods.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion¹⁵ to \$18.5 billion¹⁶. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion¹⁷ to \$18 billion¹⁸.

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 is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

¹¹ Ministry of Energy

¹² Ministry of Energy, submission to Financial Accountability Officer

¹³ Ministry of Energy

¹⁴ Navigant Consulting, *Assessment of the Alignment of the Costs and Benefits of Clean Energy Assets*

¹⁵ Ministry of Energy

¹⁶ Ministry of Energy

¹⁷ Ministry of Energy

¹⁸ Ministry of Energy

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. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Act? Would 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).

OPG currently manages approximately \$20 billion¹⁹ 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 program 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.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors²⁰, 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 billion²¹ and two commercial paper programs.

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

Q. The Financial Accountability Office (FAO) suggested that using Ontario Power Generation as the borrowing agent will cost \$4 billion more?

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

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion²². The preliminary estimate from March 2017 was about \$28 billion²³.

¹⁹ Ontario Financing Authority

²⁰ Ontario Power Generation

²¹ Ontario Power Generation

²² Ministry of Energy

²³ Ministry of Energy, submission to Financial Accountability Officer

The FAO report itself concludes by saying “the FAO’s estimates are subject to many assumptions and uncertainties (...) Fiscal impact may differ significantly from the FAO’s estimates.”

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion²⁴ to \$18.5 billion²⁵. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion²⁶ to \$18 billion²⁷.

Q. Do you disagree with the FAO on financial costs?

With respect to the \$4 billion²⁸ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion²⁹. The preliminary estimate from March 2017 was about \$28 billion³⁰.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion³¹ to \$18.5 billion³². The higher March 2017 estimate was used by the FAO in its May 2017 report.

²⁴ Ministry of Energy

²⁵ Ministry of Energy

²⁶ Ministry of Energy

²⁷ Ministry of Energy

²⁸ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

²⁹ Ministry of Energy

³⁰ Ministry of Energy, submission to Financial Accountability Officer

³¹ Ministry of Energy

³² Ministry of Energy

If pressed on interest costs:

The Ministry estimates of total interest cost also decreased from \$25 billion³³ to \$18 billion³⁴.

Q. The OAG's report claims that consumers will pay an additional \$4 billion in interest costs over the life of OFHP since OPG and its Financing Entity will pay a higher rate of interest compared to the Province. Why not have the Province borrow for the OFHP?

The policy objective of OFHP 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 – not the tax-base.

We believe 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. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since the early 2000s³⁵.

The \$4 billion³⁶ figure in the Office of the Auditor General's report was sourced from the FAO's May 2017 report and is important to note, that the FAO's calculation was based on preliminary estimates of the program when peak debt estimates for the thirty year program were substantially higher and interest costs were forecast to be higher than current projections.

Q. Why did the IESO change its accounting practices?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in their financial results.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's 2016 annual report, which was published online in March 2017.

The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements.

Additionally this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

This change has no impact to the province's annual deficit, net debt, accumulated deficit or on the ratepayers of Ontario.

³³ Ministry of Energy

³⁴ Ministry of Energy

³⁵ Ministry of Finance

³⁶ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. Why did the government not use the Canadian Public Sector Accounting Standards (PSAS)? How was Ontario's Fair Hydro Plan (OFHP) financing structure determined?

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18 as well as in the following years. Presenting its financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS is, however, silent on the recognition, measurement, presentation or 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. In this case, the Independent Electricity System Operator (IESO) consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.

This financing structure is similar to several jurisdictions in the U.S., and uses a form of securitization that is commonly used in the financial markets. It ensures the impact of the plan will be transparent. Under this system, credit rating agencies, securities regulators and the public at large get full information and full reporting of the impacts of the OFHP that are visible and specific.

Q. What is the Global Adjustment (GA)?

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. The 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 accounts for 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 reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's 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 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.

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.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've 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.

Moving forward, Ontario is developing its 2017 Long-Term Energy Plan (2017 LTEP) which will focus on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to \$5.2 billion³⁷ over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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).

In development and implementation of Global Adjustment (GA) refinancing, 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.

Document Search

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

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the Auditor General's (AG) office.

³⁷ Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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

The Ministry of Energy does not intend to spend more than \$60,000 on this request. Although the retainer agreement includes a cap of up to \$500,000, as of September 21, 2017, only \$41,775.75 has actually been spent.

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

The Ministry of Energy conducted a search consistent with the 40 plus search terms provided to the Auditor General (AG). In order to manage the approximately 2.2 million records that resulted from the search of 81 custodians, the Ministry has 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 has been regularly providing AG batches of responsive documents.

This request remains a priority for the Ministry and we will continue to make effort to deliver all responsive records to the Auditor General as soon as possible. There is currently a team of 12 Ministry staff reviewing for responsive records.

Response Prepared Based on Ministers' Speaking Points

Q. How do you respond to the Auditor General's claim that the government ignored warnings regarding a potential adverse audit opinion of Ontario's public accounts?

The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

In regards to rate-regulated accounting, PSAS are silent on the use of regulated accounting:

- PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
- US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference.

Many entities in Canada, including OPG and Hydro One use rate-regulated accounting:

- The OAG can refer to the CPA Canada research study that was shared.
- Rate-regulated accounting is well understood in the electricity sector.
- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America, including AESO, ISO New England, NYISO, MISO, PJM and ERCOT.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

TBS's Detailed QAs re Ontario's Fair Hydro Plan

Q. The Auditor General says that the accounting structure for Ontario's Fair Hydro Plan is not transparent, has poor value for money, and is not in accordance with Public Sector Accounting Standards. How do you respond?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results is transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The Ministry of Energy would welcome further questions about OFHP and the government's investments in a reliable energy system.

Q. The Auditor General makes two recommendations in her report – to record the true financial impact of Ontario's Fair Hydro Plan; and to use a financing structure that is the least costly for Ontarians. Will you adopt these recommendations?

The government does not agree with the assertions and conclusions expressed in the report.

In developing OFHP, 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.

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

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion³⁸. The preliminary estimate from March 2017 was about \$28 billion³⁹.

The Province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

³⁸ Ministry of Energy

³⁹ Ministry of Energy, submission to Financial Accountability Officer

Q. Both the Auditor General and the Financial Accountability Officer (FAO) have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history.

In developing OFHP, 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.

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

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

Q. The Auditor General says that you are “obfuscating” the true financial impact of Ontario’s Fair Hydro Plan through a “needlessly complex” accounting structure. How do you respond?

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. How can you justify the \$4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the Province, instead of the Province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴⁰. The preliminary estimate from March 2017 was about \$28 billion⁴¹.

Q. The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of 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 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

⁴⁰ Ministry of Energy

⁴¹ Ministry of Energy, submission to Financial Accountability Officer

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. What will happen if interest rates rise? The Financial Accountability Officer (FAO) estimates that if interest rates were to rise, the true cost of Ontario's Fair Hydro Plan could be between \$69 and \$93 billion. How can you justify shifting this heavy burden onto future generations?

The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs of OFHP, and while total borrowing costs will not be known until the program is complete, accumulated interest is expected to be considerably less than the estimates cited in the May 2017 report of the FAO.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report, and borrowing costs are now forecast to be substantially lower than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴². The preliminary estimate from March 2017 was about \$28 billion⁴³.

Government Officials

Q. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), 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.

⁴² Ministry of Energy

⁴³ Ministry of Energy, submission to Financial Accountability Officer

Multiple options were considered in creating the OFHP framework – such as to have local distribution companies finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution companies to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

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

Audit Opinion

The government just received another qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end. This change was supported by IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Q. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The Province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you concerned that the Auditor General will issue an adverse opinion on the Province's Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the Province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministry of Energy, Finance and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and third-party accounting, financing and energy experts to ensure due diligence.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all independent auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, 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.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?

There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), 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.

The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Independent Electricity System Operator (IESO)

The Auditor General was critical of the Independent Electricity System Operator's accounting changes, which formed part of her basis for a qualified opinion in the 2016-17 Public Accounts. Are these accounting changes inappropriate?

On recognizing market accounts' assets:

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen 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.

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

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General (OAG) at that time.

This change has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

On rate-regulated accounting:

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Rate-regulated Accounting

Q. Why use rate-regulated accounting? What is its benefit?

In certain circumstances, an organization may be required to incur a large expenditure that will be recovered from ratepayers in the future.

For example, damage caused by an ice storm that results in extraordinary costs to restore a disruption of electricity services for customers. Such costs are subject to application and approval for recovery by the regulator over a specific time period.

What rate-regulated accounting does is it allows organizations to recognize those costs, which can be significant within a year but will generate benefits over time, to be matched over the same period that the amounts are recovered from ratepayers.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

“The entity’s rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers” [ASC 980-10-15-2].

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

Legislated Accounting

Q. The Auditor General says that you are essentially making up your own accounting rules. How are Ontarians supposed to believe things like a “balanced budget” when you keep changing the rules?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

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

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The recording of any asset resulting from transactions of OFHP will be assessed for recognition and measurement based on PSAS, and where appropriate, other accounting guidance where PSAS is silent on the issue.

Q. The Auditor General says that the Province legislated accounting through the Ontario Fair Hydro Plan Act, which is not allowed according to Public Sector Accounting Standards (PSAS). Is this true?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

The role of the Ontario Energy Board (OEB) and its mandate is provided in legislation. It is not uncommon for government policy, through regulations, to provide the ground rules over which the OEB is to preside.

This is the case with Ontario's Fair Hydro Plan (OFHP) itself, as the Act and the various regulations provide the direction and processes over which the OEB is to exercise oversight, review, and make conclusion on submissions brought forward.

Relationship with the Office of the Auditor General

Q. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

The government is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

If pressed:

The Auditor General was informed throughout the course of this process.

If asked about the Ministry of Energy emails:

The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General. For questions related to the Ministry of Energy, please contact them directly.

Future Governments

Q. The Auditor General says that you are essentially handcuffing future governments with your financing structure. Why should future governments have to pay for your decisions?

By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade government policies have supported rebuilding the electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than \$70 billion⁴⁴ has been invested to modernize the system.

The government heard from people across the Province that the price of electricity had risen too quickly, which is why Ontario's Fair Hydro Plan (OFHP) will ensure costs are shared more fairly over the years ahead.

The Ontario electricity sector invested in renewing the provincial electricity system, including many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. 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.

In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and ensures the goals underlying the program are achieved in a cost-effective manner.

⁴⁴ Ministry of Energy, *2017 Long-Term Energy Plan*

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

For further questions related to Ontario's Fair Hydro Plan, please contact the Ministry of Energy.

Asset Sales

Q. Will you buy back Hydro One so that it is back under public control?

Maximizing the value of designated assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The Trillium Trust Act, 2014, provides for the dedication to the Trillium Trust of net revenue gains associated with the sale of designated assets to support investments in transit, transportation and other priority infrastructure across the province.

The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the Ontario Electricity Financial Corporation (OEFC), which manages and pays down the debt and other liabilities of the former Ontario Hydro.

The government is on track to generate, over time, \$4 billion⁴⁵ in net revenue gains to be invested in transit and infrastructure, along with \$5 billion⁴⁶ to reduce debt, from broadening Hydro One's ownership.

The government will remain, by law, the largest single shareholder in Hydro One, restricting the Province from selling down to less than 40%⁴⁷ of the voting securities in Hydro One – and no other single shareholder or group of shareholders working in concert will be permitted to hold more than 10%⁴⁸ of the company's shares.

⁴⁵ Ontario Financing Authority

⁴⁶ Ontario Financing Authority

⁴⁷ Ontario Financing Authority

⁴⁸ Ontario Financing Authority

FW_ For review_ QA - AG letter re_ Fair Hydro P...(1).pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Subject: FW: For review: QA - AG letter re: Fair Hydro Plan accounting & audit firms - DUE ASAP
Date: April 16, 2018 4:53:22 PM
Attachments: [QA - Accounting Firms involved in OFHP - AH20180416.docx](#)
Importance: High

Please review the attached QA and let me know ASAP if you see any issues.

HC

Sent with BlackBerry Work
(www.blackberry.com)

From: Hendy, Adam (ENERGY) <Adam.Hendy@ontario.ca>
Date: Monday, Apr 16, 2018, 4:50 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Thiru, Dhil (ENERGY) <Dhil.Thiru@ontario.ca>, @ENERGY-COMM-Issues_and_MediaRelations <ENERGY-COMM-Issues_and_MediaRelations@msgov.gov.on.ca>, Whytock, John (ENERGY) <John.Whytock@ontario.ca>, Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>, Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Subject: For review: QA - AG letter re: Fair Hydro Plan accounting & audit firms - DUE ASAP

Hi Hilary,

Attached for ESP review is a Q&A we have put together in regard to the oppositions claim that the Minister falsely stated which firms were contacted for the OFHP accounting. The answer is mostly a collection of messaging we used for SCOPA.

We are hoping ESP can review this ASAP. We apologize for the urgency, but we are hoping to have something ready for the Minister before QP tomorrow morning.

Thanks for this,
Adam

From: Schlaepfer, Martin (ENERGY)
Sent: April-16-18 1:22 PM
To: Whytock, John (ENERGY)
Cc: Hume, Steen (ENERGY); Cox, Hilary (ENERGY); Perkins, Michael (ENERGY); Nucciarone, Michael (ENERGY)
Subject: FW: AG letter re: Fair Hydro Plan accounting & audit firms

Hi John,

Please see below.

Can you work with ESP to pull together a few KMs related to the below to clarify what

the accounting firms did in fact do that we could share with the MO. It appears that from the statements below that the Minister did not state that the firms provided an opinion on the provinces financial statements.

KPMG provided an opinion on the IESO's statements. EY provided a letter in support of OPG's accounting and Deloitte gave a view more generally on rate regulated accounting.

We'll need to do a quick turnaround on this given the sensitivity.

Thanks,
Martin

QA - Accounting Firms involved in OFHP - AH20.pdf

April 16, 2018

Q: The Auditor General has been critical of the accounting practices employed in the Fair Hydro Plan. The Minister has said in the House that this plan had been approved of by some of Canada's top accounting firms – the likes of KPMG, Ernst & Young, and Deloitte. Now the opposition are claiming that some of these firms cannot confirm this. Did these firms approve of the Fair Hydro Plan accounting, or not?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

This decision was supported by an accounting opinion from IESO's external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts they oversee.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements

ERNST & Young was contacted to audit OPG's financial reports, which are filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed. Due to OPG's ownership and

control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

Deloitte was contact by X and was involved as ...

Commented [HA(1)]: Hoping policy can speak to EY's involvement on the accounting, or was there involvement solely with the FHT?

Commented [HA(2)]: Policy - I have no info on Deloitte's involvement. Wondering if you can help me speak further to this?

FW_ For review_ QA - AG letter re_ Fair Hydro P....pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Subject: FW: For review: QA - AG letter re: Fair Hydro Plan accounting & audit firms - DUE ASAP
Date: April 16, 2018 5:00:23 PM
Attachments: [QA - Accounting Firms involved in OFHP - AH20180416.docx](#)

Please use this one

Sent with BlackBerry Work
(www.blackberry.com)

From: Hendy, Adam (ENERGY) <Adam.Hendy@ontario.ca>
Date: Monday, Apr 16, 2018, 4:57 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Thiru, Dhil (ENERGY) <Dhil.Thiru@ontario.ca>, @ENERGY-COMM-Issues_and_MediaRelations <ENERGY-COMM-Issues_and_MediaRelations@msgov.gov.on.ca>, Whytock, John (ENERGY) <John.Whytock@ontario.ca>, Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>, Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Subject: RE: For review: QA - AG letter re: Fair Hydro Plan accounting & audit firms - DUE ASAP

Apologies Hilary, please use the attached version.

Thanks again,
Adam

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Cc: Thiru, Dhil (ENERGY); @ENERGY-COMM-Issues_and_MediaRelations; Whytock, John (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY)
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Martin

QA - Accounting Firms involved in OFHP - AH20_1.pdf

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The senior officials and staff were from:

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Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements. KPMG issued a clean opinion in the audit of IESO's December 31, 2016 financial statements that included recognition of rate-regulated assets and market accounts.

ERNST & Young was contacted to audit OPG's financial reports, which are filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed. Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

Deloitte was also consulted and confirmed that an entity reporting under PSAS could have regulatory assets if rate-regulated. The IESO is rate-regulated by the OEB in accordance with the Electricity Act, 1998 (Electricity Act) and the Ontario Energy Board Act (OEBA).

Commented [HA(1)]: Hoping policy can speak to EY's involvement on the accounting, or was there involvement solely with the FHT?

FW_ MOF media inquiry - SCOPA & FHP .pdf

From: [Lightbody, Ava \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#)
Cc: [Cayley, Daniel \(ENERGY\)](#)
Subject: FW: MOF media inquiry - SCOPA & FHP
Date: March 2, 2018 3:00:18 PM
Attachments: [Media Request FHP numbers.docx](#)

Hi Tim,

We've prepared two possible responses for this media QA, an approach that Daniel and Steen landed on in conversation. Both are in the attached document.

Thanks,
Ava

From: Thiru, Dhil (ENERGY)
Sent: March-02-18 12:06 PM
To: Cayley, Daniel (ENERGY)
Cc: Christie, Tim (ENERGY); DeSouza, Avril (ENERGY); Lightbody, Ava (ENERGY); Pinheiro, Alex (ENERGY)
Subject: FW: MOF media inquiry - SCOPA & FHP

Hi Daniel,

Could your team provide a response to the following media request below using material from the attached SCOPA package? Kindly return your response by EOD Monday.

Thanks

Media request:

Context:

As you may be aware, last year the Financial Accountability Office estimated that the FHP would cost Ontario \$45 billion over 29 years, or a net cost of \$21 billion once the resultant savings to electricity ratepayers are subtracted. The FAO also said that "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately \$21.0 billion in interest."

In its response to the Auditor General of Ontario's report on the FHP, the government asserted the following:

While total borrowing costs will not be known until the program is complete,

accumulated interest is projected to be considerably less than the estimates in the report of the Financial Accountability Office (FAO), cited by the report. Total borrowing estimates over the thirty year life of the program have been revised down substantially by the government since the FAO released its report in May 2017 and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion. The preliminary estimate from March 2017 was about \$28 billion.

Question:

I request the detailed borrowing estimates cited by the government above, including the underlying math behind peak debt and interest charges and any assumptions made.

From: Cox, Hilary (ENERGY)
Sent: March-02-18 12:03 PM
To: Thiru, Dhil (ENERGY)
Subject: FW: MOF media inquiry - SCOPA & FHP

Sorry, should have been clearer. Please have Tim/Daniel's shop draft a response to this using the attached package of SCOPA QAs.

From: Thiru, Dhil (ENERGY)
Sent: March 2, 2018 11:53 AM
To: Demetriades, Natasha (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: RE: MOF media inquiry - SCOPA & FHP

Hi Natasha,

Staff have suggested that DMO use the SCOPA QAs that have been used previously as a reply for this media question. Let me know if you have any questions.

Thanks.

From: Demetriades, Natasha (ENERGY)
Sent: March-02-18 11:42 AM
To: Thiru, Dhil (ENERGY)

Cc: Cox, Hilary (ENERGY)

Subject: MOF media inquiry - SCOPA & FHP

Hi Dhil: MOF has received a media inquiry from the Globe and Mail (highlighted below).

They've checked in with the OFA and they recommend that ENERGY respond to this.

Is it possible to provide some answers to this?

The reporter has no hard deadline.

Let me know, thank you.

Natasha

--

Context:

As you may be aware, last year the Financial Accountability Office estimated that the FHP would cost Ontario \$45 billion over 29 years, or a net cost of \$21 billion once the resultant savings to electricity ratepayers are subtracted. The FAO also said that "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately \$21.0 billion in interest."

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Question:

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Media Request FHP numbers.pdf

Q. I request the detailed borrowing estimates cited by the government above [peak debt and accumulated interest], including the underlying math behind peak debt and interest charges and any assumptions made.

Version 1

Cost estimates for the Global Adjustment (GA) refinancing program are projections that will continue to be revised over the thirty-year life of the program and conditions change, including variables such as interest rates, electricity demand, and electricity system costs.

Ontario Power Generation (OPG), in its role as Financial Services Manager, is responsible for developing financing plans and managing debt obligations to ensure the policy objectives of Ontario's Fair Hydro Plan are achieved. OPG is currently working to update borrowing and cost projections, which will reflect the results of the initial debt issuance in February 2018.

These updated estimates are expected shortly. We will provide the numbers as they become available.

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

Version 2

Cost estimates for the Global Adjustment (GA) refinancing program are projections that will continue to be revised over the thirty-year life of the program as conditions change, including variables such as interest rates, electricity demand, and electricity system costs.

Ministry analysis underpinning the 2017 Long-Term Energy Plan (2017 LTEP) forecasts peak debt at approximately \$20 billion and a total interest cost of less than \$19 billion. These updated estimates include estimated fees charged by Ontario Power Generation (OPG) in its role as Financial Services Manager, and assume a 5 per cent average interest rate over the life of the program.

Forecasted peak debt represents the maximum annual debt balance. Total interest cost is the sum of forecasted annual interest paid over the thirty-year life of the program, which is calculated based on the average debt balance in each year and a 5 per cent average interest rate.

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.

FW_ OFHP Electicity PILs Reg.pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Hume, Steen \(ENERGY\)](#)
Cc: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#); [Lightbody, Ava \(ENERGY\)](#)
Subject: FW: OFHP Electricity PILs Reg
Date: December 7, 2017 11:54:00 AM
Attachments: [electricityreg.docx](#)

FYI

From: Montgomery, Kaitlin (MOF)
Sent: December 7, 2017 11:53 AM
To: Lewis, Robin (MOF) <Robin.Lewis@ontario.ca>
Cc: Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Langleben, Ann (MOF) <Ann.Langleben@ontario.ca>; Klassen, Daniela (MOF) <Daniela.Klassen@ontario.ca>; Winfield, Lloyd (MOF) <Lloyd.Winfield@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: RE: OFHP Electricity PILs Reg

Thanks Rob

Hilary - can I leave this with you to provide to OPG / circulate as needed within ENE?

Thanks,
Kaitlin

From: Lewis, Robin (MOF)
Sent: December-07-17 11:46 AM
To: Montgomery, Kaitlin (MOF)
Cc: Patel, Lesley (MOF); Langleben, Ann (MOF); Klassen, Daniela (MOF); Winfield, Lloyd (MOF)
Subject: OFHP Electricity PILs Reg

Kaitlin,

Attached is a draft copy of the electricity reg.

We promised to share a copy with OPG when the draft was finalized.

Could you please attend to forwarding the draft to those at Energy who in touch with OPG ? Or forward it yourself if you are in direct contact with OPG.

Regards,

Rob

electricityreg.pdf

CONFIDENTIAL
Until filed with the
Registrar of Regulations

ONTARIO REGULATION

made under the

ELECTRICITY ACT, 1998

Amending O. Reg. 207/99

(PAYMENTS IN LIEU OF CORPORATE TAXES)

1. Sections 3 and 6 of Ontario Regulation 207/99 are amended by striking out “16.1” at the end and substituting “16.2”.

2. The Regulation is amended by adding the following section immediately before the heading “Returns and Payments”:

16.2 (1) For the purposes of determining the amount of any payment required for a taxation year from a specified corporation under sections 89 and 90 of the Act, the method of calculating the amount of the payment is modified by the following rules:

1. Any income or loss or taxable capital gain or allowable capital loss in respect of property held by a specified trust that would be income or a loss or a taxable capital gain or allowable capital loss of the specified corporation under subsection 75 (2) of the Federal Act is deemed to be nil.
2. Any amount paid or payable to the specified corporation in the taxation year by a specified trust that would be included in computing the income of the specified corporation for the year under subsection 104 (13) of the Federal Act is deemed to be nil.
3. Any benefits to the specified corporation from or under a specified trust that would be included in computing the specified corporation’s income for the taxation year under subsection 105 (1) of the Federal Act are deemed to be nil.

4. Any amounts that would be included in computing the specified corporation's income for the taxation year in respect of the disposition of an income interest in a specified trust under subsection 106 (2) of the Federal Act are deemed to be nil.
5. Any proceeds of disposition in respect of a disposition of all or any part of the specified corporation's capital interest in a specified trust in the taxation year are deemed to be equal to the adjusted cost base of the interest as determined under the Federal Act.

(2) The following corporations are specified corporations for the purposes of subsection (1):

1. FHP2017 Inc.

(3) The following financing entities, as defined in subsection 1 (1) of the *Ontario Fair Hydro Plan Act, 2017*, are specified trusts for the purposes of subsection (1):

1. The Fair Hydro Trust.

Commencement

3. This Regulation comes into force on the day it is filed.

Made by:

.....
Signature (in blue ink)

Minister of Finance

Date made:

FW_ Ontario Fair Hydro Plan Act BN kk edits.pdf

From: [Thouin, Alena \(ENERGY\)](#)
To: [Rehob, James \(ENERGY\)](#)
Subject: FW: Ontario Fair Hydro Plan Act BN kk edits
Date: November 17, 2017 10:18:33 AM
Attachments: [Ontario Fair Hydro Plan Act BN kk edits.docx](#)

Hi James
Are you ok with the revised note?

Thanks and sorry I didn't see you yesterday
I am back in the office now,

From: Wright, Sarah (MAG)
Sent: November 17, 2017 10:00 AM
To: Murray, Maud (ENERGY/MEDG/MRIS/MOI); Thouin, Alena (ENERGY)
Cc: Mallen, Jane (MAG); Ryan, Padraic (MAG); Hanley, Sean (MAG)
Subject: Ontario Fair Hydro Plan Act BN kk edits

Hi Maud and Alena,

Paddy and James have connected. We agree that this proposal does not affect the risks identified in our previous advice. We have suggested a slight edit to the AG Speaking Notes (attached) since the Appendix A risk doesn't land a specific risk level.

Thanks,
Sarah

Ontario Fair Hydro Plan Act BN kk edits.pdf

CABINET BRIEFING NOTE

ISSUE: Minister Thibeault (ENERGY) – Proposed Regulations to further implement the *Ontario Fair Hydro Plan Act, 2017*

SUMMARY OF PROPOSAL:

- The Ministry of Energy (“ENERGY”) is bringing forward two proposed amending regulations to further implement the *Ontario Fair Hydro Plan Act, 2017*.

STATUS:

- These items are scheduled for consideration by the Legislation and Regulations Committee (“LRC”) on November 20, 2017.

AG SPEAKING NOTES (IF ASKED):

- **This proposal does not affect the risk previously~~the risk remains the same as~~ identified at the May 10, 2017 Cabinet meeting regarding the *Fair Hydro Plan Act, 2017*. [If asked about the risk level, please refer to the attached speaking notes].**

BACKGROUND:

- On March 2, 2017, the government announced the OFHP, which lowers electricity bills by 25% for a typical residential consumer. The OFHPA was enacted to support the OFHP and received Royal Assent on June 1, 2017.
- Energy is proposing amendments to Ontario Regulation 206/17 made under the OFHPA (the “General Regulation”) and to the Regulation made under the *Electricity Act, 1998* which implements the Global Adjustment.

DISCUSSION:

- In accordance with section 20 of the OFHPA and the General Regulation, the Minister of Energy calculates a fair allocation amount (FAA) to ensure the proper alignment of the allocation of intergenerational costs and benefits.
- The proposed amendments would clarify that during a period after May 1, 2021, where the FAA is below the amount required to cover financing entity carrying costs, these costs may nonetheless be included in clean energy adjustments payable by specified consumers. This is an important aspect of the refinancing that the commercial markets are anticipating will be included in the OFHPA regulations.

- The proposed amendments to the Global Adjustment Regulation ensure that the IESO have in place the cost-recovery mechanism necessary to allow it to fund its obligations relating to providing appropriate security to financing entities. The IESO is providing the financing entities with the security as part of its activities under the OFHPA.

Approved by:

Jane Mallen, Portfolio Director
Resources and Economics
Office of the Assistant Deputy Attorney General
Civil Law Division

APPENDIX “A”**PREVIOUS MAG RISK ASSESSMENT, ONTARIO FAIR HYDRO PLAN ACT, 2017****[Note: this advice has been previously provided to Cabinet on May 10, 2017]**

- In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a “low” risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.
- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the “short” term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.
- Former Supreme Court Justice Ian Binnie has provided a legal opinion concluding that the current proposal is at a moderately high risk of being a tax, for the following reasons:
 - The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.
 - If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).
 - By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers.
- The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation.

FW_ QA - Accounting Firms involved in OFHP - AH....pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Hendy, Adam \(ENERGY\)](#)
Cc: [Thiru, Dhil \(ENERGY\)](#); [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Subject: FW: QA - Accounting Firms involved in OFHP - AH20180416 (2)
Date: April 16, 2018 5:45:30 PM
Attachments: [QA - Accounting Firms involved in OFHP - AH20180416 \(2\).docx](#)

Hi Adam -
ESPD ADM approved edits attached.

HC

Sent with BlackBerry Work
(www.blackberry.com)

QA - Accounting Firms involved in OFHP - AH20_2.pdf

April 16, 2018

Q&A Response

Q: The Auditor General has been critical of the accounting practices employed in Ontario's Fair Hydro Plan (OFHP). The Minister has said in the House that this plan had been approved of by some of Canada's top accounting firms – the likes of KPMG, Ernst & Young, and Deloitte. Now the opposition are claiming that some of these firms cannot confirm this. Did these firms approve of the OFHP accounting, or not?

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In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

With respect to IESO's approach to accounting taken on GA refinancing, this decision was supported by an accounting opinion from IESO's external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

Commented [CD(1)]: Believe this is a reference to IESO accounting changes, not overall OFHP accounting structure. Recommend moving some of this content down to the paragraph on KPMG opinion.

In fact, more than one of the big four accounting firms agree with our decision on this matter. Regarding IESO accounting structure, it The IESO regularly reviews its accounting policies to ensure ~~their financial~~ its financial reporting best represents ~~our~~ its operations and the substance of the accounts IESO they oversees.

Commented [CD(2)]: Defer to OPGD but this is awkwardly worded.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements. KPMG issued a clean opinion in the audit of IESO's December 31, 2016 financial statements that included recognition of rate-regulated assets and market accounts.

Deloitte was also consulted and confirmed that an entity reporting under Public Sector Accounting Standard (PSAS) could have regulatory assets if rate-regulated. The IESO is rate-regulated by the OEB in accordance with the Electricity Act, 1998 (Electricity Act) and the Ontario Energy Board Act (OEBA).

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~~ERNST & YOUNG~~ was contracted to audit OPG's financial reports, which are filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed. Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust (~~FHT~~), OPG will consolidate the financial results of the Trust in accordance with US GAAP.

~~Deloitte was also consulted and confirmed that an entity reporting under PSAS could have regulatory assets if rate regulated. The IESO is rate regulated by the OEB in accordance with the Electricity Act, 1998 (Electricity Act) and the Ontario Energy Board Act (OEB Act).~~

Commented [HA(3)]: Hoping policy can speak to EY's involvement on the accounting, or was there involvement solely with the FHT?

Commented [CD(4)]: Defer to OPCD/OPG

FW_ QA from AG tech briefing.pdf

From: [Cayley, Daniel \(ENERGY\)](#)
To: [Lightbody, Ava \(ENERGY\)](#)
Subject: FW: QA from AG tech briefing
Date: January 26, 2018 12:00:00 PM
Attachments: [QA_AG Report OFHP_Technical Briefing_Oct16_Clean_400.docx](#)

See attached /below.

Daniel

From: Cox, Hilary (ENERGY)
Sent: January 26, 2018 11:59 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: QA from AG tech briefing

Hi Guys -

The attached QA should help with the OFHP policy intent piece on the response table.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

QA_AG Report OFHP_Technical Briefing_Oct16_Cl_4.pdf

Q&As – OAG’s Special Report on Ontario’s Fair Hydro Plan

Q. Why did the government introduce Ontario 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. Since 2003, nearly \$70 billion¹ has been invested in the electricity system, including more than \$37² billion in electricity generation to ensure the system is clean and reliable.

Ontario Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province’s history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers 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.

In developing the policy to refinance the Global Adjustment (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.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

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. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

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.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan 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. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

¹ Ministry of Energy, *2017 Long-Term Energy Plan*

² Ministry of Energy, *2017 Long-Term Energy Plan*

With respect to the \$4 billion³ figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴. The preliminary estimate from March 2017 was about \$28 billion⁵.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion⁶ to \$18.5 billion⁷. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion⁸ to \$18 billion⁹.

Q. Have the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? I understand that the Office of the Auditor General (OAG) has asked what are the factors that resulted in the changes in estimates from March 1 to August 31?

With respect to the \$4 billion¹⁰ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak

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, submission to Financial Accountability Officer

⁶ Ministry of Energy

⁷ Ministry of Energy

⁸ Ministry of Energy

⁹ Ministry of Energy

¹⁰ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

debt over the thirty year life of OFHP will be below \$20 billion¹¹. The preliminary estimate from March 2017 was about \$28 billion¹².

The revised estimates are the result of the following factors:

- The Independent Electricity System Operator (IESO) updated its long-term cost projections for the electricity system and residential bills;
- The Ontario Energy Board (OEB) provided “actual data” with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
- Based on expert third-party advice the interest rate assumptions for OFHP were updated (i.e., from 5%¹³ down to 4.5%¹⁴).

In addition, for the August 31, 2017 estimate, the Ministry of Energy converted debt and interest amounts from calendar year to Regulated Price Plan (RPP) periods.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion¹⁵ to \$18.5 billion¹⁶. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion¹⁷ to \$18 billion¹⁸.

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 is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

¹¹ Ministry of Energy

¹² Ministry of Energy, submission to Financial Accountability Officer

¹³ Ministry of Energy

¹⁴ Navigant Consulting, *Assessment of the Alignment of the Costs and Benefits of Clean Energy Assets*

¹⁵ Ministry of Energy

¹⁶ Ministry of Energy

¹⁷ Ministry of Energy

¹⁸ Ministry of Energy

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. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Act? Would 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).

OPG currently manages approximately \$20 billion¹⁹ 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 program 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.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors²⁰, 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 billion²¹ and two commercial paper programs.

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

Q. The Financial Accountability Office (FAO) suggested that using Ontario Power Generation as the borrowing agent will cost \$4 billion more?

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

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion²². The preliminary estimate from March 2017 was about \$28 billion²³.

¹⁹ Ontario Financing Authority

²⁰ Ontario Power Generation

²¹ Ontario Power Generation

²² Ministry of Energy

²³ Ministry of Energy, submission to Financial Accountability Officer

The FAO report itself concludes by saying “the FAO’s estimates are subject to many assumptions and uncertainties (...) Fiscal impact may differ significantly from the FAO’s estimates.”

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion²⁴ to \$18.5 billion²⁵. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion²⁶ to \$18 billion²⁷.

Q. Do you disagree with the FAO on financial costs?

With respect to the \$4 billion²⁸ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion²⁹. The preliminary estimate from March 2017 was about \$28 billion³⁰.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion³¹ to \$18.5 billion³². The higher March 2017 estimate was used by the FAO in its May 2017 report.

²⁴ Ministry of Energy

²⁵ Ministry of Energy

²⁶ Ministry of Energy

²⁷ Ministry of Energy

²⁸ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

²⁹ Ministry of Energy

³⁰ Ministry of Energy, submission to Financial Accountability Officer

³¹ Ministry of Energy

³² Ministry of Energy

If pressed on interest costs:

The Ministry estimates of total interest cost also decreased from \$25 billion³³ to \$18 billion³⁴.

Q. The OAG's report claims that consumers will pay an additional \$4 billion in interest costs over the life of OFHP since OPG and its Financing Entity will pay a higher rate of interest compared to the Province. Why not have the Province borrow for the OFHP?

The policy objective of OFHP 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 – not the tax-base.

We believe 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. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since the early 2000s³⁵.

The \$4 billion³⁶ figure in the Office of the Auditor General's report was sourced from the FAO's May 2017 report and is important to note, that the FAO's calculation was based on preliminary estimates of the program when peak debt estimates for the thirty year program were substantially higher and interest costs were forecast to be higher than current projections.

Q. Why did the IESO change its accounting practices?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in their financial results.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's 2016 annual report, which was published online in March 2017.

The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements.

Additionally this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

This change has no impact to the province's annual deficit, net debt, accumulated deficit or on the ratepayers of Ontario.

³³ Ministry of Energy

³⁴ Ministry of Energy

³⁵ Ministry of Finance

³⁶ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. Why did the government not use the Canadian Public Sector Accounting Standards (PSAS)? How was Ontario's Fair Hydro Plan (OFHP) financing structure determined?

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18 as well as in the following years. Presenting its financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS is, however, silent on the recognition, measurement, presentation or 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. In this case, the Independent Electricity System Operator (IESO) consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.

This financing structure is similar to several jurisdictions in the U.S., and uses a form of securitization that is commonly used in the financial markets. It ensures the impact of the plan will be transparent. Under this system, credit rating agencies, securities regulators and the public at large get full information and full reporting of the impacts of the OFHP that are visible and specific.

Q. What is the Global Adjustment (GA)?

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. The 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 accounts for 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 reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's 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 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.

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.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've 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.

Moving forward, Ontario is developing its 2017 Long-Term Energy Plan (2017 LTEP) which will focus on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to \$5.2 billion³⁷ over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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).

In development and implementation of Global Adjustment (GA) refinancing, 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.

Document Search

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

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the Auditor General's (AG) office.

³⁷ Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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

The Ministry of Energy does not intend to spend more than \$60,000 on this request. Although the retainer agreement includes a cap of up to \$500,000, as of September 21, 2017, only \$41,775.75 has actually been spent.

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

The Ministry of Energy conducted a search consistent with the 40 plus search terms provided to the Auditor General (AG). In order to manage the approximately 2.2 million records that resulted from the search of 81 custodians, the Ministry has 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 has been regularly providing AG batches of responsive documents.

This request remains a priority for the Ministry and we will continue to make effort to deliver all responsive records to the Auditor General as soon as possible. There is currently a team of 12 Ministry staff reviewing for responsive records.

Response Prepared Based on Ministers' Speaking Points

Q. How do you respond to the Auditor General's claim that the government ignored warnings regarding a potential adverse audit opinion of Ontario's public accounts?

The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

In regards to rate-regulated accounting, PSAS are silent on the use of regulated accounting:

- PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
- US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference.

Many entities in Canada, including OPG and Hydro One use rate-regulated accounting:

- The OAG can refer to the CPA Canada research study that was shared.
- Rate-regulated accounting is well understood in the electricity sector.
- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America, including AESO, ISO New England, NYISO, MISO, PJM and ERCOT.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

TBS's Detailed QAs re Ontario's Fair Hydro Plan

Q. The Auditor General says that the accounting structure for Ontario's Fair Hydro Plan is not transparent, has poor value for money, and is not in accordance with Public Sector Accounting Standards. How do you respond?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results is transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The Ministry of Energy would welcome further questions about OFHP and the government's investments in a reliable energy system.

Q. The Auditor General makes two recommendations in her report – to record the true financial impact of Ontario's Fair Hydro Plan; and to use a financing structure that is the least costly for Ontarians. Will you adopt these recommendations?

The government does not agree with the assertions and conclusions expressed in the report.

In developing OFHP, 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.

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

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion³⁸. The preliminary estimate from March 2017 was about \$28 billion³⁹.

The Province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

³⁸ Ministry of Energy

³⁹ Ministry of Energy, submission to Financial Accountability Officer

Q. Both the Auditor General and the Financial Accountability Officer (FAO) have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history.

In developing OFHP, 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.

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

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

Q. The Auditor General says that you are “obfuscating” the true financial impact of Ontario’s Fair Hydro Plan through a “needlessly complex” accounting structure. How do you respond?

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. How can you justify the \$4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the Province, instead of the Province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴⁰. The preliminary estimate from March 2017 was about \$28 billion⁴¹.

Q. The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of 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 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

⁴⁰ Ministry of Energy

⁴¹ Ministry of Energy, submission to Financial Accountability Officer

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. What will happen if interest rates rise? The Financial Accountability Officer (FAO) estimates that if interest rates were to rise, the true cost of Ontario's Fair Hydro Plan could be between \$69 and \$93 billion. How can you justify shifting this heavy burden onto future generations?

The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs of OFHP, and while total borrowing costs will not be known until the program is complete, accumulated interest is expected to be considerably less than the estimates cited in the May 2017 report of the FAO.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report, and borrowing costs are now forecast to be substantially lower than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴². The preliminary estimate from March 2017 was about \$28 billion⁴³.

Government Officials

Q. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), 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.

⁴² Ministry of Energy

⁴³ Ministry of Energy, submission to Financial Accountability Officer

Multiple options were considered in creating the OFHP framework – such as to have local distribution companies finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution companies to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

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

Audit Opinion

The government just received another qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end. This change was supported by IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Q. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The Province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you concerned that the Auditor General will issue an adverse opinion on the Province's Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the Province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministry of Energy, Finance and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and third-party accounting, financing and energy experts to ensure due diligence.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all independent auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, 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.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?

There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), 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.

The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Independent Electricity System Operator (IESO)

The Auditor General was critical of the Independent Electricity System Operator's accounting changes, which formed part of her basis for a qualified opinion in the 2016-17 Public Accounts. Are these accounting changes inappropriate?

On recognizing market accounts' assets:

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen 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.

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

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General (OAG) at that time.

This change has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

On rate-regulated accounting:

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Rate-regulated Accounting

Q. Why use rate-regulated accounting? What is its benefit?

In certain circumstances, an organization may be required to incur a large expenditure that will be recovered from ratepayers in the future.

For example, damage caused by an ice storm that results in extraordinary costs to restore a disruption of electricity services for customers. Such costs are subject to application and approval for recovery by the regulator over a specific time period.

What rate-regulated accounting does is it allows organizations to recognize those costs, which can be significant within a year but will generate benefits over time, to be matched over the same period that the amounts are recovered from ratepayers.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

“The entity’s rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers” [ASC 980-10-15-2].

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

Legislated Accounting

Q. The Auditor General says that you are essentially making up your own accounting rules. How are Ontarians supposed to believe things like a “balanced budget” when you keep changing the rules?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

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

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The recording of any asset resulting from transactions of OFHP will be assessed for recognition and measurement based on PSAS, and where appropriate, other accounting guidance where PSAS is silent on the issue.

Q. The Auditor General says that the Province legislated accounting through the Ontario Fair Hydro Plan Act, which is not allowed according to Public Sector Accounting Standards (PSAS). Is this true?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

The role of the Ontario Energy Board (OEB) and its mandate is provided in legislation. It is not uncommon for government policy, through regulations, to provide the ground rules over which the OEB is to preside.

This is the case with Ontario's Fair Hydro Plan (OFHP) itself, as the Act and the various regulations provide the direction and processes over which the OEB is to exercise oversight, review, and make conclusion on submissions brought forward.

Relationship with the Office of the Auditor General

Q. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

The government is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

If pressed:

The Auditor General was informed throughout the course of this process.

If asked about the Ministry of Energy emails:

The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General. For questions related to the Ministry of Energy, please contact them directly.

Future Governments

Q. The Auditor General says that you are essentially handcuffing future governments with your financing structure. Why should future governments have to pay for your decisions?

By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade government policies have supported rebuilding the electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than \$70 billion⁴⁴ has been invested to modernize the system.

The government heard from people across the Province that the price of electricity had risen too quickly, which is why Ontario's Fair Hydro Plan (OFHP) will ensure costs are shared more fairly over the years ahead.

The Ontario electricity sector invested in renewing the provincial electricity system, including many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. 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.

In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and ensures the goals underlying the program are achieved in a cost-effective manner.

⁴⁴ Ministry of Energy, *2017 Long-Term Energy Plan*

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

For further questions related to Ontario's Fair Hydro Plan, please contact the Ministry of Energy.

Asset Sales

Q. Will you buy back Hydro One so that it is back under public control?

Maximizing the value of designated assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The Trillium Trust Act, 2014, provides for the dedication to the Trillium Trust of net revenue gains associated with the sale of designated assets to support investments in transit, transportation and other priority infrastructure across the province.

The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the Ontario Electricity Financial Corporation (OEFC), which manages and pays down the debt and other liabilities of the former Ontario Hydro.

The government is on track to generate, over time, \$4 billion⁴⁵ in net revenue gains to be invested in transit and infrastructure, along with \$5 billion⁴⁶ to reduce debt, from broadening Hydro One's ownership.

The government will remain, by law, the largest single shareholder in Hydro One, restricting the Province from selling down to less than 40%⁴⁷ of the voting securities in Hydro One – and no other single shareholder or group of shareholders working in concert will be permitted to hold more than 10%⁴⁸ of the company's shares.

⁴⁵ Ontario Financing Authority

⁴⁶ Ontario Financing Authority

⁴⁷ Ontario Financing Authority

⁴⁸ Ontario Financing Authority

FW_ RUSH - Auditor General 2017 Annual Report -....pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Subject: FW: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)
Date: February 28, 2018 11:15:02 AM
Attachments: [Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE \(002\)-edits.docx](#)

Hi –

Can you strip out the ICI QA and prep it as a standalone?

HC

From: Christie, Tim (ENERGY)
Sent: February 28, 2018 11:02 AM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Edits attached.

From: Cox, Hilary (ENERGY)
Sent: February-28-18 10:19 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Tim and Daniel -

As below, please add a QA on the changes to ICI when OFHP was introduced and add the basis point spread to the interest rate QA. As soon as possible please since it's another piece for this afternoon.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Sent: Wednesday, February 28, 2018 10:12 AM
To: Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Hilary,

The Deputy has asked if a QA on ICI could be added that details the changes to the ICI program that occurred when the OFHP was implemented.
Also, regarding the interest rate question comparing the Ministry of Energy's Fair Allocation Amount (FAA) assumption against the 3.357% rate secured, can the basis point spread be added to the answer.

Thanks,
Mike

Auditor General 2017 Annual Report - SCOPA Ch.pdf

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. According to the Ontario Financing Authority, this represents a spread of 23 basis points over Ontario long-term debt.

Commented [CT(1)]: As reported by OFA in email of Feb 7.

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:

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.

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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).

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.

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

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.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs. In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Commented [CD(2)]: Optional 101 content

As part of Ontario's Fair Hydro Plan, 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. These smaller manufacturing and greenhouse consumers include those with 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

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 ENERGYSTAR 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.

FW_ TBD media inquiry - Re_ SCOPA & FHP(1).pdf

From: [Christie, Tim \(ENERGY\)](#)
To: [Lightbody, Ava \(ENERGY\)](#)
Cc: [Cayley, Daniel \(ENERGY\)](#)
Subject: FW: TBD media inquiry - Re: SCOPA & FHP
Date: March 5, 2018 3:17:00 PM
Importance: High

Ava please take a quick look.

From: Cox, Hilary (ENERGY)
Sent: March-05-18 3:08 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Cc: Thiru, Dhil (ENERGY)
Subject: FW: TBD media inquiry - Re: SCOPA & FHP
Importance: High

Hi Guys –

Apologies if you've already received this from Dhil. Please fact check the TBS response to the Globe and Mail question below.

TBS is hoping to get this back ASAP.

HC

From: Demetriades, Natasha (ENERGY)
Sent: March 5, 2018 3:01 PM
To: Ridd, Carl (ENERGY); Thiru, Dhil (ENERGY)
Cc: Yordi, Samer (ENERGY); Cox, Hilary (ENERGY)
Subject: TBD media inquiry - Re: SCOPA & FHP
Importance: High

Hi Carl, Dhil:

Can staff please flag any concerns with the highlighted response below?

TBS will be using this as a response to a Globe and Mail inquiry.

Hoping you can get back to us as soon as possible.

With thanks,
Natasha

From: Tharani, Alisha (TBS)
Sent: March-02-18 3:18 PM
To: Shewaramani, Deepika (MOF); Demetriades, Natasha (ENERGY)
Cc: @TBS-L-Issues and Media; @FIN-L-O-CSB-ISSUES
Subject: RE: Media Inquiry - Re: SCOPA & FHP

Hi Natasha & Deepika,

Please see below for TBS's proposed response to the reporter.

If you could please let us know if this is ok with your ministry or advise of any issues/concerns ASAP, it would be very much appreciated.

Thanks,

Alisha

Question: "Who were the senior decision-makers at Treasury Board responsible for the accounting/financial structure with the Fair Hydro Plan? And what were their roles in establishing the accounting/financial structure?"

Response: The Treasury Board Secretariat (TBS) was not responsible for developing the financial structure for the Fair Hydro Plan. Senior TBS officials and their staff worked with officials from the Ministries of Finance and Energy, Ontario Power Generation, Independent Electricity System Operator and Ontario Financing Authority, as well as their external advisors, to understand the structure of the Ontario Fair Hydro Plan (the "OFHP") proposed by the Ministry of Energy and assess the accounting treatment of the OFHP in the consolidated financial statements of the Province. The consolidated financial statements of the Province are prepared in accordance with Public Sector Accounting Standards.

In developing Ontario's Fair Hydro Plan, 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. The OFHP operates under a financial and accounting framework that is appropriate for the intended purpose.

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities, and the accounting is in accordance with Public Sector Accounting Standards.

From: Tharani, Alisha (TBS)

Sent: March-01-18 4:03 PM

To: @FIN-L-O-CSB-ISSUES; @ENERGY-COMM-Issues_and_MediaRelations

Cc: @TBS-L-Issues and Media

Subject: Media Inquiry - Re: SCOPA & FHP

Hi Finance & Energy colleagues,

Following yesterday afternoon's SCOPA meeting, we have received a few questions from a reporter, Matthew MacClearn, at the Globe & Mail:

Part 1: *"Who were the senior decision-makers at Treasury Board responsible for the accounting/financial structure with the Fair Hydro Plan?
And what were their roles in establishing the accounting/financial structure?"*

Part 2: *"The Hansard of the proceedings of the Standing Committee on Estimates on Oct. 24, 2017 indicates Ms. Sophie Kiwala said the following:*

*Our plan has been approved by the peers of the Auditor General at some of Canada's top accounting firms, including Ernst and Young, KPMG and Deloitte. In the development of the fair hydro plan, we also consulted with numerous third-party advisers in the application of accounting standards. IESO's management, IESO's audit committee, IESO's board of directors, IESO's external auditor and the **Office of the Provincial Controller** all support this accounting treatment.*

(Emphasis added.)

Who at the Office of the Provincial Controller signed off on the financial/accounting structure of the Fair Hydro Plan? What form did that approval take?"

Have either of your offices received any questions from this reporter? If you could keep us updated, that would be very much appreciated.

Thanks,

Alisha

Alisha Tharani

Senior Corporate Issues Management Analyst | Treasury Board Secretariat
416-327-3803 | Alisha.Tharani@ontario.ca

FW_ TBD media inquiry - Re_ SCOPA & FHP(2).pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Cc: [Thiru, Dhil \(ENERGY\)](#)
Subject: FW: TBD media inquiry - Re: SCOPA & FHP
Date: March 5, 2018 3:08:02 PM
Importance: High

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Response: The Treasury Board Secretariat (TBS) was not responsible for developing the financial structure for the Fair Hydro Plan. Senior TBS officials and their staff worked with officials from the Ministries of Finance and Energy, Ontario Power Generation, Independent Electricity System Operator and Ontario Financing Authority, as well as their external advisors, to understand the structure of the Ontario Fair Hydro Plan (the "OFHP") proposed by the Ministry of Energy and assess the accounting treatment of the OFHP in the consolidated financial statements of the Province. The consolidated financial statements of the Province are prepared in accordance with Public Sector Accounting Standards.

In developing Ontario's Fair Hydro Plan, 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. The OFHP operates under a financial and accounting framework that is appropriate for the intended purpose.

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities, and the accounting is in accordance with Public Sector Accounting Standards.

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Sent: March-01-18 4:03 PM

To: @FIN-L-O-CSB-ISSUES; @ENERGY-COMM-Issues_and_MediaRelations

Cc: @TBS-L-Issues and Media

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Our plan has been approved by the peers of the Auditor General at some of Canada's top accounting firms, including Ernst and Young, KPMG and Deloitte. In the development of the fair hydro plan, we also consulted with numerous third-party advisers in the application of accounting standards. IESO's management, IESO's audit committee, IESO's board of directors, IESO's external auditor and the Office of the Provincial Controller all support this accounting treatment.

(Emphasis added.)

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Have either of your offices received any questions from this reporter? If you could keep us updated, that would be very much appreciated.

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Alisha Tharani

Senior Corporate Issues Management Analyst | Treasury Board Secretariat

416-327-3803 | Alisha.Tharani@ontario.ca

FW_ TBD media inquiry - Re_ SCOPA & FHP.pdf

From: [Christie, Tim \(ENERGY\)](#)
To: [Cox, Hilary \(ENERGY\)](#)
Cc: [Cayley, Daniel \(ENERGY\)](#); [Lightbody, Ava \(ENERGY\)](#)
Subject: FW: TBD media inquiry - Re: SCOPA & FHP
Date: March 5, 2018 3:33:00 PM

Hilary, edits below.

Question: "Who were the senior decision-makers at Treasury Board responsible for the accounting/financial structure with the Fair Hydro Plan? And what were their roles in establishing the accounting/financial structure?"

Response: The Treasury Board Secretariat (TBS) was not responsible for developing the financial structure for the ~~Ontario's~~ Fair Hydro Plan (OFHP). Senior TBS officials and their staff worked with officials from the Ministries of Finance and Energy, Ontario Power Generation, Independent Electricity System Operator and Ontario Financing Authority, as well as their external advisors, to understand the structure of ~~the Ontario Fair Hydro Plan (the "OFHP")~~ as proposed by the Ministry of Energy and assess the accounting treatment of ~~the~~ OFHP in the consolidated financial statements of the Province. The consolidated financial statements of the Province are prepared in accordance with Public Sector Accounting Standards.

In developing Ontario's Fair Hydro Plan, 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. ~~The~~ OFHP operates under a financial and accounting framework that is appropriate for the intended purpose.

In order to meet the needs ~~s of users, including the legislature and the public,~~ for accountability in government reporting and decision making, ~~for the legislature and the public,~~ it is essential that public sector financial statements reflect the economic substance of the government's activities, and the accounting is in accordance with Public Sector Accounting Standards.

From: Cox, Hilary (ENERGY)
Sent: March-05-18 3:08 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Cc: Thiru, Dhil (ENERGY)
Subject: FW: TBD media inquiry - Re: SCOPA & FHP
Importance: High

Hi Guys –
Apologies if you've already received this from Dhil. Please fact check the TBS response to the Globe and Mail question below.

TBS is hoping to get this back ASAP.

HC

From: Demetriades, Natasha (ENERGY)
Sent: March 5, 2018 3:01 PM
To: Ridd, Carl (ENERGY); Thiru, Dhil (ENERGY)
Cc: Yordi, Samer (ENERGY); Cox, Hilary (ENERGY)
Subject: TBD media inquiry - Re: SCOPA & FHP
Importance: High

Hi Carl, Dhil:

Can staff please flag any concerns with the highlighted response below?

TBS will be using this as a response to a Globe and Mail inquiry.

Hoping you can get back to us as soon as possible.

With thanks,
Natasha

From: Tharani, Alisha (TBS)
Sent: March-02-18 3:18 PM
To: Shewaramani, Deepika (MOF); Demetriades, Natasha (ENERGY)
Cc: @TBS-L-Issues and Media; @FIN-L-O-CSB-ISSUES
Subject: RE: Media Inquiry - Re: SCOPA & FHP

Hi Natasha & Deepika,

Please see below for TBS's proposed response to the reporter.

If you could please let us know if this is ok with your ministry or advise of any issues/concerns ASAP, it would be very much appreciated.

Thanks,

Alisha

Question: "Who were the senior decision-makers at Treasury Board responsible for the accounting/financial structure with the Fair Hydro Plan? And what were their roles in establishing the accounting/financial structure?"

Response: The Treasury Board Secretariat (TBS) was not responsible for developing the financial structure for the Fair Hydro Plan. Senior TBS officials and their staff worked with officials from the Ministries of Finance and Energy, Ontario Power Generation, Independent Electricity System Operator and Ontario Financing Authority, as well as their external advisors, to understand the structure of the Ontario Fair Hydro Plan (the "OFHP") proposed by the Ministry of Energy and assess the

accounting treatment of the OFHP in the consolidated financial statements of the Province. The consolidated financial statements of the Province are prepared in accordance with Public Sector Accounting Standards.

In developing Ontario's Fair Hydro Plan, 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. The OFHP operates under a financial and accounting framework that is appropriate for the intended purpose.

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities, and the accounting is in accordance with Public Sector Accounting Standards.

From: Tharani, Alisha (TBS)

Sent: March-01-18 4:03 PM

To: @FIN-L-O-CSB-ISSUES; @ENERGY-COMM-Issues_and_MediaRelations

Cc: @TBS-L-Issues and Media

Subject: Media Inquiry - Re: SCOPA & FHP

Hi Finance & Energy colleagues,

Following yesterday afternoon's SCOPA meeting, we have received a few questions from a reporter, Matthew MacClearn, at the Globe & Mail:

Part 1: *"Who were the senior decision-makers at Treasury Board responsible for the accounting/financial structure with the Fair Hydro Plan?
And what were their roles in establishing the accounting/financial structure?"*

Part 2: *"The Hansard of the proceedings of the Standing Committee on Estimates on Oct. 24, 2017 indicates Ms. Sophie Kiwala said the following:*

Our plan has been approved by the peers of the Auditor General at some of Canada's top accounting firms, including Ernst and Young, KPMG and Deloitte. In the development of the fair hydro plan, we also consulted with numerous third-party advisers in the application of accounting standards. IESO's management, IESO's audit committee, IESO's board of directors, IESO's external auditor and the Office of the Provincial Controller all support this accounting treatment.

(Emphasis added.)

Who at the Office of the Provincial Controller signed off on the financial/accounting structure of the Fair Hydro Plan? What form did that approval take?"

Have either of your offices received any questions from this reporter? If you could

keep us updated, that would be very much appreciated.

Thanks,

Alisha

Alisha Tharani

Senior Corporate Issues Management Analyst | Treasury Board Secretariat
416-327-3803 | Alisha.Tharani@ontario.ca

Fair Hydro Plan Energy to Finance Letter_Nov 9 pdf

From: [Hume, Steen \(ENERGY\)](#)
To: [Kwan, Ronald \(OFA\)](#)
Cc: [Hilary Cox \(ENERGY\) \(Hilary.Cox@ontario.ca\)](#)
Subject: Fair Hydro Plan Energy to Finance Letter_Nov 9 2017 (2) (2)
Date: November 9, 2017 4:39:00 PM
Attachments: [Fair Hydro Plan Energy to Finance Letter_Nov 9 2017 \(2\) \(2\).docx](#)

Hi Ron: see the attached. Hopefully this works.

I'm trying to find a balance in that we understand the general mechanics of what's being conveyed in the paragraph, but we don't have direct visibility into your contracts.

Steen

Fair Hydro Plan Energy to Finance Letter_Nov .pdf

Working Draft

November xx, 2017

The Honourable Charles Sousa
Minister of Finance
7 Queens Park Crescent, 7th Floor
Toronto ON M7A 1Y7

Dear Minister Sousa:

I am writing to you in relation to Ontario's Fair Hydro Plan (OFHP). As you know, the government's intention under OFHP is to provide electricity price relief to specified eligible consumers, including through a more fair allocation over time of the costs of investments in generation that are providing reliable and clean electricity.

I am writing to confirm that the Global Adjustment (GA) refinancing under OFHP was not intended to have any impact on non-utility generators (NUGs) that have or had power purchase agreements (PPAs) with the Ontario Electricity Financial Corporation (OEFC), for which the rates are escalated based on changes to an index of electricity costs. This index would be affected by the timing of the deferral and recovery of GA costs from ratepayers.

OEFC is the legal continuation of Ontario Hydro and an agency of the Ministry of Finance.

I support the issuance of a direction by you to OEFC to have discussions with affected NUGs to seek agreements with them such that the rates payable under their contracts are unaffected by the refinancing of a portion of GA and the subsequent recovery of deferred costs through the Clean Energy Adjustment (CEA), if that is the outcome affected NUGs prefer.

The Ministry of Energy also recognizes that PPAs that have rates escalated based on changes to an index of electricity system costs would be modestly affected by other components of the OFHP. This includes the shifting of certain costs (for the Rural or Remote Rate Protection program and the Ontario Electricity Support Program) from the electricity system to being government funded.

Thank you for your attention to this matter.

Sincerely,

Glenn Thibeault
Minister of Energy

cc. Andrew Teliszewsky, Chief of Staff, Office of the Minister of Energy
Ali Ghiassi, Chief of Staff, Office of the Minister of Finance

Commented [KJ1]: The way this is written, it seems that Energy would know this internally. Perhaps better to say something like "Energy staff recognise(s) that..."

Serge Imbrogno, Deputy Minister, Ministry of Energy
Scott Thompson, Deputy Minister, Ministry of Finance

Fw_ 2017 OFHP Matrix and Outstanding Business I....pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Schlaepfer, Martin \(ENERGY\)](#)
Cc: [Yordi, Samer \(ENERGY\)](#); [Edwards, Matthew \(ENERGY\)](#)
Subject: Fw: 2017 OFHP Matrix and Outstanding Business Issues - Week of Nov 20 DOCX __.docx
Date: November 22, 2017 6:25:25 PM
Attachments: [2017 OFHP Matrix and Outstanding Business Issues - Week of Nov 20 DOCX __.docx](#)

Hi Martin -

Attached is the ESPD/SNAP and CRED ADM approved OFHP matrix/business issues list for tomorrow morning at 8:30.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

Original Message

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>

Sent: Wednesday, November 22, 2017 6:21 PM

To: Cox, Hilary (ENERGY)

Subject: 2017 OFHP Matrix and Outstanding Business Issues - Week of Nov 20 DOCX __.docx

Hi. I'm good with the attached version. Please pass along to Martin.

Thanks.

2017 OFHP Matrix and Outstanding Business Iss_2.pdf

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

Fw_ CLOC Comments Re Advertising Standards Coun....pdf

From: [Mallen, Jane \(MAG\)](#)
To: [Murray, Maud \(ENERGY\)](#); [Thouin, Alena \(ENERGY\)](#)
Cc: [Scarfone, Janet \(MAG\)](#); [Kearney, Sean \(MAG\)](#); [Sheridan, Paul \(MAG\)](#)
Subject: Fw: CLOC Comments Re Advertising Standards Council - Issue of Potential Bias
Date: October 11, 2017 9:17:15 PM

In the interest of time I am sharing Paull's advice with Maud and Alena so it can be incorporated into the note.

Thanks,
Jane

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Mallen, Jane (MAG) <Jane.N.Mallen@ontario.ca>
Sent: Wednesday, October 11, 2017 8:04 PM
To: Sheridan, Paul (MAG); Phan, Cathy (MAG)
Cc: Hatzis, Len (TBS); Kearney, Sean (MAG); Scarfone, Janet (MAG); Hancock, Perry (MAG)
Subject: Re: CLOC Comments Re Advertising Standards Council - Issue of Potential Bias

Thanks Paul,

Can I suggest that this be added to the Energy LSB note and it all go through approvals at the same time?

Jane

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Sheridan, Paul (MAG)
Sent: Wednesday, October 11, 2017 7:41 PM
To: Phan, Cathy (MAG)
Cc: Mallen, Jane (MAG); Hatzis, Len (TBS); Kearney, Sean (MAG); Scarfone, Janet (MAG); Hancock, Perry (MAG)
Subject: CLOC Comments Re Advertising Standards Council - Issue of Potential Bias

Cathy,

CLOC has the following comments on the issue of potential bias in respect of the Advertising Standards Council. Janet and Sean have approved.

Thanks,

Paul Sheridan and Perry Hancock

- The Ontario government's Advertising Review Board is a member of the Advertising Standards Council, a national not-for-profit advertising self-regulatory body (the ASC). The ASC considers complaints that members'

advertisements contravene the Council's Canadian Code of Advertising Standards (the ASC Code).

- The Council has received a complaint about the Ontario government's advertisements for its Fair Hydro Plan. We understand that the complaint centres on the representation in these advertisements that, as a result of the Fair Hydro Plan, ratepayers would receive 25% off their hydro bills. We further understand that, in response to the complaint, the ASC's Standards Council based in Toronto (the Council) has decided that the Ontario government should remove this representation from all government websites.
- You asked us to consider whether the Council's decision is potentially subject to challenge on the ground of bias. We understand that the Chair of the Council is Rafe Engle, a lawyer. We further understand that Mr. Engle has provided advice (and may still be providing advice) to the Auditor General of Ontario in respect of the application of the advertising standards contained in the *Ontario Government Advertising Act, 2004*. The Auditor General has criticised certain aspects of the Fair Hydro Plan, including the government's advertisements respecting the Plan.
- In our view, it is likely that the Council owes a duty of fairness to ASC's members, including the Ontario government. One of the components of the duty of fairness is the rule against bias.
- The Supreme Court of Canada recently affirmed that, for the rule against bias, the relevant legal test is whether a "reasonable apprehension of bias" exists: "what would an informed person, viewing the matter realistically and practically – and having thought the matter through – conclude. Would he think that it is more likely than not that [the decision-maker], whether consciously or unconsciously, would not decide fairly" (*Yukon Francophone School Board, Education Area #23 v. Yukon (Attorney General)*, 2015 SCC 25 at para. 20). The Court also noted that the inquiry into whether a reasonable apprehension of bias exists is inherently contextual and fact-specific (para. 26).
- In our view, based on our current understanding of the facts, it would be difficult for the government to establish that a reasonable apprehension of bias exists in these circumstances for the following reasons:
 - o Mr. Engle is not an employee of the Auditor General. In addition, we are not aware that Mr. Engle has provided legal advice to the Auditor General of Ontario in respect of the Fair Hydro Plan advertisements. In our view, the fact that Mr. Engle, as a lawyer, has provided legal advice to the Auditor General in respect of other advertising matters does not, in itself, give rise to a reasonable apprehension of bias in these circumstances.
 - o Although Mr. Engle has provided the Auditor General with legal advice

respecting the advertising standards contained in the *Government Advertising Act, 2004*, these advertising standards are quite different from the standards set out in the ASC Code. The Act's advertising standards only require that the advertisement (a) state that it was paid for by the Government of Ontario and (b) not be "partisan", as defined therein (s. 6(1)). By contrast, the relevant complaint to the ASC appears to concern whether the Government's Fair Hydro Plan advertisements comply with the ASC Code's standards for accuracy and clarity (see ASC Code, s. 1).

- o The ASC's procedures indicate that Mr. Engle, as the Chair of the Council, has no vote in Council decisions. As a result, it is not clear whether Mr. Engle played a significant role in the decision at issue.
- o Generally, the ASC's procedures provide for less procedural fairness than, say, a court or an administrative tribunal governed by the *Statutory Powers Procedure Act*. The Council consists of the Chair and a group of volunteers (advertising industry representatives and public representatives). It reviews complaints without an oral hearing. As a result, in these circumstances, it is likely that the Council would be subject to relatively flexible requirements concerning the avoidance of bias.

Fw_ Fair Hydro Plan Minister's Update .pdf

From: [Lightbody, Ava \(ENERGY\)](#)
To: [Schlaepfer, Martin \(ENERGY\)](#)
Cc: [Yordi, Samer \(ENERGY\)](#); [Edwards, Matthew \(ENERGY\)](#); [Nucciarone, Michael \(ENERGY\)](#)
Subject: Fw: Fair Hydro Plan Minister's Update
Date: November 10, 2017 8:13:26 PM
Attachments: [20171109_OFHP_Update_for_Minister_EPE_Clean.pptx](#)
[20171109_OFHP_Update_for_Minister_EPE_Tracked.pptx](#)

Hi Martin,

Attached is the ofhp update deck, clean and tracked. Carolyn signed off on SNAPs content. You might notice our content looks different than what was in the business issues deck, and not everything is tracked- we needed to change the approach to fit into this piece. Let me know if you have any questions or concerns about that.

Thanks,
Ava

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Friday, November 10, 2017 7:23 PM
To: Lightbody, Ava (ENERGY)
Subject: FW: Fair Hydro Plan Minister's Update

From: Yordi, Samer (ENERGY)
Sent: November 10, 2017 6:15 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Fair Hydro Plan Minister's Update

Will do. Thank you and my apologies for the delay!

From: Cox, Hilary (ENERGY)
Sent: November 10, 2017 6:14 PM
To: Yordi, Samer (ENERGY)
Cc: Nucciarone, Michael (ENERGY); Edwards, Matthew (ENERGY); Schlaepfer, Martin (ENERGY)
Subject: RE: Fair Hydro Plan Minister's Update

Thanks Sam! Just talked with Martin about this. It would be great if you could forward the email to me on my own email address when you hear from Carolyn, because I don't have Hilary's blackberry. Then I'll be able to forward it on.

Thanks,

Ava

From: Yordi, Samer (ENERGY)
Sent: November 10, 2017 6:10 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Fair Hydro Plan Minister's Update

Hi Ava,

Please find attached SNAP edits. Please note that these are Director-approved. Carolyn may have some comments/edits. I'll keep you posted.

Thanks!
Sam

From: Yordi, Samer (ENERGY)
Sent: November 10, 2017 5:56 PM
To: Schlaepfer, Martin (ENERGY); Edwards, Matthew (ENERGY)
Cc: Cox, Hilary (ENERGY); Nucciarone, Michael (ENERGY)
Subject: RE: Fair Hydro Plan Minister's Update

Hi Martin,

Our edits are with Carolyn for approval, but she is traveling and will get to them as soon as possible.

Apologies for the delay.

Samer

From: Schlaepfer, Martin (ENERGY)
Sent: November 10, 2017 5:51 PM
To: Edwards, Matthew (ENERGY); Yordi, Samer (ENERGY)
Cc: Cox, Hilary (ENERGY); Nucciarone, Michael (ENERGY)
Subject: RE: Fair Hydro Plan Minister's Update

Hi Folks,

Can you please let me know the status of your input for this deck? The input was due to ESP by noon today.

Thanks,
Martin

From: Cox, Hilary (ENERGY)
Sent: November 10, 2017 5:49 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Fair Hydro Plan Minister's Update

Hey Martin,

Just touching base about this product. We haven't gotten materials for consolidation from other divisions, so hoping it might be acceptable if we get this to you first thing Tuesday. Let me know, thanks!

Ava

From: Schlaepfer, Martin (ENERGY)
Sent: November 8, 2017 1:35 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Yordi, Samer (ENERGY) <Samer.Yordi@ontario.ca>
Cc: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Subject: Fair Hydro Plan Minister's Update

Hi everyone,

There is an upcoming OFHP Minister's update scheduled for November 16th. Can I ask ESP to co-ordinate divisional comments and feedback to the OFHP Implementation Plan and Business Issues deck. Combining the two products into one deck for the update may be pertinent.

Hilary will send out the deck for updating.

Please provide the deck by the end of the week.

Thanks,
Martin

20171109_OFHP_Update_for_Minister_EPE_Clean_2.pdf

Ontario's Fair Hydro Plan – Minister's Update

November 16, 2017

CONFIDENTIAL

Context

- On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (OFHP). Effective July 1, 2017, OFHP has lowered electricity bills by 25 per cent on average for residential electricity customers 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 the reduction.
- The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced on January 1, 2017.
- OFHP also includes initiatives to reduce costs for low-income, rural/remote, and First Nations consumers, as well as measures to benefit larger consumers.
- Through the Rate Mitigation Implementation Group and subcommittees, the Ministry of Energy continues to work through implementation of the following OFHP initiatives:
 - GA Refinancing;
 - Electricity Support Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program, First Nation On-Reserve Delivery Credit); and
 - The Affordability Fund.

1) Global Adjustment (GA) Refinancing

- The Ontario Fair Hydro Act, 2017, enables 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 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 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 GA refinancing and optimize ratepayer impacts, OPG and the Province have been working with ENERGY agencies, key ministries, and external advisors 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 were signed by the Lieutenant Governor on November 1, 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.

Next Step:

- Ongoing business issues (see next section).

2) Business Items – Change of Law Protection Agreement

- To purchase the regulatory asset from 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.
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Next Steps:

- Finalize the Change of Law Protection Agreement

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- 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 November (TBD).

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- It is currently contemplated that the first financing entity to be established by OPG, in its capacity as Financial Services Manager, 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);
 - 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, establish other financing entities in the future for purposes of the OFHP, the Ministry of Finance will 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.

3) Social Programs – Regulations

- On July 1, 2017, a number of amended and new regulations, needed to implement the Fair Hydro Plan, came into force:
 1. **Created a new Regulation (O. Reg. 197/17 First Nations Delivery Credit)** made under the *Ontario Energy Board Act, 1998* to enable the provision of a First Nations Delivery Credit.
 2. **Created a new Regulation (O. Reg. 198/17 Distribution Rate-Protected Residential Consumers)** made under the *Ontario Energy Board Act, 1998* to enable the provision of enhanced distribution rate protection to full-time residential customers of prescribed LDCs.
 3. **Amended O. Reg. 442/01(Rural or Remote Electricity Rate Protection)** made under the *Ontario Energy Board Act, 1998* to enable tax-based funds to support the provision of RRRP to Hydro One's low-density residential classified customers (R2).
 4. **Created a new Invoicing Regulation (O. Reg. 196/17 Invoicing Requirements)** made under the *Ontario Fair Hydro Plan Act, 2017* to communicate Ontario's Fair Hydro Plan (OFHP), and its associated bill impacts, to consumers.
 5. **Amended O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity)** made under the *Ontario Energy Board Act, 1998* to remove the requirement for electricity vendors and USMPs to include informational messaging about the Debt Retirement Charge (DRC) in order to create more space on invoices for new OFHP messaging.
 6. **Amended the O. Reg 363/16 (General)** under the *Ontario Rebate for Electricity Consumers Act, 2016* to provide clarity on how the proposed First Nations Delivery Credit should be treated with respect to the calculation of the 8% provincial rebate.
 7. **Amended O. Reg. 314/15 (Ontario Electricity Support Program)** made under the *Ontario Energy Board Act, 1998* to enable MCSS staff to sign up social assistance clients for the Ontario Electricity Support Program.

3) First Nations Delivery Credit (FNDC)

- Section 79.4 of the OEB Act provides for a delivery credit to offset the costs that make up the delivery line for on-reserve consumers, paid for through funds appropriated by the Legislature. It also provides for regulation making authority to define who is an on-reserve consumer and what areas constitute a “reserve”
- The central piece of the FNDC regulation surrounds the eligibility criteria. The regulation limits eligibility to all First Nations residential on-reserve customers, regardless of whether the customer is seasonal or permanent. The definition of key terms, such as “reserve”, “member of a band”, are taken directly from the traditional meaning provided in the Indian Act.
- The 11 affected LDCs already have set processes in place to identify First Nations customers living on reserve based on their HST exemption status.
- Data reported by IESO reveals that over 20,000 customers are receiving FNDC – this was the target number pre-launch and reflects a successful rollout.
- The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), have crafted the policy in a manner which best reflects the needs and wishes of First Nations in Ontario.
 - Some leaders of First Nations that do not have reserve lands have expressed concern about being excluded from eligibility. (e.g. the Algonguins of Ontario and non-status First Nation groups).
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 - COO has advocated for the expansion of the FNDC to include Band owned buildings. The Chiefs Committee on Energy continued to advocate for inclusion of band owned buildings at a meeting with Ministry staff on November 9, 2017.

3) Distribution Rate Protection – Implementation

- All eligible LDCs have indicated they are in position to provide distribution rate protection for electricity consumed on or after July 1st, 2017.
- The OEB followed the criteria in the new regulation (O. Reg. 198/17), as outlined in the chevrons below, to set the maximum monthly distribution charge.



- On June 22, 2017, the OEB released its decision and set the maximum monthly charge at \$36.43/month. The maximum charge will be updated at least once annually going forward.
 - The regulation stipulates that each year the maximum monthly charge would be no lower than the previous year's maximum charge.
- Affected LDCs have implemented the required billing system changes, and benefits have begun to flow to consumers as July billing cycles are completed.
- The OEB's June 22 decision also lowered the RRRP regulatory charge to reflect the shift of legacy Hydro One R2 customer costs from the rate-base to the tax-base. The new RRRP charge (0.03¢/kWh) dropped from \$1.66/month for the average customer to \$0.24.
- Ministry staff are updating program costs projections. Hydro One's future distribution rates (currently before the OEB) are the top cost drivers. The Ministry is working with the OEB to consider how the OEB's cost forecast report (contemplated in O. Reg 198/17) will be provided to the Ministry.

3) Ontario Electricity Support Program Regulation (OESP)

- As part of the FHP, recent amendments to Section 79.2.2 of the OEBA gave the Ministry of Community and Social Services (MCSS) and the OEB authority to share personal information. This authority is required to align OESP delivery with other social assistance (SA) programs and automate OESP enrolment in a way that meets privacy requirements under the *Freedom of Information and Protection of Privacy Act, 1990*.
 - The purpose of this exercise is to increase OESP uptake, which is one of the approved activities in the FHP TB Minute (March 1, 2017).
- Implementation activities underway by MCSS:
 - In order to ensure all eligible SA clients receive OESP, as part of 2018-19 PRRT, MCSS is requesting the extension of the 20 Temporary FTEs approved in 2017-18 to 2018-19. Additionally, MCSS is targeting to report back to TB/MBC in December 2017 in order to acquire an additional 30 temporary FTEs to support call centre activities
 - MCSS has developed an MOU with the OEB on data sharing and respective roles / responsibilities for aligning OESP with SA program delivery. Data exchange has occurred, and MCSS has determined that only 20% of SA clients with electricity bills are currently enrolled (about 90,000 of the 113,000 clients are not enrolled).
 - MCSS has already begun to directly contact these clients by phone and letters. The call center is now operational, as of October 2017, and executing enrollment for SA clients. As of November 1, OESP posters and brochures are being distributed to SA offices.
 - Software system upgrades are underway to enable more streamlined automatic enrolment, but in the meantime, OESP applications will still be manual. The automatic enrolment solution is anticipated for early 2018-2019.

Next Steps:

- Provisions in s. 79.2 of the OEBA need to be proclaimed to shift the OESP from the rate-base to the tax-base.. This is will align with the depletion of the OESP variance account which is expected (projected for Feb/March 2018).
- The Ministry is also drafting amendments to the OESP regulation (O.Reg. 314/15) to support transition of program administration authorities/responsibilities to the Ministry
 - The OIC and regulatory package is scheduled for LRC on December 11.
- The Ministry is working with the OEB and will continue to do so over the next several months to transition OESP administration to government-
- Wet signature issue is being addressed. CRA approved OEB's proposed approach for electronic signature, and technical changes are underway. Once completed (expected Q1 2018) the MOU between CRA and MOF will be updated to reflect change.

4) Affordability Fund

- Ontario's Fair Hydro Plan established an Affordability Fund to help Ontarians who do not qualify for low-income conservation programs to make energy efficiency improvements to their homes, which could not otherwise be done without the support.
- The Affordability Fund, established through the tax base, is being administered by an independent Trust.

Next Steps:

- Consultations with electricity distributors were undertaken over summer 2017, including an August 1st session with over 30 electricity distributors participating. Feedback highlighted the importance of program design to be an iterative process and to be flexible to accommodate future changes.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an "Application for Support".
 - Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.
- The Trust, working with Hydro One, is currently negotiating program implementation agreements with electricity distributors, which outline program delivery guidelines and budgets.
 - The Trust expects to enter into agreements with interested distributions starting mid to late December 2017.
 - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In October 2017, through the 2018-19 PRRT process, ENERGY provided TB/MBC with a report back on the Affordability Fund including program application process, eligibility criteria, program monitoring and spending to date. ENERGY also stated that it will continue to assess the need for an additional funding request, considering Fund results and continued identified need.
- The Trust is expected to report Q3 2017-18 results to the Ministry in January 2018.

5) Industrial Conservation Initiative (ICI)

- On April 10, 2017, Ontario amended O. Reg. 429/04 to allow smaller manufacturers and greenhouses with an average monthly peak demand of greater than 500 kilowatts (kW) and less than 1 megawatt (MW) to participate in ICI, in addition to the consumers over 1 MW who were already eligible.
- ICI was previously expanded on January 1, 2017, when the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed.
- Newly eligible ICI participants that opted in to the program began being billed as Class A (i.e., program participants) consumers for their July 2017 consumption.
- Prior to the expansions, there were approximately 300 ICI participants. According to data provided by IESO, approximately 1100 participants have opted in for the current adjustment period.

Next Steps:

- ENERGY is continuing to work with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) on outreach campaigns to promote awareness of the ICI program.

6) OFHP Billing Requirements

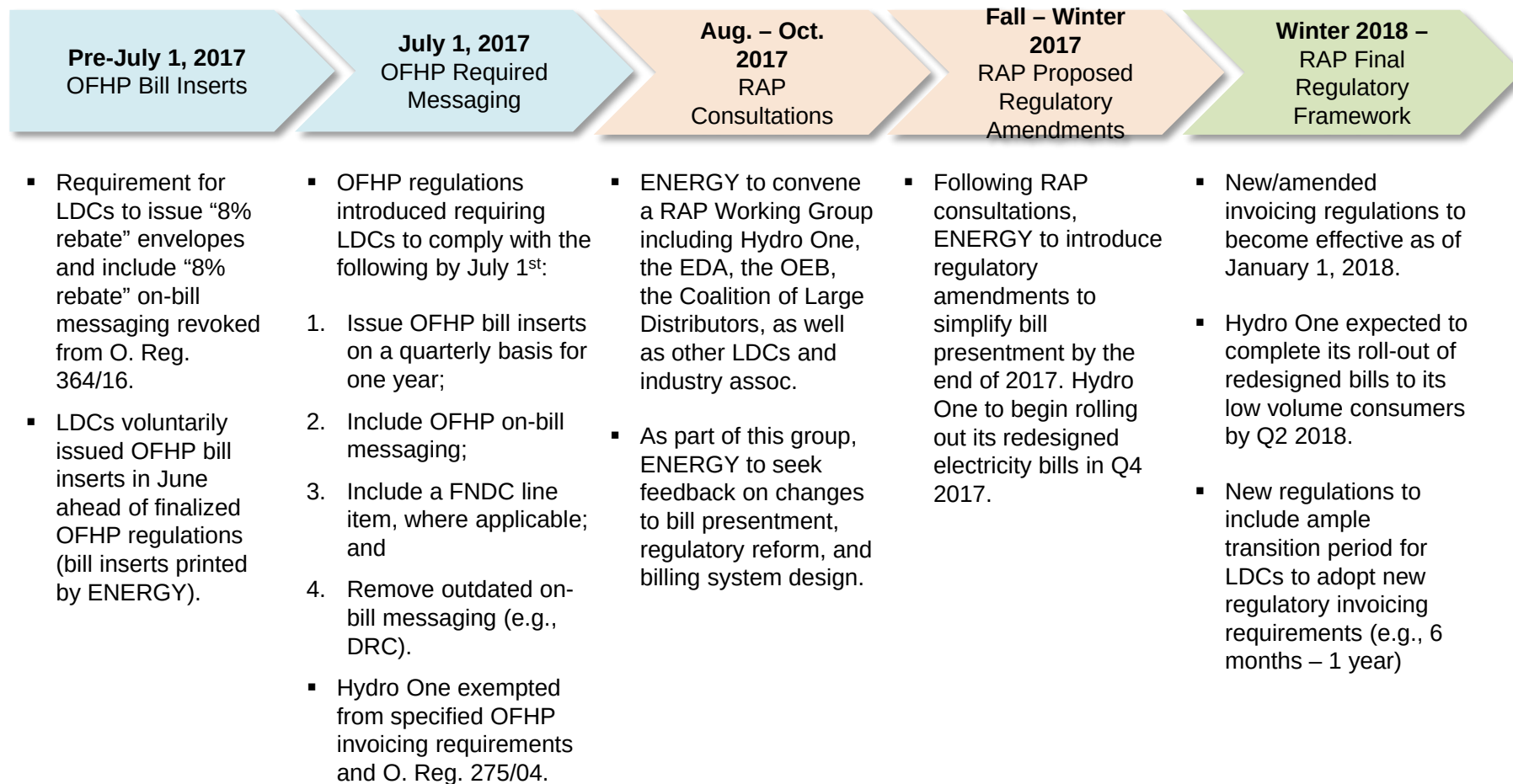
- The Ministry recently introduced new billing requirements under the *Ontario's Fair Hydro Plan Act, 2017* (OFHPA) and the *Ontario Energy Board Act, 1998* to support transparency and communication of the changes introduced by Ontario's Fair Hydro Plan (OFHP).
- These new billing requirements require electricity vendors and unit-sub meter providers (USMPs) to:
 - Include standardized informational messaging related to OFHP on all bills, per O. Reg. 196/17;
 - Accompany paper bills with a descriptive OFHP bill insert once per quarter, beginning with the first bill issued on or after July 1, 2017 until the first bill issued on or after July 1, 2018 (seasonal customers only to receive bill inserts semi-annually), per O. Reg. 196/17; and
 - Include a "First Nations Delivery Credit" as a visible line item on the bills of on-reserve customers and demonstrate the associated savings, as applicable, per O. Reg. 197/17.
- In anticipation of these new requirements, the Ministry amended O. Reg. 364/16 to revoke the "8% Provincial Rebate" messaging requirements from bills and envelopes in advance of July 1, 2017. Note: the requirement to include an 8% rebate line item remains.
- In addition, as of July 1, 2017, the requirement to include informational messaging about the Debt Retirement Charge (DRC) on bills was revoked. However, bills are still required to include a DRC line item (even for \$00.00 charges) and a definition in the "Glossary of Terms".
- As of July 2017, Hydro One has also been exempted from the application of O. Reg. 275/04, and specified OFHP invoicing requirements so that they may proceed with their planned bill redesign unencumbered by regulation. Hydro One is still required to issue quarterly OFHP bill inserts to its customers.
- Note: Vendors may petition the Minister for minor adjustments to these regulatory requirements due to technical and/or operational limitations. Minor exemptions due to message character limits have been granted to Hydro Ottawa, Enercare and IESO.

6) Redesign Action Plan (RAP)

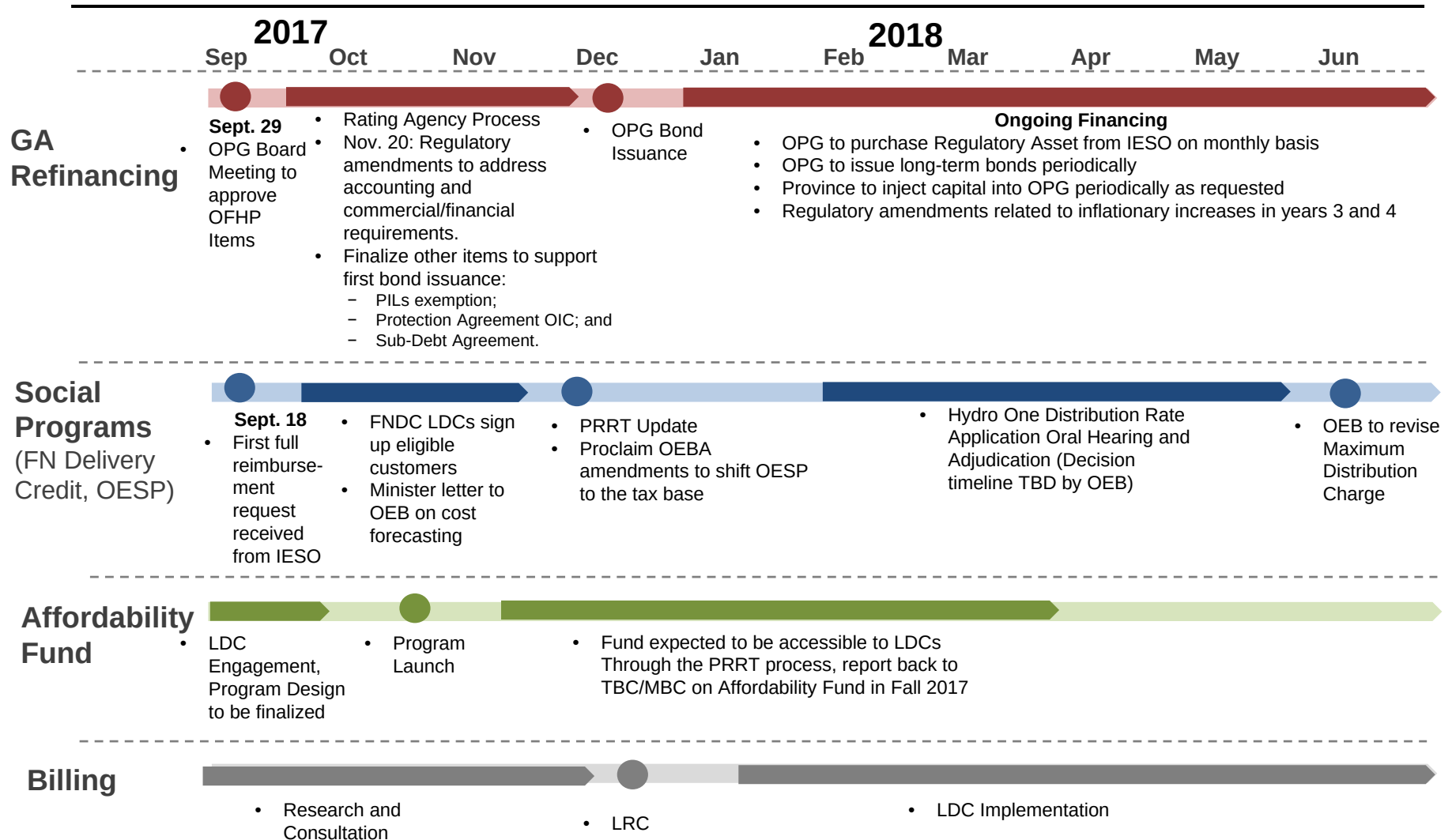
- The Ministry believes there is also an opportunity to further revise the regulatory framework on invoicing to improve the value of electricity bills to all consumers.
- In pursuit of this effort, the Ministry launched a Redesign Action Plan (RAP) this summer with the aim of improving electricity bills by:
 - Enhancing the customer experience (e.g., providing more useful information);
 - Better communicating government initiatives and programs (e.g., personalizing OFHP initiatives);
 - Consolidating the regulatory framework; and
 - Promoting greater understanding (e.g., clarifying terminology and calculations).
- The Ministry has convened a “RAP Working Group” consisting of Hydro One, the Electricity Distributors Association (EDA), the Coalition of Large Distributors (CLD), as well as additional LDCs, the OEB and relevant industry associations.
 - Three meetings have been held to date: kick-off meeting, bill design workshop and technical implementation issues. LDCs have been supportive of the Ministry’s approach.
 - The Ministry undertook consumer research on bill redesign in partnership with the OEB and IPSOS, through the OEB’s Consumer Panel. On September 19th and 21st Consumer Panel meetings were held in Sudbury, Toronto, Kingston and London. The Ministry is examining opportunities to conduct additional quantitative research to verify the qualitative findings from the Consumer Panel.
- Based on these consultation and research efforts, the Ministry aims to introduce new regulations and regulatory amendments at the end of 2017. These regulations would come into effect as of January 1, 2018, and require a transition period for distributors to comply.

6) Billing Requirements – Proposed Timeline

- Following the introduction of the OFHP invoicing requirements, the Ministry recommends undertaking the Redesign Action Plan (RAP) in the following stages:

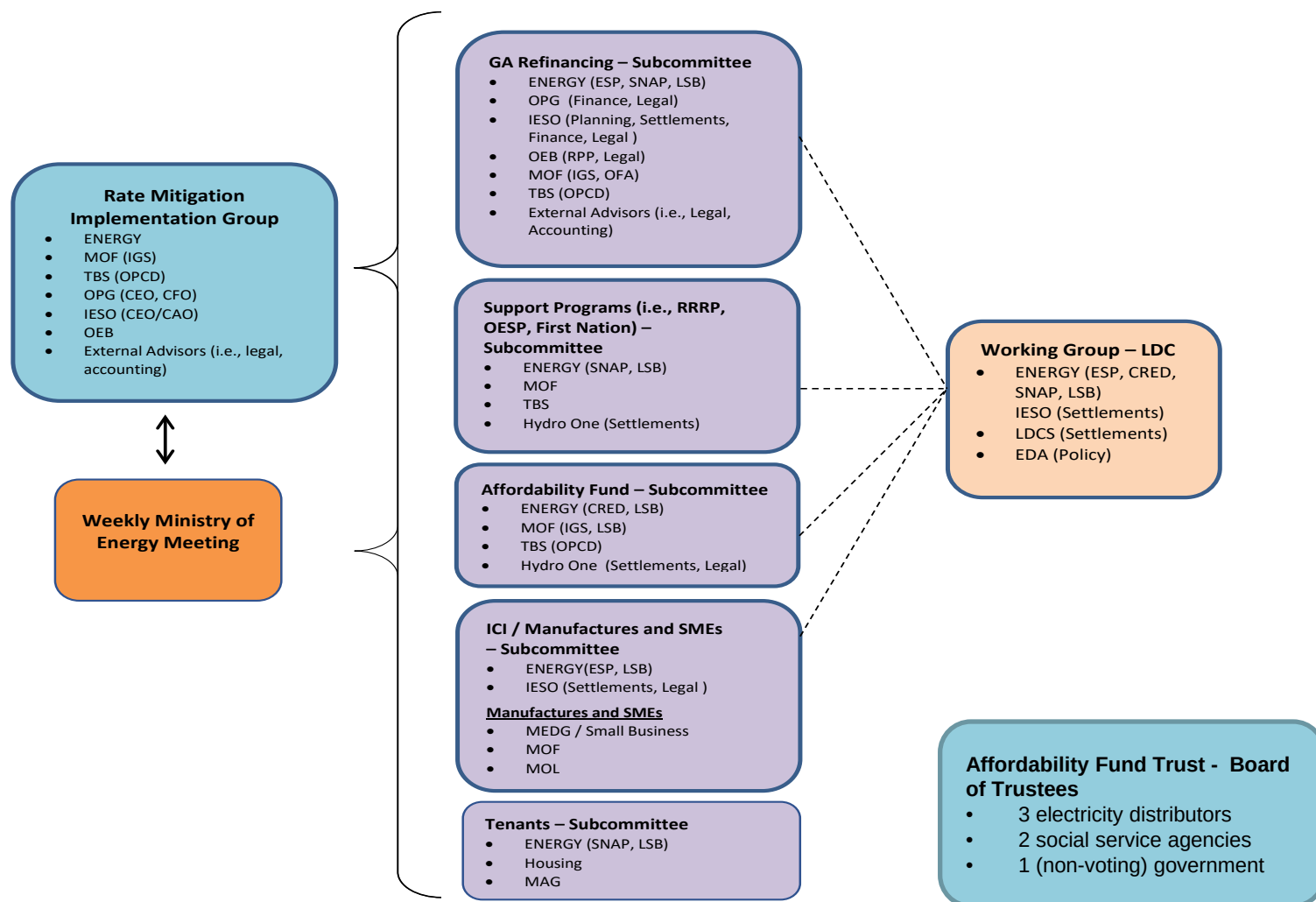


OFHP Key Milestones

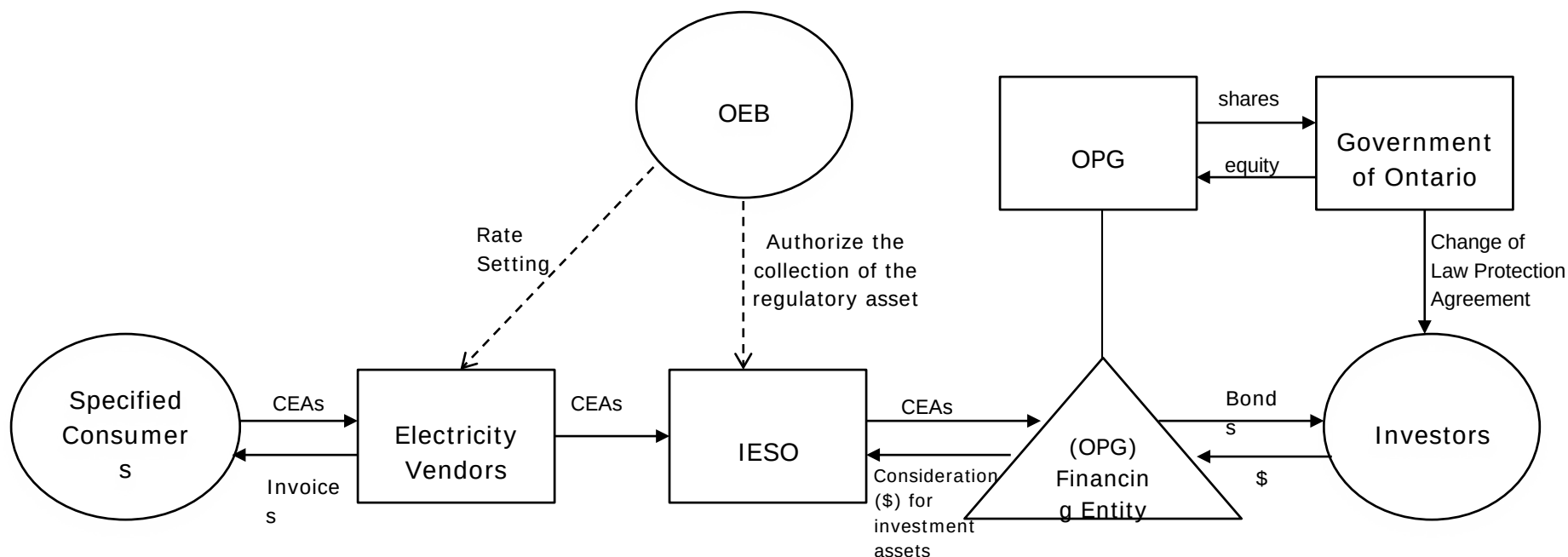


Appendix

Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan



Global Adjustment Refinancing – Roles and Responsibilities



Note: CEAs are "clean energy adjustments"

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Ontario's Fair Hydro Plan – Minister's Update

November 16, 2017

CONFIDENTIAL

Context

- On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (OFHP). Effective July 1, 2017, OFHP has lowered electricity bills by 25 per cent on average for residential electricity customers 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 the reduction.
- The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced on January 1, 2017.
- OFHP also includes initiatives to reduce costs for low-income, rural/remote, and First Nations consumers, as well as measures to benefit larger consumers.
- Through the Rate Mitigation Implementation Group and subcommittees, the Ministry of Energy continues to work through implementation of the following OFHP initiatives:
 - GA Refinancing;
 - Electricity Support Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program, First Nation On-Reserve Delivery Credit); and
 - The Affordability Fund.

1) Global Adjustment (GA) Refinancing

- The Ontario Fair Hydro Act, 2017, enables 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 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 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 GA refinancing and optimize ratepayer impacts, OPG and the Province have been working with ENERGY agencies, key ministries, and external advisors 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 were signed by the Lieutenant Governor on November 1, 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.

Next Step:

- Ongoing business issues (see next section).

2) Business Items – Change of Law Protection Agreement

- To purchase the regulatory asset from 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).
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- 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);
 - 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, establish other financing entities in the future for purposes of the OFHP, the Ministry of Finance will 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.

3) Social Programs – Regulations

- On July 1, 2017, a number of amended and new regulations, needed to implement the Fair Hydro Plan, came into force:
 1. **Created a new Regulation (O. Reg. 197/17 First Nations Delivery Credit)** made under the *Ontario Energy Board Act, 1998* to enable the provision of a First Nations Delivery Credit.
 2. **Created a new Regulation (O. Reg. 198/17 Distribution Rate-Protected Residential Consumers)** made under the *Ontario Energy Board Act, 1998* to enable the provision of enhanced distribution rate protection to full-time residential customers of prescribed LDCs.
 3. **Amended O. Reg. 442/01(Rural or Remote Electricity Rate Protection)** made under the *Ontario Energy Board Act, 1998* to enable tax-based funds to support the provision of RRRP to Hydro One's low-density residential classified customers (R2).
 4. **Created a new Invoicing Regulation (O. Reg. 196/17 Invoicing Requirements)** made under the *Ontario Fair Hydro Plan Act, 2017* to communicate Ontario's Fair Hydro Plan (OFHP), and its associated bill impacts, to consumers.
 5. **Amended O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity)** made under the *Ontario Energy Board Act, 1998* to remove the requirement for electricity vendors and USMPs to include informational messaging about the Debt Retirement Charge (DRC) in order to create more space on invoices for new OFHP messaging.
 6. **Amended the O. Reg 363/16 (General)** under the *Ontario Rebate for Electricity Consumers Act, 2016* to provide clarity on how the proposed First Nations Delivery Credit should be treated with respect to the calculation of the 8% provincial rebate.
 7. **Amended O. Reg. 314/15 (Ontario Electricity Support Program)** made under the *Ontario Energy Board Act, 1998* to enable MCSS staff to sign up social assistance clients for the Ontario Electricity Support Program.

3) First Nations Delivery Credit (FNDC)

- Section 79.4 of the OEB Act provides for a delivery credit to offset the costs that make up the delivery line for on-reserve consumers, paid for through funds appropriated by the Legislature. It also provides for regulation making authority to define who is an on-reserve consumer and what areas constitute a "reserve"
- The central piece of the FNDC regulation surrounds the eligibility criteria. The regulation limits eligibility to all First Nations residential on-reserve customers, regardless of whether the customer is seasonal or permanent. The definition of key terms, such as "reserve", "member of a band", are taken directly from the traditional meaning provided in the Indian Act.
- The 11 affected LDCs already have set processes in place to identify First Nations customers living on reserve based on their HST exemption status. To date, no LDC has indicated to ENERGY there will be any issue providing the credit for consumption as of July 1st for these identified customers.
- ~~Based on information provided by LDCs, there are up to 6,000 customers potentially eligible for FNDC but are not yet enrolled in the LDC system as HST exempt. Hydro One has informed the Ministry that with targeted outreach efforts it has newly enrolled 1,400 of these into both HST exemption and the FNDC. They continue to average 20-40 new sign-ups a day.~~
 - ~~— Data on recipients is coming to the Ministry via the IESO request for payment reimbursement. Staff will process this data and return with an updated recipient figure.~~
- Data reported by IESO reveals that over 20,000 customers are receiving FNDC – this was the target number pre-launch and reflects a successful rollout.
- The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), have crafted the policy in a manner which best reflects the needs and wishes of First Nations in Ontario.
 - Some leaders of First Nations that do not have reserve lands have expressed concern about being excluded from eligibility. (e.g. the Algonguins of Ontario and non-status First Nation groups).
 - Ontario and non-status First Nation groups).
 - COO has advocated for the expansion of the FNDC to include Band owned buildings. The Chiefs Committee on Energy continued to advocate for inclusion of band owned buildings at a meeting with Ministry staff on November 9, 2017.

Communications Strategy

- ~~ENERGY has worked with COO to develop a The FNDC postcard that has been distributed to First Nation Band Councils for distribution within their communities COO and the Political Territorial Organizations (PTOs) to raise awareness of the FNDC and encourage those who may be eligible but have not registered for an HST exemption to consider doing so.~~
- ~~An electronic version of the postcard has been posted by shared with COO for posting on their website.~~
- Chiefs of Ontario Communiqué.
 - COO sent a Communiqué to all First Nation Chiefs in June to encourage them to make sure their members are registered to receive the HST exemption from their LDC so that they will receive the FNDC.

3) Distribution Rate Protection – Implementation

- All eligible LDCs have indicated they are in position to provide distribution rate protection for electricity consumed on or after July 1st, 2017.
- The OEB followed the criteria in the new regulation (O. Reg. 198/17), as outlined in the chevrons below, to set the maximum monthly distribution charge.



- On June 22, 2017, the OEB released its decision and set the maximum monthly charge at \$36.43/month. The maximum charge will be updated at least once annually going forward.
 - The regulation stipulates that each year the maximum monthly charge would be no lower than the previous year's maximum charge.
- Affected LDCs have implemented the required billing system changes, and benefits have begun to flow to consumers as July billing cycles are completed.
- The OEB's June 22 decision also lowered the RRRP regulatory charge to reflect the shift of legacy Hydro One R2 customer costs from the rate-base to the tax-base. The new RRRP charge (0.03¢/kWh) dropped from \$1.66/month for the average customer to \$0.24.
- **Ministry staff are updating program costs projections. Hydro One's future distribution rates (currently before the OEB) are the top cost drivers. The Ministry is working with the OEB to consider how the OEB's cost forecast report (contemplated in O. Reg 198/17) will be provided to the Ministry.**

3) Ontario Electricity Support Program Regulation (OESP)

- As part of the FHP, recent amendments to Section 79.2.2 of the OEBA gave the Ministry of Community and Social Services (MCSS) and the OEB authority to share personal information. This authority is required to align OESP delivery with other social assistance (SA) programs and automate OESP enrolment in a way that meets privacy requirements under the *Freedom of Information and Protection of Privacy Act, 1990*.
 - The purpose of this exercise is to increase OESP uptake, which is one of the approved activities in the FHP TB Minute (March 1, 2017).
- Implementation activities underway by MCSS:
 - ~~On July 25, 2017, TB/MBC approved 20 FTEs in a joint submission with ENERGY and MCSS to support implementation activities related to increasing the enrolment of SA clients on OESP.~~
 - In order to ensure all eligible SA clients receive OESP, as part of 2018-19 PRRT, MCSS is requesting the extension of the 20 Temporary FTEs approved in 2017-18 to 2018-19. Additionally, MCSS is targeting to report back to TB/MBC in December 2017 in order to acquire an additional 30 temporary FTEs to support call centre activities
 - MCSS has developed an MOU with the OEB on data sharing and respective roles / responsibilities for aligning OESP with SA program delivery. Data exchange has occurred, and MCSS has determined that only 20% of SA clients with electricity bills are currently enrolled (about 90,000 of the 113,000 clients **are not enrolled**).
 - MCSS has already begun to directly contact these clients by phone and letters. The call center is now operational, as of October 2017, and executing enrollment for SA clients. As of November 1, OESP posters and brochures are being distributed to SA offices.
 - Software system upgrades are underway to enable more streamlined automatic enrolment, but in the meantime, OESP applications will still be manual. The automatic enrolment solution is anticipated for early 2018-2019.

Next Steps:

- ~~An OIC proclamation for provisions in the OEBA and further regulatory changes are needed to implement the transition from rate base to the tax base. This will happen when the OESP variance account is nearly depleted, which is expected in the fall.~~
- Provisions in s. 79.2 of the OEBA need to be proclaimed to shift the OESP from the rate-base to the tax-base.. This is will align with the depletion of the OESP variance account which is expected (projected for Feb/March 2018).
- The Ministry is also drafting amendments to the OESP regulation (O.Reg. 314/15) to support transition of program administration authorities / responsibilities to the Ministry
 - The OIC and regulatory package is scheduled for LRC on December 11.
- The Ministry ~~is working will work~~ with the OEB and will continue to do so over the next several months to transition OESP administration to government. ~~It is also working with MOF on Benefits Administration Integration and will consider options for including OESP in that initiative.~~
- Wet signature issue is being addressed. CRA approved OEB's proposed approach for electronic signature, and technical changes are underway. Once completed (expected Q1 2018) (~~expected in November~~), the MOU between CRA and MOF will be updated to reflect change.

4) Affordability Fund

- Ontario's Fair Hydro Plan established an Affordability Fund to help Ontarians who do not qualify for low-income conservation programs to make energy efficiency improvements to their homes, which could not otherwise be done without the support.
- The Affordability Fund, established through the tax base, is being administered by an independent Trust.

Next Steps:

- Consultations with electricity distributors were undertaken over summer 2017, including an August 1st session with over 30 electricity distributors participating. Feedback highlighted the importance of program design to be an iterative process and to be flexible to accommodate future changes.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an "Application for Support".
 - Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.
- The Trust, working with Hydro One, is currently negotiating program implementation agreements with electricity distributors, which outline program delivery guidelines and budgets.
 - The Trust expects to enter into agreements with interested distributions starting mid to late December 2017.
 - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In October 2017, through the 2018-19 PRRT process, ENERGY provided TB/MBC with a report back on the Affordability Fund including program application process, eligibility criteria, program monitoring and spending to date. ENERGY also stated that it will continue to assess the need for an additional funding request, considering Fund results and continued identified need.
- The Trust is expected to report Q3 2017-18 results to the Ministry in January 2018.

5) Industrial Conservation Initiative (ICI)

- On April 10, 2017, Ontario amended O. Reg. 429/04 to allow smaller manufacturers and greenhouses with an average monthly peak demand of greater than 500 kilowatts (kW) and less than 1 megawatt (MW) to participate in ICI, in addition to the consumers over 1 MW who were already eligible.
- ICI was previously expanded on January 1, 2017, when the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed.
- Newly eligible ICI participants that opted in to the program began being billed as Class A (i.e., program participants) consumers for their July 2017 consumption.
- Prior to the expansions, there were approximately 300 ICI participants. According to data provided by IESO, approximately 1100 participants have opted in for the current adjustment period.

Next Steps:

- ENERGY is continuing to work with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) on outreach campaigns to promote awareness of the ICI program.

6) OFHP Billing Requirements

- The Ministry recently introduced new billing requirements under the *Ontario's Fair Hydro Plan Act, 2017* (OFHPA) and the *Ontario Energy Board Act, 1998* to support transparency and communication of the changes introduced by Ontario's Fair Hydro Plan (OFHP).
- These new billing requirements require electricity vendors and unit-sub meter providers (USMPs) to:
 - Include standardized informational messaging related to OFHP on all bills, per O. Reg. 196/17;
 - Accompany paper bills with a descriptive OFHP bill insert once per quarter, beginning with the first bill issued on or after July 1, 2017 until the first bill issued on or after July 1, 2018 (seasonal customers only to receive bill inserts semi-annually), per O. Reg. 196/17; and
 - Include a "First Nations Delivery Credit" as a visible line item on the bills of on-reserve customers and demonstrate the associated savings, as applicable, per O. Reg. 197/17.
- In anticipation of these new requirements, the Ministry amended O. Reg. 364/16 to revoke the "8% Provincial Rebate" messaging requirements from bills and envelopes in advance of July 1, 2017. Note: the requirement to include an 8% rebate line item remains.
- In addition, as of July 1, 2017, the requirement to include informational messaging about the Debt Retirement Charge (DRC) on bills was revoked. However, bills are still required to include a DRC line item (even for \$00.00 charges) and a definition in the "Glossary of Terms".
- As of July 2017, Hydro One has also been exempted from the application of O. Reg. 275/04, and specified OFHP invoicing requirements so that they may proceed with their planned bill redesign unencumbered by regulation. Hydro One is still required to issue quarterly OFHP bill inserts to its customers.
- Note: Vendors may petition the Minister for minor adjustments to these regulatory requirements due to technical and/or operational limitations. Minor exemptions due to message character limits have been granted to Hydro Ottawa, Enercare and IESO.

6) Redesign Action Plan (RAP)

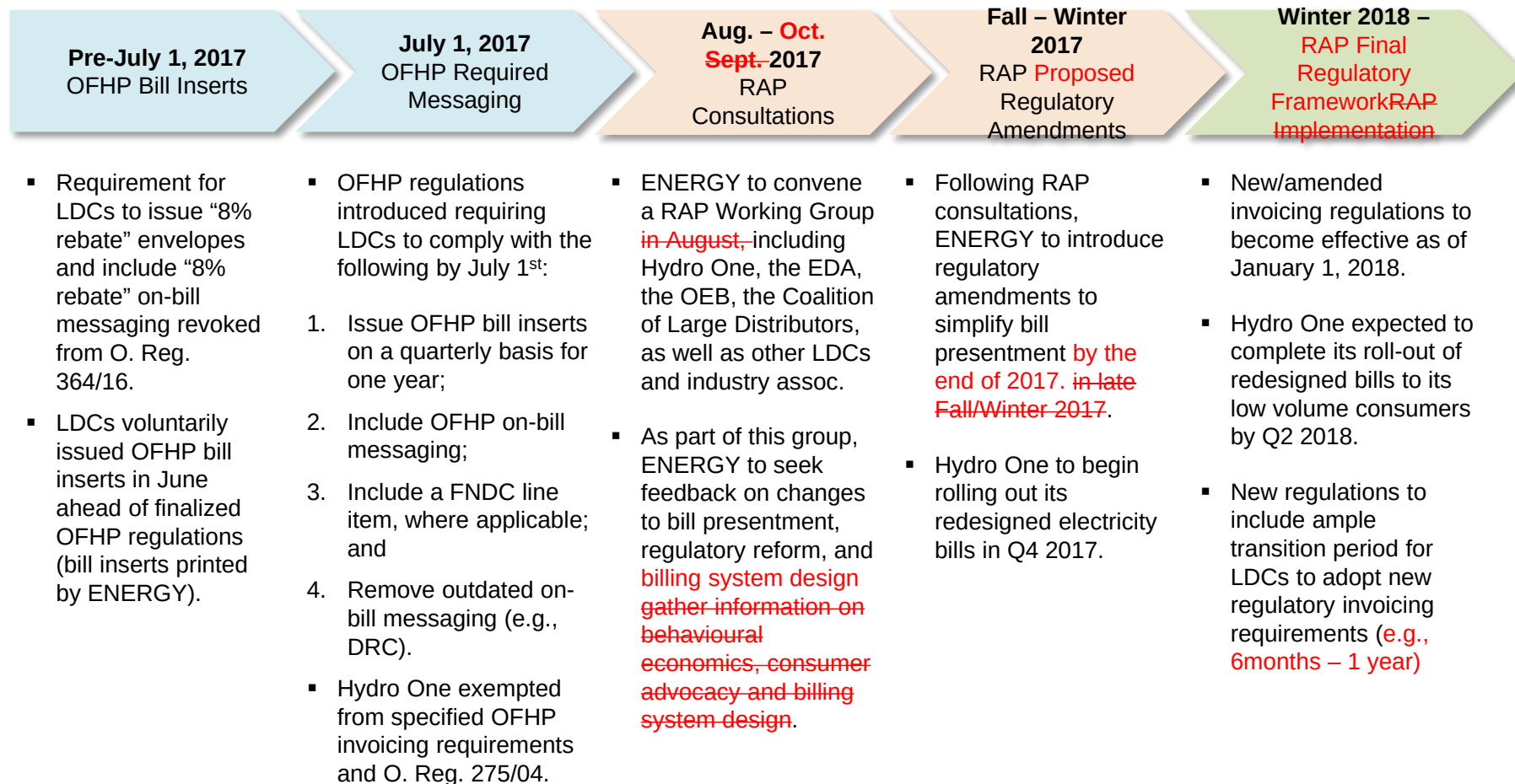
- The Ministry believes there is also an opportunity to further revise the regulatory framework on invoicing to improve the value of electricity bills to all consumers.
- In pursuit of this effort, the Ministry ~~has~~ launched a Redesign Action Plan (RAP) this summer with the aim of improving electricity bills by:
 - Enhancing the customer experience (e.g., ~~providing more useful information enhancing mobile access~~);
 - Better communicating government initiatives and programs (e.g., personalizing OFHP initiatives);
 - Consolidating the regulatory framework; and
 - Promoting greater understanding (e.g., clarifying terminology and calculations).
- ~~To initiate this plan, the~~ The Ministry ~~has is convened~~ a “RAP Working Group” ~~in August 2017~~ consisting of Hydro One, the Electricity Distributors Association (EDA), the Coalition of Large Distributors (CLD), as well as additional LDCs, the OEB and relevant industry associations.
 - ~~Three meetings have been held to date: kick-off meeting, bill design workshop and technical implementation issues. The kick-off meeting was held on August 1st, and a bill design workshop was held on August 11th. LDCs have been supportive of the Ministry's approach. The next meeting, on technical implementation issues, will be held on August 31st.~~
 - ~~The Ministry undertook consumer research on bill redesign in partnership with the OEB and IPSOS, through the OEB's Consumer Panel. On September 19th and 21st Consumer Panel meetings were held in Sudbury, Toronto, Kingston and London. The Ministry is exploring options on how to conduct consumer testing of various bill components, including possibly engaging with the OEB's Consumer Panel.~~
 - ~~The Ministry is examining opportunities to conduct additional quantitative research to verify the qualitative findings from the Consumer Panel.~~
- ~~The Ministry also plans to conduct research on bill redesign initiatives, including a jurisdictional scan on best practices, as well as background on vendor billing systems.~~

~~Next Steps:~~

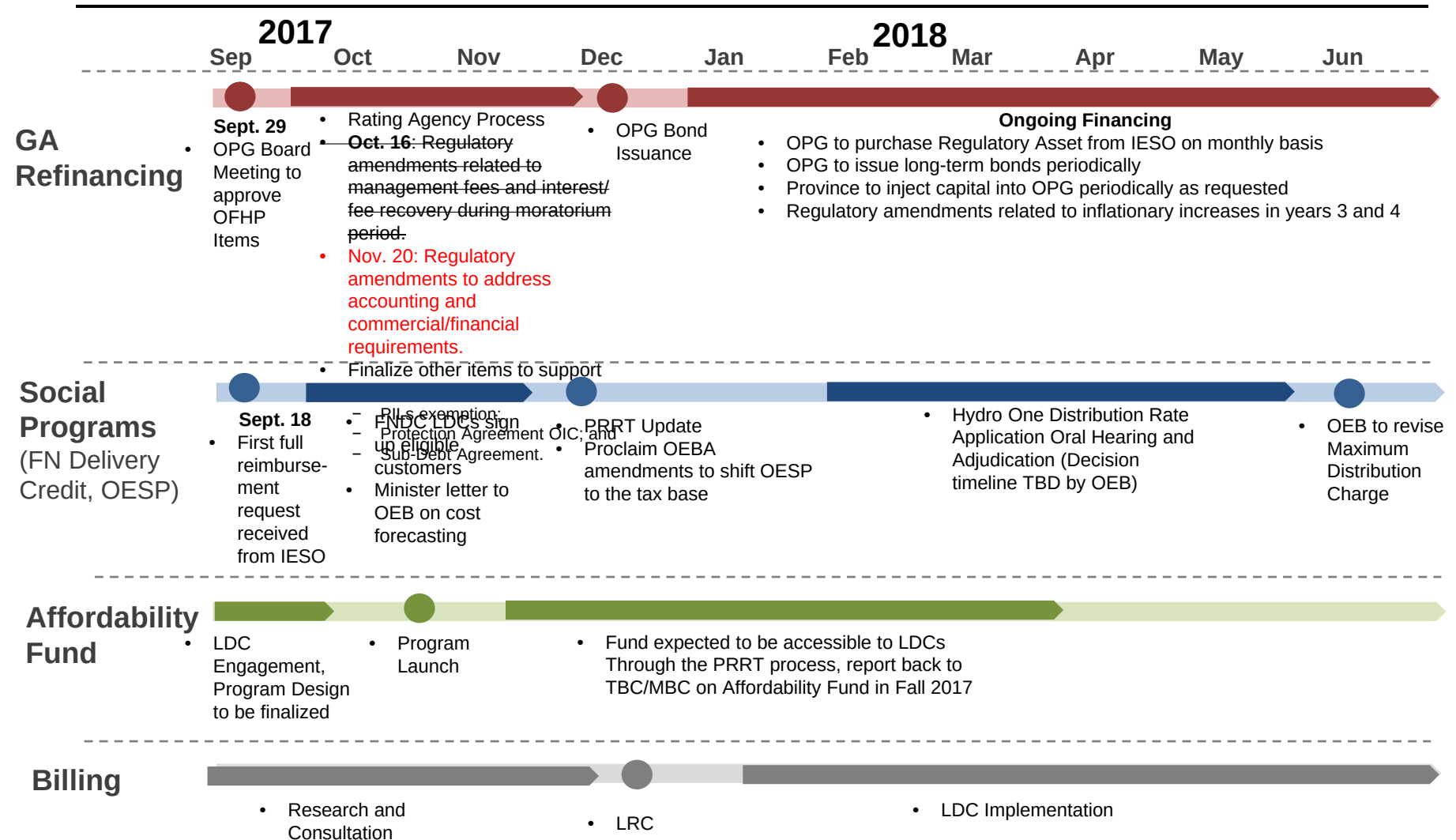


6) Billing Requirements – Proposed Timeline

- Following the introduction of the OFHP invoicing requirements, the Ministry recommends undertaking the Redesign Action Plan (RAP) in the following stages:

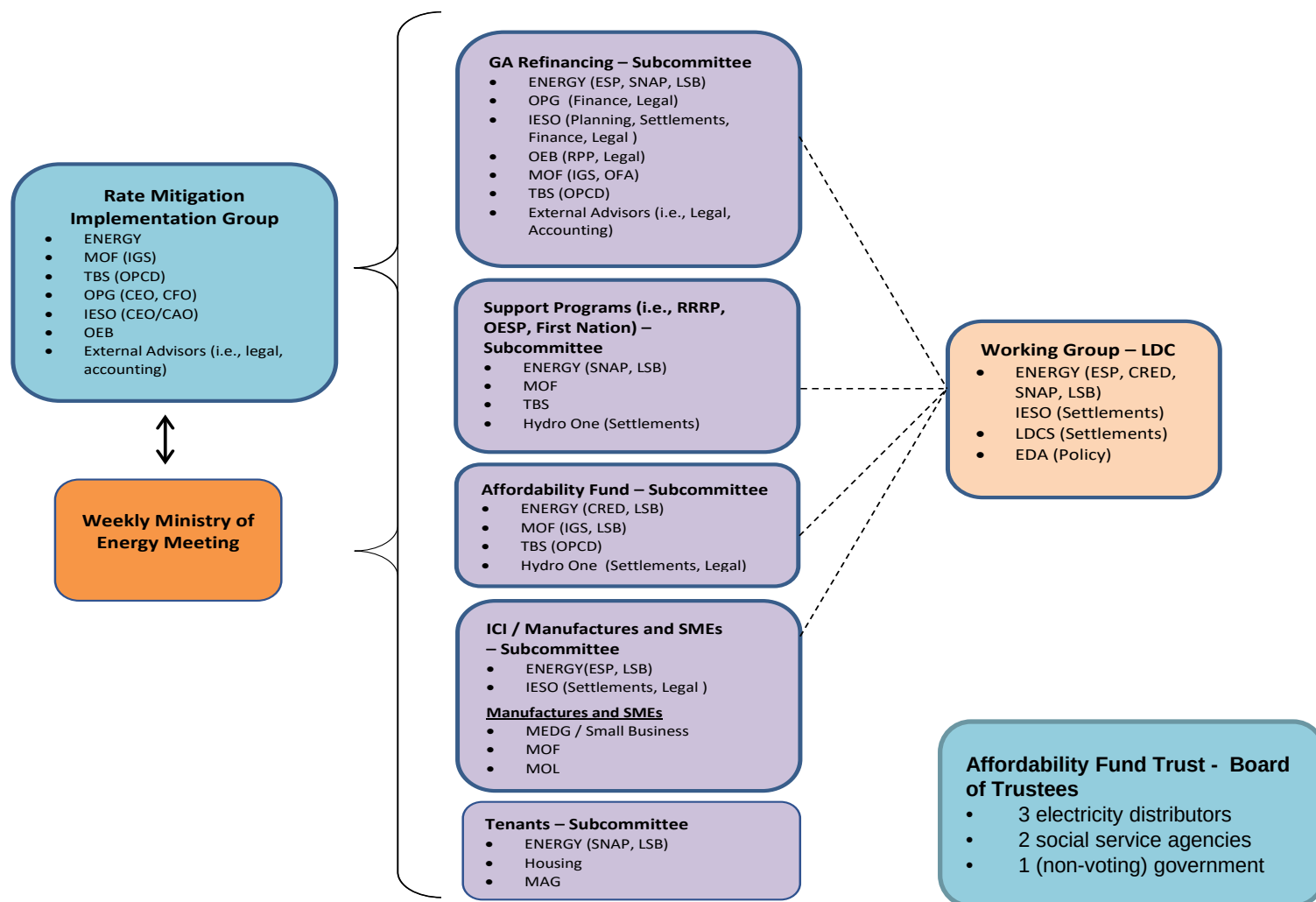


OFHP Key Milestones

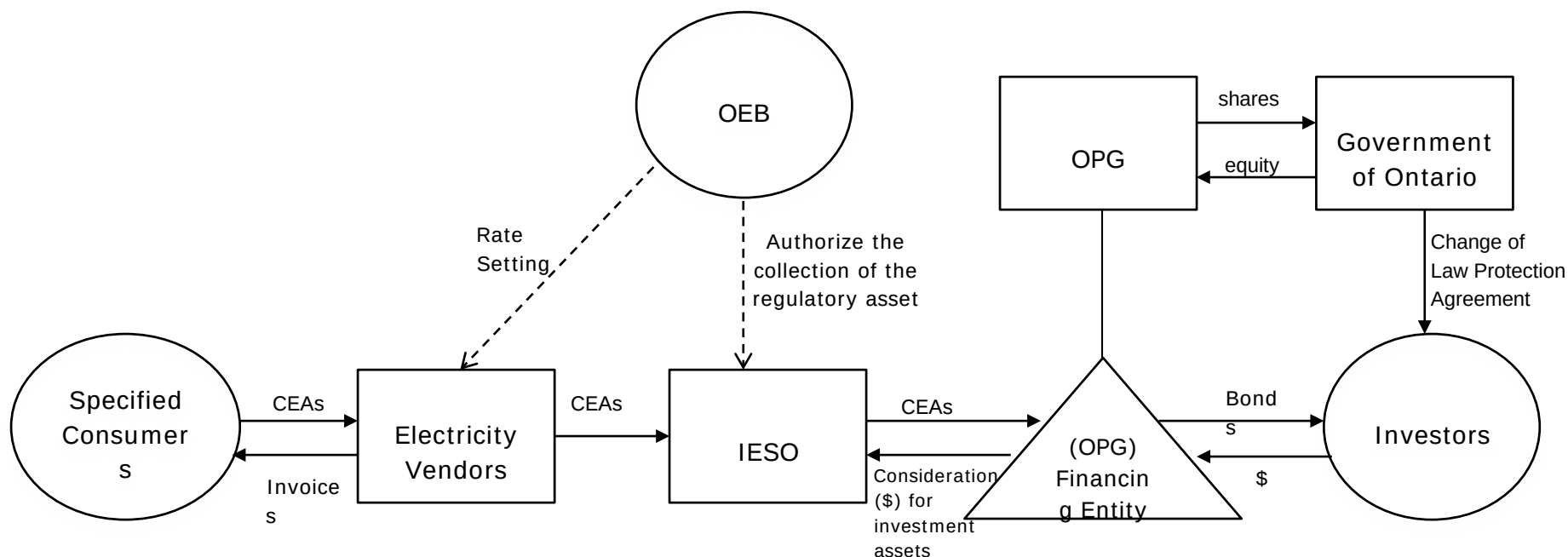


Appendix

Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan



Global Adjustment Refinancing – Roles and Responsibilities



Note: CEAs are “clean energy adjustments”

Fw_ QA from AG tech briefing_1.pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Subject: Fw: QA from AG tech briefing
Date: January 26, 2018 11:58:39 AM
Attachments: [QA_AG Report OFHP_Technical Briefing_Oct16_Clean_400.docx](#)

Hi Guys -

The attached QA should help with the OFHP policy intent piece on the response table.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

QA_AG Report OFHP_Technical Briefing_Oct16_Cl_5.pdf

Q&As – OAG’s Special Report on Ontario’s Fair Hydro Plan

Q. Why did the government introduce Ontario 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. Since 2003, nearly \$70 billion¹ has been invested in the electricity system, including more than \$37² billion in electricity generation to ensure the system is clean and reliable.

Ontario Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province’s history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers 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.

In developing the policy to refinance the Global Adjustment (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.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

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. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

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.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan 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. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

¹ Ministry of Energy, *2017 Long-Term Energy Plan*

² Ministry of Energy, *2017 Long-Term Energy Plan*

With respect to the \$4 billion³ figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴. The preliminary estimate from March 2017 was about \$28 billion⁵.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion⁶ to \$18.5 billion⁷. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion⁸ to \$18 billion⁹.

Q. Have the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? I understand that the Office of the Auditor General (OAG) has asked what are the factors that resulted in the changes in estimates from March 1 to August 31?

With respect to the \$4 billion¹⁰ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak

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, submission to Financial Accountability Officer

⁶ Ministry of Energy

⁷ Ministry of Energy

⁸ Ministry of Energy

⁹ Ministry of Energy

¹⁰ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

debt over the thirty year life of OFHP will be below \$20 billion¹¹. The preliminary estimate from March 2017 was about \$28 billion¹².

The revised estimates are the result of the following factors:

- The Independent Electricity System Operator (IESO) updated its long-term cost projections for the electricity system and residential bills;
- The Ontario Energy Board (OEB) provided “actual data” with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
- Based on expert third-party advice the interest rate assumptions for OFHP were updated (i.e., from 5%¹³ down to 4.5%¹⁴).

In addition, for the August 31, 2017 estimate, the Ministry of Energy converted debt and interest amounts from calendar year to Regulated Price Plan (RPP) periods.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion¹⁵ to \$18.5 billion¹⁶. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion¹⁷ to \$18 billion¹⁸.

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 is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

¹¹ Ministry of Energy

¹² Ministry of Energy, submission to Financial Accountability Officer

¹³ Ministry of Energy

¹⁴ Navigant Consulting, *Assessment of the Alignment of the Costs and Benefits of Clean Energy Assets*

¹⁵ Ministry of Energy

¹⁶ Ministry of Energy

¹⁷ Ministry of Energy

¹⁸ Ministry of Energy

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. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Act? Would 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).

OPG currently manages approximately \$20 billion¹⁹ 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 program 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.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors²⁰, 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 billion²¹ and two commercial paper programs.

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

Q. The Financial Accountability Office (FAO) suggested that using Ontario Power Generation as the borrowing agent will cost \$4 billion more?

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

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion²². The preliminary estimate from March 2017 was about \$28 billion²³.

¹⁹ Ontario Financing Authority

²⁰ Ontario Power Generation

²¹ Ontario Power Generation

²² Ministry of Energy

²³ Ministry of Energy, submission to Financial Accountability Officer

The FAO report itself concludes by saying “the FAO’s estimates are subject to many assumptions and uncertainties (...) Fiscal impact may differ significantly from the FAO’s estimates.”

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion²⁴ to \$18.5 billion²⁵. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion²⁶ to \$18 billion²⁷.

Q. Do you disagree with the FAO on financial costs?

With respect to the \$4 billion²⁸ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion²⁹. The preliminary estimate from March 2017 was about \$28 billion³⁰.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion³¹ to \$18.5 billion³². The higher March 2017 estimate was used by the FAO in its May 2017 report.

²⁴ Ministry of Energy

²⁵ Ministry of Energy

²⁶ Ministry of Energy

²⁷ Ministry of Energy

²⁸ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

²⁹ Ministry of Energy

³⁰ Ministry of Energy, submission to Financial Accountability Officer

³¹ Ministry of Energy

³² Ministry of Energy

If pressed on interest costs:

The Ministry estimates of total interest cost also decreased from \$25 billion³³ to \$18 billion³⁴.

Q. The OAG's report claims that consumers will pay an additional \$4 billion in interest costs over the life of OFHP since OPG and its Financing Entity will pay a higher rate of interest compared to the Province. Why not have the Province borrow for the OFHP?

The policy objective of OFHP 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 – not the tax-base.

We believe 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. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since the early 2000s³⁵.

The \$4 billion³⁶ figure in the Office of the Auditor General's report was sourced from the FAO's May 2017 report and is important to note, that the FAO's calculation was based on preliminary estimates of the program when peak debt estimates for the thirty year program were substantially higher and interest costs were forecast to be higher than current projections.

Q. Why did the IESO change its accounting practices?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in their financial results.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's 2016 annual report, which was published online in March 2017.

The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements.

Additionally this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

This change has no impact to the province's annual deficit, net debt, accumulated deficit or on the ratepayers of Ontario.

³³ Ministry of Energy

³⁴ Ministry of Energy

³⁵ Ministry of Finance

³⁶ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. Why did the government not use the Canadian Public Sector Accounting Standards (PSAS)? How was Ontario's Fair Hydro Plan (OFHP) financing structure determined?

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18 as well as in the following years. Presenting its financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS is, however, silent on the recognition, measurement, presentation or 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. In this case, the Independent Electricity System Operator (IESO) consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.

This financing structure is similar to several jurisdictions in the U.S., and uses a form of securitization that is commonly used in the financial markets. It ensures the impact of the plan will be transparent. Under this system, credit rating agencies, securities regulators and the public at large get full information and full reporting of the impacts of the OFHP that are visible and specific.

Q. What is the Global Adjustment (GA)?

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. The 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 accounts for 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 reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's 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 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.

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.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've 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.

Moving forward, Ontario is developing its 2017 Long-Term Energy Plan (2017 LTEP) which will focus on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to \$5.2 billion³⁷ over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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).

In development and implementation of Global Adjustment (GA) refinancing, 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.

Document Search

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

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the Auditor General's (AG) office.

³⁷ Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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

The Ministry of Energy does not intend to spend more than \$60,000 on this request. Although the retainer agreement includes a cap of up to \$500,000, as of September 21, 2017, only \$41,775.75 has actually been spent.

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

The Ministry of Energy conducted a search consistent with the 40 plus search terms provided to the Auditor General (AG). In order to manage the approximately 2.2 million records that resulted from the search of 81 custodians, the Ministry has 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 has been regularly providing AG batches of responsive documents.

This request remains a priority for the Ministry and we will continue to make effort to deliver all responsive records to the Auditor General as soon as possible. There is currently a team of 12 Ministry staff reviewing for responsive records.

Response Prepared Based on Ministers' Speaking Points

Q. How do you respond to the Auditor General's claim that the government ignored warnings regarding a potential adverse audit opinion of Ontario's public accounts?

The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

In regards to rate-regulated accounting, PSAS are silent on the use of regulated accounting:

- PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
- US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference.

Many entities in Canada, including OPG and Hydro One use rate-regulated accounting:

- The OAG can refer to the CPA Canada research study that was shared.
- Rate-regulated accounting is well understood in the electricity sector.
- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America, including AESO, ISO New England, NYISO, MISO, PJM and ERCOT.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

TBS's Detailed QAs re Ontario's Fair Hydro Plan

Q. The Auditor General says that the accounting structure for Ontario's Fair Hydro Plan is not transparent, has poor value for money, and is not in accordance with Public Sector Accounting Standards. How do you respond?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results is transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The Ministry of Energy would welcome further questions about OFHP and the government's investments in a reliable energy system.

Q. The Auditor General makes two recommendations in her report – to record the true financial impact of Ontario's Fair Hydro Plan; and to use a financing structure that is the least costly for Ontarians. Will you adopt these recommendations?

The government does not agree with the assertions and conclusions expressed in the report.

In developing OFHP, 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.

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

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion³⁸. The preliminary estimate from March 2017 was about \$28 billion³⁹.

The Province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

³⁸ Ministry of Energy

³⁹ Ministry of Energy, submission to Financial Accountability Officer

Q. Both the Auditor General and the Financial Accountability Officer (FAO) have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history.

In developing OFHP, 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.

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

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

Q. The Auditor General says that you are “obfuscating” the true financial impact of Ontario’s Fair Hydro Plan through a “needlessly complex” accounting structure. How do you respond?

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. How can you justify the \$4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the Province, instead of the Province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴⁰. The preliminary estimate from March 2017 was about \$28 billion⁴¹.

Q. The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of 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 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

⁴⁰ Ministry of Energy

⁴¹ Ministry of Energy, submission to Financial Accountability Officer

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. What will happen if interest rates rise? The Financial Accountability Officer (FAO) estimates that if interest rates were to rise, the true cost of Ontario's Fair Hydro Plan could be between \$69 and \$93 billion. How can you justify shifting this heavy burden onto future generations?

The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs of OFHP, and while total borrowing costs will not be known until the program is complete, accumulated interest is expected to be considerably less than the estimates cited in the May 2017 report of the FAO.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report, and borrowing costs are now forecast to be substantially lower than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 billion⁴². The preliminary estimate from March 2017 was about \$28 billion⁴³.

Government Officials

Q. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), 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.

⁴² Ministry of Energy

⁴³ Ministry of Energy, submission to Financial Accountability Officer

Multiple options were considered in creating the OFHP framework – such as to have local distribution companies finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution companies to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

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

Audit Opinion

The government just received another qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end. This change was supported by IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Q. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The Province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you concerned that the Auditor General will issue an adverse opinion on the Province's Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the Province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministry of Energy, Finance and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and third-party accounting, financing and energy experts to ensure due diligence.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all independent auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, 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.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?

There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), 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.

The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Independent Electricity System Operator (IESO)

The Auditor General was critical of the Independent Electricity System Operator's accounting changes, which formed part of her basis for a qualified opinion in the 2016-17 Public Accounts. Are these accounting changes inappropriate?

On recognizing market accounts' assets:

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen 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.

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

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General (OAG) at that time.

This change has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

On rate-regulated accounting:

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Rate-regulated Accounting

Q. Why use rate-regulated accounting? What is its benefit?

In certain circumstances, an organization may be required to incur a large expenditure that will be recovered from ratepayers in the future.

For example, damage caused by an ice storm that results in extraordinary costs to restore a disruption of electricity services for customers. Such costs are subject to application and approval for recovery by the regulator over a specific time period.

What rate-regulated accounting does is it allows organizations to recognize those costs, which can be significant within a year but will generate benefits over time, to be matched over the same period that the amounts are recovered from ratepayers.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

“The entity’s rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers” [ASC 980-10-15-2].

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

Legislated Accounting

Q. The Auditor General says that you are essentially making up your own accounting rules. How are Ontarians supposed to believe things like a “balanced budget” when you keep changing the rules?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

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

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The recording of any asset resulting from transactions of OFHP will be assessed for recognition and measurement based on PSAS, and where appropriate, other accounting guidance where PSAS is silent on the issue.

Q. The Auditor General says that the Province legislated accounting through the Ontario Fair Hydro Plan Act, which is not allowed according to Public Sector Accounting Standards (PSAS). Is this true?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

The role of the Ontario Energy Board (OEB) and its mandate is provided in legislation. It is not uncommon for government policy, through regulations, to provide the ground rules over which the OEB is to preside.

This is the case with Ontario's Fair Hydro Plan (OFHP) itself, as the Act and the various regulations provide the direction and processes over which the OEB is to exercise oversight, review, and make conclusion on submissions brought forward.

Relationship with the Office of the Auditor General

Q. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

The government is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

If pressed:

The Auditor General was informed throughout the course of this process.

If asked about the Ministry of Energy emails:

The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General. For questions related to the Ministry of Energy, please contact them directly.

Future Governments

Q. The Auditor General says that you are essentially handcuffing future governments with your financing structure. Why should future governments have to pay for your decisions?

By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade government policies have supported rebuilding the electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than \$70 billion⁴⁴ has been invested to modernize the system.

The government heard from people across the Province that the price of electricity had risen too quickly, which is why Ontario's Fair Hydro Plan (OFHP) will ensure costs are shared more fairly over the years ahead.

The Ontario electricity sector invested in renewing the provincial electricity system, including many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. 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.

In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and ensures the goals underlying the program are achieved in a cost-effective manner.

⁴⁴ Ministry of Energy, *2017 Long-Term Energy Plan*

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

For further questions related to Ontario's Fair Hydro Plan, please contact the Ministry of Energy.

Asset Sales

Q. Will you buy back Hydro One so that it is back under public control?

Maximizing the value of designated assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The Trillium Trust Act, 2014, provides for the dedication to the Trillium Trust of net revenue gains associated with the sale of designated assets to support investments in transit, transportation and other priority infrastructure across the province.

The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the Ontario Electricity Financial Corporation (OEFC), which manages and pays down the debt and other liabilities of the former Ontario Hydro.

The government is on track to generate, over time, \$4 billion⁴⁵ in net revenue gains to be invested in transit and infrastructure, along with \$5 billion⁴⁶ to reduce debt, from broadening Hydro One's ownership.

The government will remain, by law, the largest single shareholder in Hydro One, restricting the Province from selling down to less than 40%⁴⁷ of the voting securities in Hydro One – and no other single shareholder or group of shareholders working in concert will be permitted to hold more than 10%⁴⁸ of the company's shares.

⁴⁵ Ontario Financing Authority

⁴⁶ Ontario Financing Authority

⁴⁷ Ontario Financing Authority

⁴⁸ Ontario Financing Authority

Fw_ RUSH - Auditor General 2017 Annual Report -..._1.pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Subject: Fw: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)
Date: February 28, 2018 10:18:53 AM
Attachments: [Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE \(002\).docx](#)

Hi Tim and Daniel -

As below, please add a QA on the changes to ICI when OFHP was introduced and add the basis point spread to the interest rate QA. As soon as possible please since it's another piece for this afternoon.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Sent: Wednesday, February 28, 2018 10:12 AM
To: Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Hilary,

The Deputy has asked if a QA on ICI could be added that details the changes to the ICI program that occurred when the OFHP was implemented.
Also, regarding the interest rate question comparing the Ministry of Energy's Fair Allocation Amount (FAA) assumption against the 3.357% rate secured, can the basis point spread be added to the answer.

Thanks,
Mike

Auditor General 2017 Annual Report - SCOPA Ch_1.pdf

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:

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).

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 ENERGYSTAR 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.

If Pressed pdf

From: [Hume, Steen \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Cc: [Cox, Hilary \(ENERGY\)](#)
Subject: If Pressed ...
Date: October 16, 2017 1:13:38 PM

Hi. DM wanted an if pressed answer re the detailed #s of the revised peak debt numbers.

Below is what I propose we use. Does this work?

Thanks, Steen

+++++

If pressed on the details of the revised peak debt numbers:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion^[1] to less than \$18.5 billion^[2]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

-

Materials for AG report.pdf

From: [Berg, Denna \(ENERGY\)](#)
To: [Berry, James \(ENERGY\)](#); [Nekolaichuk, Colin \(ENERGY\)](#)
Cc: [Lyon, Sam \(ENERGY\)](#); [Schlaepfer, Martin \(ENERGY\)](#); [Nutter, George \(ENERGY\)](#); [Hendy, Adam \(ENERGY\)](#)
Subject: Materials for AG report
Date: December 5, 2017 4:11:49 PM
Attachments: [Auditor General 2017 Annual Report - QAs.docx](#)
[CMSC Backgrounder Dec 4 v4 clean.docx](#)
[EN - ICI-cybersecurity-market practices - ENERGY - 20171205 - Final.docx](#)
[FR - ICI-cybersecurity-market practices - ENERGY - 20171205 - Final.docx](#)
[RT-GCG Backgrounder Dec 5 v5 clean.docx](#)

Hi James and Colin,

Please find all the materials for the AG report attached. These are finals.

Thanks,

Denna Berg

Senior Policy & Strategic Communications Advisor
Office of the Deputy Minister | Ministry of Energy
4th Floor, Hearst Block, 900 Bay Street
Toronto, ON, M7A 2E1
T: 416-327-4334 | M: 647-308-8763
denna.berg@ontario.ca

Auditor General 2017 Annual Report - QAs.pdf

KEY MESSAGES

Top Line

- We thank the Auditor General for her analysis.
- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.
- However, we disagree with a number of the report's findings, including:
 - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day and
 - The critique of the Industrial Conservation Initiative (ICI).
- We are confident in the Ontario Energy Board (OEB) and our system operator to run an efficient and fair electricity market for ratepayers across the province.
- Both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

If these programs were eliminated, reliability would be put at risk. **Instances of generators claiming ineligible costs under the Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) programs:**

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.
- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.
- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next steps for the electricity market, including the Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) programs:

- Our system operator is working to transform our electricity market.
- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.
- It is projected that Market Renewal will save up to \$5.2 billion over 10 years.
- Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Interim steps until Market Renewal takes hold:

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.
- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from \$61 million in 2014 to \$23 million in 2016 – a more than 60 per cent cut in program costs over the course of two years.
- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.
- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

The Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to eliminate the need to build more electricity generation in the long-term.
- Our electricity system is planned to ensure we have enough generation to meet peak demand.
- By keeping peak system demand as low as it can be, we can avoid building costly new generation.
- This makes the system more cost-effective for all ratepayers.
- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

The contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted, including Lake Superior Power and Cochrane Power. In addition, the second round of the large renewable procurement process (LRP II) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to \$3.8 billion in electricity system costs relative to the 2013 LTEP forecast. Future reductions in peak demand due to ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.
- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.
- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.
- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.
- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

QUESTIONS & ANSWERS

Legend:

Real-Time Generation Cost Guarantee Program (IESO) = Standby Cost Recovery Program (AG)

Congestion Management Settlement Credits (IESO) = Lost Profit Recovery Program (AG)

INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO) OVERSIGHT OF THE ELECTRICITY MARKET – Recommendations 1, 2, 3, 5, 6, 7, 8, 9, 10, 11 & 12

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

*The OAG's report states that about **\$1.6 billion** of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

- Payments made through these credits ensure reliability for our electricity system. In other words, they're baked into the way our system operates to make sure we keep the lights on.
- They incentivize generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss
- Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go
- These are costs, about \$1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system
- These credits are needed to maintain the reliability of Ontario's electricity system.

*The OAG's report claims that as much as **\$260 million** in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

- Two thirds (**\$168 million**) of ineligible costs from this program have been returned to ratepayers.
- The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.
- The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

*The OAG's report also claims that **\$30 million** in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program.*

- The Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk -- not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.
- The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.
- As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from \$61 million in 2014 to \$23 million in 2016 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

- To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.
- Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from IESO since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

- There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)).
- Our system operator has the authority to conduct audits of claims made by generators and other market participants.
- And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.
- In the case of Goreway – a \$10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee claims.
- Our system operator is now working on additional resources to strengthen their oversight division.

Q. Why has IESO repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits as recommended by the Ontario Energy Board's Market Surveillance Panel?

- According to the Board's Market Surveillance Panel, many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.
- Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.
- Both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.
- Our system operator has the power to conduct audits of claims made by generators and other market participants.
- And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.
- Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

- According to the Board's Market Surveillance Panel, many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.
- This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

- At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.
- Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

- Our system operator and the Ontario Energy Board's Market Surveillance Panel (the Panel) have a shared responsibility to monitor behaviour in the province's electricity market.
- According to the Panel, many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.
- We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.
- Working with the Ontario Energy Board and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

- As we started the phase out of coal in 2009, our supply mix changed to include more gas-fired generation.
- Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.
- These improvements included:
 - Guaranteeing certain start-up operating and maintenance costs;
 - Tightening program eligibility criteria; and
 - Putting in place restrictions on eligible fuel costs.
- These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

- The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.
- As our generation supply mix has become cleaner, the program has been adjusted accordingly.

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

- All but one of the nine system operators in North America also commit generators and compensate them for starting up.
- Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~\$20 billion electricity market.
- As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.
- There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including \$175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

- Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.
- The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.
- Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.
- In the case of Goreway – a \$10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

- Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.
- In the case of Goreway – a \$10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.
- Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.
- Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of \$500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

- Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.
- These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.
- The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.
- These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.
- These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.
- Our system operator is working to transform our electricity market.
- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.
- It is projected that Market Renewal will save up to \$5.2 billion over 10 years.
- Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

- The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.
- As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group.
- The Market Renewal Working Group includes a diverse group of participants from consumers to generators.
- It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.
- The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.
- All Market Renewal sessions are fully transparent, and open to the public.
- Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.
- Through this process, our system operator is working to transform the province's electricity market.
- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.
- This transformation is expected to save up to \$5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses
- Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The findings of these audits aren't new. What took so long to clean up the composition of this working group?

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

- We are considering the potential need for additional legislative power to assist our system operator in performing its critical responsibilities, including its investigations.
- We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.
- Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

- We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

- This program makes sure our system operator can ensure on a daily basis that adequate electricity will be available to meet the expected electricity demand— an important factor in meeting North American reliability standards.
- The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.
- This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the

system operator take action on these uncompleted audits?

- Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.
- These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.
- The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
- The program will result in up to \$5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.
- These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.
- As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.
- The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

- These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.
- Market Renewal is expected to save up to \$5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.
- Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.
- Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.
- In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

INDUSTRIAL CONSERVATION INITIATIVE (ICI) – Recommendation 4

Q. The AG Report states that the ICI program is “shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers”. Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

- The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.
- Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.
- Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.
- This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.
- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.
- This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers \$3.8 billion in costs for the electricity system.

More details on the peak reduction:

The peak demand reduction associated with ICI is equivalent to:

- The peak demand of a city roughly the size of Mississauga¹;
- Nearly 6 per cent of province-wide peak demand²;
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area³; or
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016⁴.

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

¹ According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. <http://www.ieso.ca/power-data/demand-overview/historical-demand>

² According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

³ Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. <https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf>

⁴ The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. <http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction>

- Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.
- Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.
- Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B⁵.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

- The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.
- Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.
- Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.
- It's a voluntary program and eligible consumers are able to opt in or out in June of each year.
- Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:
 - Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.
 - Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.
 - Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.
- In addition to the cost savings for participating businesses and organizations – a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.
- First, the Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.
- Second, it better aligns consumer costs with their contribution to those costs. For example, a large industrial facility with a flat load profile does not require investments in electricity peaking resources and adds less to the cost of running our electricity system, when compared to the load of residential electricity consumers.
- It also helps to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

⁵ <http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs>

- We have partnered with the Ontario Chamber of Commerce to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative?

- The Ministry collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).
- Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B⁶.
- The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.
- Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW⁷. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.
- The Ministry continues to monitor the impact of ICI on an ongoing basis.

⁶ <http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs>

⁷ <http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en>

CMSC Backgrounder_Dec 4 v4 clean.pdf

Congestion Management Settlement Credits

Backgrounder

Key Facts

- Congestion Management Settlement Credits (CMSC) are needed to maintain the reliability of Ontario's electricity system
- They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss
- Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability
- CMSC is needed to meet North American power system reliability standards
- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go
- These are costs, about \$1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system
- The IESO has made more than a dozen market rule changes since market opening in 2002 to make the CMSC payments more efficient and transparent
- The IESO is now making fundamental changes to Ontario's electricity market through the Market Renewal Program, changes that would eliminate CMSC

"Many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

-- December 2016 Market Surveillance Panel Report

IESO has increased CMSC efficiency by taking actions to ensure:

- payments occur only in cases where offers of electricity to the market are reflective of actual operating costs
- payments are more closely aligned with the participant's abilities to actually deliver power
- accurate application of payments when generators have to deviate from IESO instructions for safety, environmental or legal reasons
- payments are reduced in situations where facilities do not come offline quickly

The Next Step: Eliminating CMSC

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market. These

changes are being made through the IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market. The Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) is supportive and is participating in this program.

The program will result in up to \$5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers. These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the IESO is changing the way it schedules resources so that costs associated with system constraints, such as transmission line limitations, are reflected in the market price, replacing the need for CMSC.

The IESO is currently working with a wide range of stakeholders on a high level design for Market Renewal initiatives and will begin the detailed design and implementation phase in 2019.

Background

The purchase and sale of electricity in Ontario is managed through the operation of a competitive wholesale market. Every hour, the IESO receives offers from a wide range of suppliers to provide electricity (as well as bids from large consumers to reduce electricity use on demand) and then schedules the lowest-cost offers needed to meet demand every five minutes.

However, price isn't the only factor when scheduling resources. The market must also respect physical limitations, such as transmission line limits. In this way, the IESO balances supply and demand to maintain the reliability of Ontario's electricity system.

Congestion Management Settlement Credits are paid when generators or consumers are instructed to consume or supply electricity when they would otherwise be doing so at an operating loss. This is an integral part of the current design of the market that incents market participants to follow the IESO's instructions and ensure reliability.

EN - ICI-cybersecurity-market practices - ENE.pdf

The Industrial Conservation Initiative, Cybersecurity, IESO Market Programs

Statements from Glen Thibeault, Minister of Energy

NEWS

December 6, 2017

I would like to thank the Office of the Auditor General for its analysis. Our government remains committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

Statement on the ICI

The Industrial Conservation Initiative program has been successful at reducing peak electricity demand and helps large consumers lower electricity prices by one-third on average, helping them to remain competitive and focused on creating jobs.

In fact, our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 — the peak electricity demand of a city roughly the size of Mississauga. That's about 6 per cent of Ontario's peak electricity demand.

That means that this program helped avoid the need to build costly new generation in the longer term, which is a benefit to all ratepayers across the province, both residential and commercial.

Under Ontario's Fair Hydro Plan, the program was recently expanded to include many more Ontario businesses, including manufacturers and greenhouses with average monthly peak demand above 500 kilowatts.

Statement on Cybersecurity

Safeguarding the security of our electricity system is a top priority for the Independent Electricity System Operator. The North American Electric Reliability Corporation (NERC) recently audited our system operator and found the IESO fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. Our System Operator puts a strong emphasis on cybersecurity, and is already in the process of recruiting a new Chief Information Officer (CIO) with an enhanced focus on cybersecurity. They are also considering creating a senior-level position for cybersecurity with formal reporting to both executive leadership and the Board of Directors.

Our System Operator is also implementing previous recommendations to increase the number of cybersecurity staff, which is in line with the Auditor General's recommendation.

It's important to note that our System Operator complies with all applicable NERC Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

Statement on IESO Market Programs

We are confident in the Ontario Energy Board and our System Operator to run an efficient, reliable and fair electricity market for ratepayers across the province. Both the Real-Time Generation Cost Guarantee Program and Congestion Management Settlement Credits play important roles in our electricity system, ensuring we have a system we can depend on to keep the lights on. These are programs that ensure that when Ontario families and businesses need electricity, it's there for them. If these programs were eliminated, reliability would be put at risk.

Both programs have evolved over the years, and costs have been constrained substantially. Our system operator continues to prioritize reliability and optimize programs within the existing electricity system framework.

Abuses within the system are completely unacceptable. That's why they have been investigated, and where wrongdoing was present, costs have been recovered and returned to ratepayers. We are also working together with our agency partners to review the potential for increasing legislative powers to assist our system operator in performing its critical responsibilities.

Our system operator is also in the process of implementing Market Renewal, which will reform Ontario's electricity markets, increasing both flexibility and efficiency. Market Renewal is projected to save up to \$5.2 billion over ten years.

Colin Nikolaichuk Minister's Office
Colin.Nikolaichuk@ontario.ca
416-325-2690

[Available Online](#)
[Disponible en Français](#)

Natasha Demetriades Communications Branch
natasha.demetriades@ontario.ca
416-327-3855

FR - ICI-cybersecurity-market practices - ENE.pdf

**Initiative d'économies d'énergie en milieu industriel, cybersécurité,
Programmes de commercialisation de la SIERE
*Déclarations de Glen Thibeault, ministre de l'Énergie***

NOUVELLES

6 décembre 2017

J'aimerais remercier le Bureau de la vérificatrice générale de son analyse. Notre gouvernement demeure déterminé à collaborer avec le Bureau de la vérificatrice générale et à examiner respectueusement les points de vue indépendants présentés à l'Assemblée législative.

Déclaration sur l'Initiative d'économies d'énergie en milieu industriel

Le programme Initiative d'économies d'énergie en milieu industriel a réussi à réduire la demande d'électricité en période de pointe, et a permis aux grands consommateurs de baisser leurs coûts d'électricité d'un tiers en moyenne, les aidant ainsi à demeurer compétitifs et à se concentrer sur la création d'emplois.

En effet, notre exploitant de réseau estime que ce programme a réduit la demande en période de pointe d'environ 1 300 mégawatts en 2016, ce qui équivaut à la demande d'électricité en période de pointe d'une ville grande à peu près comme Mississauga. Ce chiffre correspond environ à 6 pour cent de la demande d'électricité en période de pointe en Ontario.

Cette baisse signifie que ce programme a contribué à éviter le besoin de construire de nouvelles installations de production coûteuses sur le long terme, ce qui représente un avantage pour tous les contribuables de la province, aussi bien résidentiels que commerciaux.

En vertu du Plan ontarien pour des frais d'électricité équitables, le programme a été récemment élargi pour inclure beaucoup plus d'entreprises en Ontario, notamment celles des secteurs manufacturier et serricole dont la demande de pointe mensuelle moyenne dépasse 500 kilowatts.

Déclaration sur la cybersécurité

Protéger notre réseau d'électricité est une priorité absolue pour la Société indépendante d'exploitation du réseau d'électricité. La North American Electric Reliability Corporation (NERC) a récemment effectué une vérification de notre exploitant de réseau et a conclu que la SIERE est pleinement conforme aux normes d'exploitation à l'échelle du continent, y compris aux règles de protection en cas de cyberattaque récemment instaurées qui représentent un pas important pour atténuer les cybermenaces contre le réseau de production-transport. Notre exploitant de réseau accorde une grande importance à la cybersécurité, et a déjà amorcé le processus de recrutement d'un nouveau directeur de l'information (DI), en mettant l'accent sur la cybersécurité. Il envisage également de créer un poste de direction en cybersécurité dont le titulaire devra présenter des rapports aux membres de la direction et du conseil d'administration.

Notre exploitant de réseau a également entrepris de donner suite aux recommandations précédentes portant sur l'augmentation du nombre d'employés en cybersécurité, ce qui correspond aux recommandations de la vérificatrice générale.

Il est important de noter que notre exploitant de réseau se conforme à toutes les normes de Protection des infrastructures essentielles en vigueur de la NERC. Le secteur de l'électricité est unique, car il est le seul secteur d'infrastructures critiques devant respecter des normes en cybersécurité obligatoires et contraignantes.

Déclaration sur les programmes de commercialisation de la SIERE

Nous sommes convaincus que la Commission de l'énergie de l'Ontario et notre exploitant de réseau offriront un marché de l'électricité efficace, fiable et équitable à tous les contribuables de la province. Les programmes « Real-Time Generation Cost Guarantee » et « Congestion Management Settlement » jouent un rôle important dans notre réseau électrique afin de nous garantir un réseau sur lequel nous pouvons compter pour notre approvisionnement. Ces deux programmes sont conçus pour répondre aux besoins en électricité des familles et des entreprises ontariennes. S'ils sont supprimés, la fiabilité du réseau sera menacée.

En effet, les programmes ont évolué au fil des ans et les coûts ont été considérablement limités. Notre exploitant de réseau continue d'accorder la priorité à la fiabilité et d'optimiser les programmes au sein de la structure actuelle de notre réseau d'électricité.

Les abus dans le système sont totalement inacceptables. C'est la raison pour laquelle ils ont fait l'objet d'une enquête. Dans les cas où il y a eu abus, les coûts ont été recouvrés et remboursés aux contribuables. Nous collaborons également avec nos partenaires pour étudier la possibilité d'accroître les pouvoirs législatifs pour aider notre exploitant de réseau à assumer ses responsabilités essentielles.

Notre exploitant de réseau s'attache également à mettre en œuvre le renouvellement du marché, ce qui permettra de réformer les marchés de l'électricité en Ontario et ainsi d'améliorer la souplesse et l'efficacité. Le projet de renouvellement du marché devrait faire économiser jusqu'à 5,2 milliards sur dix ans.

Colin Nikolaichuk Bureau du ministre
Colin.Nikolaichuk@ontario.ca
416 325-2690

Disponible en ligne
Available in English

Natasha Demetriades Direction des communications
natasha.demetriades@ontario.ca
416 327-3855

RT-GCG Backgrounder_Dec 5 v5 clean.pdf

Real-Time Generator Cost Guarantee Program

Background

Key Facts

- The Real Time-Generator Cost Guarantee (RT-GCG) program is a reliability measure that ensures sufficient generation is available to meet Ontario's demand for electricity
- The program is needed to adhere to North American power system reliability standards
- Eliminating this program would reduce the reliability of Ontario's electricity system
- Eight of nine North American system operators commit generators and compensate them for starting up
- Enhancements over the program's lifespan have resulted in pre-defined costs and stricter rules that increased transparency and efficiency
- The majority (up to 85 percent) of ineligible costs claimed under the previous design of the program have been recovered
- Two-thirds of the ineligible costs were submitted by one generator, who was fined an additional \$10 million
- The Market Renewal Program is making fundamental changes to Ontario's electricity market that will replace the RT-GCG program

Actions Taken to Improve the Program

- 2003** The RT-GCG program is created, then known as the Spare Generation Online Program
- 2009** More stringent eligibility requirements are introduced as new gas-fired generators come into service
- 2011** The Independent Electricity System Operator (IESO) commences comprehensive audit program of the RT-GCG program costs
- 2012** Revisions are made to eligibility and cost submissions
- 2013** The IESO completes onsite work for most audits and compiles preliminary findings
- 2014** The IESO commences settlement negotiations with a range of program participants and issues "Interpretation Bulletin" for generators to clarify eligible costs
- 2016** Total annual costs for the program are \$23 million, down significantly from \$61 million in 2014
- 2017** The IESO now pre-defines 14 of 15 eligible program costs, removing the potential for overpayments

The Next Step: Replacing the RT-GCG Program

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market. These

changes are being made through the IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market. The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.

The program will result in up to \$5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers. These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG Program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Background

The IESO-administered markets select and schedule enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having generators readily available allows the IESO to effectively meet demand, without reducing reliability.

Gas generators are often called on to meet Ontario's electricity demand but can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and be available that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, the IESO would be unable to ensure that generators are online to maintain reliability and would result in higher costs and negative impacts on reliability for Ontario and its neighbours.

The IESO's Market Assessment and Compliance Division monitors the operation of Ontario's electricity market, fostering compliance with the province's market rules and North American reliability standards. Their enforcement authorities also include the ability to audit certain market programs, and adjust payments from the program, similar to Canada Revenue Agency tax audits.

Ministry of Finance - Ministry of Energy, MOU f....pdf

From: [Manoharan, Kesayini \(MEDG/MRIS\)](#)
To: [Hunter, Robert A. \(ENERGY\)](#)
Cc: [Thouin, Alena \(ENERGY\)](#); [Murray, Maud \(ENERGY/MEDG/MRIS/MOI\)](#)
Subject: Ministry of Finance - Ministry of Energy, MOU for the Audit of Fair Hydro Plan Programs
Date: April 30, 2018 3:04:48 PM
Attachments: [Ministry of Finance - Ministry of Energy, MOU for the Audit of Fair Hydro Plan Programs - 18.04.30.pdf](#)

Hi Robert,

Please see attached for the approval log signed by legal for :

- **Ministry of Finance - Ministry of Energy, MOU for the Audit of Fair Hydro Plan Programs**

Thank you,

Kesayini Manoharan
Legal Director's Assistant
Ministries of Energy / Economic Development & Growth /
Research, Innovation & Science / Infrastructure / Accessibility
Legal Services Branch
56 Wellesley Street West, 5th Floor
Toronto, ON M7A 2E7
Tel: 416-326-1018



Ministry of Finance - Ministry of Energy, MOU .pdf

**Ontario****Ministry of Energy****Review / Approval Log**

Title/Subject

Ministry of Finance – Ministry of Energy, Memorandum of Understanding for the Audit of Fair Hydro Plan Programs

Date Due

Originated by
Robert HunterTelephone No.
416-325-6899Branch/Division
SNAP/DAP**Submission Type**

☐ MB20	☐ Communications Product
☐ Cabinet Submission	☐ Minister's letter/memo
☐ Briefing Note	☐ Deputy's letter/memo
☐ Meeting Note	☐ Contract/Procurement
☒ Other (specify) Memorandum of Understanding	

Additional Information re document (flag critical timing considerations, whether this is a revision to a previous note, etc.)

This Memorandum of Understanding is for the audit provisions of the Fair Hydro Plan Programs (including OREC, DRP, RRRP, FNDC, and OESP).

This MOU has been approved by the DMO for signature. (See attached email)

Reviewed by (if applicable)

Comments attached ▼

Division/Branch	Name	Signature	Date In	Date Out	Yes	No
☒ Legal	Maud Murray		30/04/2018	30/04/2018	☐	☐
☐ Communications					☐	☐
☒ Corporate Services	Robert Burns				☐	☐
☐ ADM (other Division)					☐	☐
☐ Other (e.g. other ministries)					☐	☐

Approved by (indicate required approvals with ✓)

Comments attached

Approving Official	Name	Signature	Date In	Date Out	Yes	No
☒ A/Manager	Ryan Zade		Apr 25 / 18			
☒ Manager	Mike Smith		Apr 25 th			
☒ Director	Karen Clark		Apr. 26/18.			
☒ ADM	Carolyn Calwell					
☐ DM	Serge Imbrogno					
☐ MO Staff						
☐ Minister	Hon. Glenn Thibeault					

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- ☐ Strategic, Network and Agency Policy
- ☐ Corporate Services
- ☐ Communications Branch
- ☐ Legal Services
- ☐ Investment and Governance Secretariat

RE_ ASC Letter.pdf

From: [Thouin, Alena \(ENERGY\)](#)
To: [Evans, Karen \(ENERGY\)](#); [Murray, Maud \(ENERGY\)](#)
Cc: [Cusimano, Jo-Anne \(ENERGY\)](#); [Lyon, Sam \(ENERGY\)](#); [Barbaro, Rachel \(ENERGY\)](#)
Subject: RE: ASC Letter
Date: October 17, 2017 3:04:00 PM
Attachments: [Draft Response to ASC v1.docx](#)

Good afternoon all

Please see attached draft response to ASC. At this time, we propose it goes from Blakes to ASC on October 27, 2017. Please let me know your comments and thoughts.

Alena

From: Evans, Karen (ENERGY)
Sent: October 17, 2017 2:01 PM
To: Thouin, Alena (ENERGY); Murray, Maud (ENERGY)
Cc: Cusimano, Jo-Anne (ENERGY); Lyon, Sam (ENERGY); Barbaro, Rachel (ENERGY)
Subject: Re: ASC Letter

Thanks a lot

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Thouin, Alena (ENERGY)
Sent: Tuesday, October 17, 2017 1:59 PM
To: Evans, Karen (ENERGY); Murray, Maud (ENERGY)
Cc: Cusimano, Jo-Anne (ENERGY); Lyon, Sam (ENERGY); Barbaro, Rachel (ENERGY)
Subject: RE: ASC Letter

Hi Karen

We have combined yours and Blakes draft as discussed. I will have a draft circulating shortly.

Thanks
Alena

From: Evans, Karen (ENERGY) <Karen.Evans@ontario.ca>
Date: Tuesday, Oct 17, 2017, 1:57 PM
To: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>, Murray, Maud (ENERGY) <Maud.Murray3@ontario.ca>
Cc: Cusimano, Jo-Anne (ENERGY) <Jo-Anne.Cusimano@ontario.ca>, Lyon, Sam (ENERGY) <Sam.Lyon@ontario.ca>, Barbaro, Rachel (ENERGY) <Rachel.Barbaro@ontario.ca>
Subject: Re: ASC Letter

Hi Alena

Wondering if you and Josh have been able to turn your attention to this?

Lmk.
Thx
Karen

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Thouin, Alena (ENERGY)
Sent: Thursday, October 12, 2017 4:56 PM
To: Evans, Karen (ENERGY); Murray, Maud (ENERGY)
Cc: Cusimano, Jo-Anne (ENERGY); Lyon, Sam (ENERGY); Barbaro, Rachel (ENERGY)
Subject: RE: ASC Letter

Thank you Karen
We will review.

Alena

From: Evans, Karen (ENERGY)
Sent: October 12, 2017 4:16 PM
To: Murray, Maud (ENERGY); Thouin, Alena (ENERGY)
Cc: Cusimano, Jo-Anne (ENERGY); Lyon, Sam (ENERGY); Barbaro, Rachel (ENERGY)
Subject: ASC Letter

Hi Maud and Alena
I hope all is well and Alena, I hope your teeth feel better.

I have created a new letter to send to the ASC which attempts to explain out the 25% FHP reduction, why the system is more affordable and why we believe it is more reliable and planned better. I opted for a letter so that the ASC might be able to lift elements from it in order to respond to complainants.

I'm not sure that this is the right approach from a legal perspective. You may need to redesign it into a better format for your use with the ASC.

I have not run it through policy yet. I wanted to get feedback from you first in case you feel I'm too far off in the weeds.

Let me know your thoughts/advice.

Tx
Karen

Karen Evans
Director, Communications Branch
Ontario Ministry of Energy
4th Floor, Hearst Block, Queen's Park
900 Bay Street, Toronto, ON M7A 2E1
O: 416-327-6541 C:416-705-9637

Draft Response to ASC v1.pdf

VIA E-MAIL
CONFIDENTIAL

Mr. Rafe Engle
R.S. Engle P.C.
26 Sussex Avenue
Toronto, ON M5S 1J7

**PRIVILEGED AND CONFIDENTIAL –
DRAFT**

Dear Mr. Engle:

ASC Ref. # 142792, 142861 and 142892 – Fair Hydro Plan

We are writing in response to Janet Feasby's letter of September 25, 2017 and our call with you and Ms. Feasby of October 3, 2017. The Ministry of Energy would like to assure the ASC that its advertising is intended to inform Ontarians about the substantial benefits of new legislation designed to reduce hydro bills for residential consumers and is in no way intended to mislead consumers about the Fair Hydro Plan Program ("**Program**"). The Ministry stands behind the truthfulness of the messaging and intends to continue communicating with Ontarians about the benefits of the Program once this matter is resolved.

A. SUMMARY OF THE ISSUES

As a preliminary matter, the Ministry's position is that, with the exception of the complaint related to the improved reliability of Ontario's electricity system, the two other complaints – i.e., pertaining to the 25% reduction of household electricity bills and bill affordability – are "non-reviewable" in accordance with the ASC's *Consumer Complaints Procedure* ("**Procedure**"). As explained in more detail below, the regulations under the *Ontario Fair Hydro Act, 2017* (the "**Act**") specifically authorize the making of these claims.¹ Additionally, the regulations require electricity suppliers to make such claims on their invoices and on bill inserts. Thus, it would be inconsistent with the regulations for the ASC to declare that the Ministry amend or withdraw advertising containing the very claims that the elected representatives of the Ontario Legislature and Cabinet have required electricity suppliers to make. On this basis alone, the ASC should reconsider whether it is appropriate to pursue these complaints further.

On our October 3, 2017 call, you indicated that the ASC received complaints in respect of three specific claims:

- 1) "Household electricity bills will be an average of 25% less" ("**25% reduction claim**");
- 2) "Recent changes have made bills more affordable" ("**affordability claim**"); and

¹ *Ontario Fair Hydro Plan Act, 2017*, S.O. 2017, c. 16, Sched. 1, online: <https://www.ontario.ca/laws/statute/17o16>.

- 3) “Upgrades to our [Ontario’s] electricity system have made it more reliable for Ontarians” (“**reliability claim**”).

None of these claims contravenes the *Canadian Code of Advertising Standards*. In brief, and as discussed in more detail below:

1) The 25% reduction claim is accurate and does not contravene section 1(a) of the Code.

- The Act and accompanying regulations task the Ontario Energy Board (“**Board**”) to take measures to ensure that an average residential consumer receives an invoice that is 25% less than the consumer would have received in the absence of the Program.
- The Board implemented a number of measures to reduce consumer invoices, including: 1) lowering time-of-use prices (electricity rates), 2) removing the fees associated with electricity support programs, and 3) granting an 8% rebate for the provincial portion of the HST.
- As a result of these measures, the average consumer now receives a monthly bill of \$121, which is 25% lower than the \$162 bill that the consumer would have received absent the program.

2) The affordability claim does not contravene section 1(b) of the Code since it is properly qualified and does not omit relevant information about long term costs.

- Contrary to the complaint, the representation in issue actually states: “Recent changes have made electricity bills more affordable. By this summer, household electricity bills will be an average of 25% less, and electricity rates won’t increase beyond the rate of inflation for four years.” The time limitation for the affordability claim is clear: rate increases will be held to inflation for four years.
- The Government is not under any obligation to include in its advertising what might happen after four years, just like any other advertiser that advertises new, lower prices on a product or service. The advertiser is free to choose whether to subsidize the lower prices from current or future revenues and is under no obligation to disclose this to the public.
- Furthermore, the Government has taken additional steps to reduce electricity bills in the short term and system costs in the long term by implementing programs to support farms, businesses and consumers on First Nations reserves, implementing more competitive procurement programs and deferring new plant construction, and enhancing the efficiency of the electricity market.

3) The reliability claim is supported by competent and reliable evidence and thus does not contravene section 1(e) of the Code.

- Since 2003, the Government has invested more than \$70 billion in clean generation, conservation and improving Ontario’s transmission and distribution grid. As a result, **[NTD: insert statistics demonstrating that the electricity generation and distribution system is more reliable today. See draft note in Section 3 below]**

B. DISCUSSION

Preliminary Issue: The 25% reduction claim and the affordability claim are non-reviewable complaints under the Procedure.

Under the Procedure, the “Council shall decline to accept, or to proceed further with, a complaint, or any part thereof, where it is of the opinion that: the advertising, or such part of the advertising to which the complaint refers ... has been, specifically, approved by an agency (or some other comparable entity) of the Canadian Government.” Although the Procedure does not define the term “Canadian Government”, we understand that the ASC’s position is that the provision is intended to apply to situations where the advertisement has been authorized by a government entity and thus could not, under law, be found to be false or materially misleading.

The Ministry’s view is that the ASC should declare that the complaint is non-reviewable since the claims in issue have been specifically authorized by regulations promulgated by the Province’s elected representatives.

By way of background, on June 1, 2017, Bill 132 (the Act) received Royal Assent and entered into force. Section 7 of the Act requires that the Board take measures to ensure that the average consumer receives an invoice that is 25% less than the consumer would have received in the absence of the Program. Section 11 of the Act authorizes the provincial Cabinet to make regulations that set out the applicable methodologies for reducing a consumer’s bill.

Ontario Regulation 195/17: *Fair Adjustment under Part II of the Act* (“**Fair Adjustment Regulation**”) explains how the reduction in the invoiced amount is to be achieved. Section 3 of the Fair Adjustment Regulation requires that the total invoice paid by the average consumer must be 25% lower than the invoice would have been absent the adjustment by the Board.

Regulated rate consumers, first fair adjustment under s. 7 of the Act

3. For the purposes of section 7 of the Act, the Board shall determine the rates that would, when applied for the purposes of determining the commodity price of the electricity included in Total Invoice Amount B, result in Total Invoice Amount B being 25 per cent less than Total Invoice Amount A.

In a separate regulation, Ontario Regulation 196/17: *Invoicing Requirements* (“**Invoicing Requirements Regulation**”), Cabinet specifically mandated the use of certain statements on electricity bills. Section 1 of the Invoicing Regulation states that invoices must include the following statement:

“Ontario’s Fair Hydro Plan substantially lowers electricity bills for typical residential consumers. This includes the eight per cent rebate introduced

in January 2017, and builds on previous initiatives to deliver broad-based relief on all electricity bills.”

Section 2 requires that paper invoices must include bill inserts that feature the following statements in reasonably prominent locations on the face of the bill insert: “Ontario’s Fair Hydro Plan” and “Bringing electricity bills down”. Moreover, the insert must contain the following wording:

Ontario’s Fair Hydro Plan

Electricity bills will be lowered by 25 per cent on average for residential consumers

Rate increases will be held to inflation for four years

As many as half a million small businesses and farms will also benefit from this reduction

Lower-income Ontarians and those living in eligible rural communities will receive even greater reductions, as much as a 40 to 50 per cent cut

The benefit will vary for individual consumers depending on electricity usage and service territory. These measures include the eight per cent rebate introduced in January 2017 and build on previous initiatives to deliver broad-based relief on all electricity bills.

To find out more, visit ontario.ca/FairHydroPlan.

Electricity suppliers must include these bill inserts at least once every quarter in the case of specified consumers billed on a monthly basis or twice during the period in the case of consumers billed on a seasonal basis. The Minister can authorize electricity suppliers to use different wording if the supplier cannot incorporate the above-noted language onto its invoices.

In essence, the very claims that are at the subject of the complaints before the ASC have been specifically authorized by the elected representatives of the Province. If electricity suppliers are required by law to make the 25% reduction claim and the affordability claim, then surely the Ministry and other agencies of the Government of Ontario can make the same claims free of scrutiny from the ASC, the Competition Bureau or the courts.

On this basis, the Ministry asks that the ASC declare the 25% reduction claim and the affordability claim “non-reviewable” complaints.

Issue 1: The 25% reduction claim is accurate and does not contravene section 1(a) of the Code.

The Board implemented the following measures to reduce invoiced amounts to residential consumers by an average of 25%:

- A portion of the fixed costs of running Ontario's power generation fleet and conservation programs were refinanced over a longer term. This accounted for a 15% reduction to the Electricity line on hydro bills. To achieve the reductions for consumers, the Board lowered the time-of-use prices per kilowatt hour (kWh) effective July 1, 2017.
- The Board shifted the costs associated with social support programs such as the Ontario Electricity Support Program and the Rural or Remote Protection Program from rate payers to the general revenue fund, resulting in a 2% reduction.
- The Government issued an 8% rebate for the provincial portion of the HST.

The Board determined that the rates effective July 1, 2017 under the Program resulted in an average monthly bill of \$121, which is 25% lower than the \$162 bill the consumer would have received absent the program.²

Issue 2: The affordability claim does not contravene section 1(b) of the Code since it is properly qualified and does not omit relevant information about long term costs.

Contrary to the complaint, the representation in issue actually states: "Recent changes have made electricity bills more affordable. By this summer, household electricity bills will be an average of 25% less, and electricity rates won't increase beyond the rate of inflation for four years." The time limitation for the affordability claim is clear: rate increases will be held to inflation for four years.

The Ministry is not under any obligation to include in its advertising what might happen after four years, just like any other advertiser that advertises new, lower prices on a product or service. The Government is free to choose whether to subsidize the lower prices from current or future revenues and is under no obligation to disclose this to the public.

The 30-second radio advertisements directed consumers to the ontario.ca/fairhydroplan website where they could learn more about the Program. The website makes it clear that after four years, prices could increase, although the Government also indicates on the website that it will find opportunities to reduce costs to address affordability issues in the long term.

In addition to the 25% reduction in the average bill, the Government has also taken steps to reduce electricity bills in the short term and system costs in the long term.

- The Government implemented additional programs to reduce the invoiced amounts for farms and businesses as well as increased support – as much as 30 to 40% – for rural and remote customers. On-reserve First Nations consumers and vulnerable Ontarians are benefiting from even greater reductions.

² A "proxy" or "average" consumer uses 750 kWh of electricity per month and has a typical time-of-use profile.

- The Government amended the Green Energy Investment Agreement, reducing Feed-in Tariff prices, introducing a competitive process for procuring power from large renewable energy projects and deferring the construction of new nuclear units to reduce system costs.
- The Government will release an updated Long-Term Energy Plan (LTEP) this year. The 2017 LTEP will focus on continuing to take additional costs out of the electricity system. For example, the IESO's Market Renewal initiative will result in meeting future system needs at the lowest cost by creating a more efficient marketplace with competitive and transparent mechanisms. This is expected to save up to \$5.2 billion over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.
[NTD: MOE, can we provide additional detail here?]

Issue 3: The reliability claim is supported by competent and reliable evidence, and thus does not contravene section 1(e) of the Code.

Since 2003, the Government has invested more than \$70 billion in clean generation, conservation and improving Ontario's transmission and distribution grid. Among the measures taken to enhance the reliability of Ontario's power grid include:

- The addition of new natural gas supply to support reliability in Northern and rural communities.
- Programs and incentives to increase the amount of generation in the marketplace from renewable sources, including the contracting of **• MW of new generation as of 2016.**
- The introduction of the Feed-in Tariff and MicroFit programs to encourage new and smaller scale generator participation.
- Enhancing competition by allowing new generators to participate, encouraging market pricing and adding electricity as a backstop should power be in short supply.
- The creation of new interconnections with the electricity systems in Manitoba, Michigan, Minnesota, New York and Quebec to backstop tight supply situations for Ontario and surrounding markets.
- Updated codes and standards to increase efficiency in our homes and in business operations, to reduce overall electricity demand.

As noted in the attached documents, Ontario's generation and transmission system is more reliable today.

- Ontario has an additional 8 gigawatts of capacity and produces four terawatt-hours more electricity compared to the same period 10 years ago.
- **[NTD: insert other examples of how the system is more reliable. Are there fewer outages? Are the blackout periods shorter/less frequent? Fewer customer complaints? Ability to restore service faster after major events, such as snowstorms?]**
- **[Support with reference to documents to be enclosed with the submission]**

C. NEXT STEPS

The Ministry would appreciate receiving the ASC's feedback as soon as possible in order to come to a satisfactory resolution of this matter. Due to the nature of the ads and the advertiser, we would also appreciate the opportunity to discuss any continuing concerns that the ASC may have in respect of the advertising before any further steps are taken to refer this matter to the Standards Council.

Thank you again for your consideration of our position.

Yours very truly,

Joshua A. Krane

- c. Karen Evans, *Ministry of Energy*
Lorie Sloan, *Advertising Review Board*
Alena Thouin, *Legal Services Branch*

RE_ ASC response - Privileged and Confidential(1).pdf

From: [Kacaba, Jennifer \(ENERGY\)](#)
To: [Thouin, Alena \(ENERGY\)](#)
Subject: RE: ASC response - Privileged and Confidential
Date: November 27, 2017 9:22:32 PM
Attachments: [TOR_2528-#23258644-v2-Follow-up Letter - ASC re Fair Hydro Plan - jk edits.docx](#)

Hi Alena,

I have a few comments on the draft. Happy to discuss tomorrow. In the meantime, I will continue to think through some of the comments that I made in the bubbles and see if I can come up with additional comments or examples.

Jennifer

From: Thouin, Alena (ENERGY)
Sent: November 27, 2017 6:16 PM
To: Kacaba, Jennifer (ENERGY)
Subject: RE: ASC response - Privileged and Confidential

I would suggest as soon as you have a moment.

Alena Thouin

Deputy Director, Legal Services Branch
Ministries of Energy / Infrastructure / Economic Development & Growth /
Research, Innovation & Science / Accessibility
56 Wellesley St. W. 18th Floor, Toronto, ON M7A 2E7
Tel: 416-325-1834 **Email:** alena.thouin@ontario.ca

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From: Kacaba, Jennifer (ENERGY)
Sent: November 27, 2017 6:15 PM
To: Thouin, Alena (ENERGY)
Subject: RE: ASC response - Privileged and Confidential

Ok do you want me to review tonight or tomorrow am?

From: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Date: Monday, Nov 27, 2017, 6:14 PM
To: Kacaba, Jennifer (ENERGY) <Jennifer.Kacaba@ontario.ca>
Subject: RE: ASC response - Privileged and Confidential

Please
We can discuss tomorrow

Alena Thouin

Deputy Director, Legal Services Branch
Ministries of Energy / Infrastructure / Economic Development & Growth /
Research, Innovation & Science / Accessibility
56 Wellesley St. W. 18th Floor, Toronto, ON M7A 2E7
Tel: 416-325-1834 **Email:** alena.thouin@ontario.ca

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From: Kacaba, Jennifer (ENERGY)
Sent: November 27, 2017 6:14 PM
To: Thouin, Alena (ENERGY)
Subject: FW: ASC response - Privileged and Confidential

Hi Alena,

I meant to connect with you on this response this afternoon but I forgot. Do you want me to review the draft?

Jennifer

From: KRANE, JOSHUA <JOSHUA.KRANE@blakes.com>
Date: Monday, Nov 27, 2017, 11:36 AM
To: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Cc: Kacaba, Jennifer (ENERGY) <Jennifer.Kacaba@ontario.ca>
Subject: RE: ASC response - Privileged and Confidential

Privileged and Confidential

Hi Alena and Jennifer,

Thanks for sending the draft. A revised submission and blackline are attached for your reference.

In terms of the changes made:

- I added a confirmatory statement at the beginning of the letter about the 25% reduction claim that the ASC had requested on page 3 of its November 13 memo.
- I kept most of the text on the affordability claim but repackaged it into three main arguments:
 - o The claim needs to be read in light of the 25% reduction. It is not a blanket claim that electricity bills are more affordable.
 - o The ASC's assumption (that the reductions were being achieved through tax increases) is not accurate.
 - o It is not certain that invoices will be higher in 2021 due to the efforts being taken to find cost savings in the system.
- On reliability, the ASC's memo was clear that it is looking for evidence of fewer outages/quicker restoration of electricity. The ASC assesses claims based on the general impression from a typical consumer. Ideally, the MOE can provide the ASC with 2 or 3 documents (even if they are from the IESO) that show that Ontarians experience fewer outages on average or have their service restored more quickly today compared to 2005, following the significant investments that have been made.

Please let me know if you would like to schedule a call to discuss.

I would also appreciate your confirmation that I can go back to the ASC to let them know that we are working on a response since it has been two weeks since they sent their memo.

Best regards,

Josh

Joshua A. Krane
Partner
joshua.krane@blakes.com
Dir: 416-863-4187
Cell: 416-471-2068



Blake, Cassels & Graydon LLP
199 Bay Street, Suite 4000, Toronto ON M5L 1A9
Tel: 416-863-2400 Fax: 416-863-2653

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Blake, Cassels & Graydon LLP | Barristers & Solicitors | Patent & Trade-mark Agents

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From: Thouin, Alena (ENERGY) [<mailto:Alena.Thouin@ontario.ca>]

Sent: Friday, November 24, 2017 6:25 PM

To: KRANE, JOSHUA

Cc: Kacaba, Jennifer (ENERGY)

Subject: FW: ASC response

Hi Josh

Our DM has approved the following supporting responses. These ofcourse will need to be turned into a draft submission.

The timing is relatively tight, not sure if this is something you can prepare by EOD Monday?

Thanks and let us know how we can assist.

Alena Thouin

Deputy Director, Legal Services Branch

Ministries of Energy / Infrastructure / Economic Development & Growth /
Research, Innovation & Science / Accessibility

56 Wellesley St. W. 18th Floor, Toronto, ON M7A 2E7

Tel: 416-325-1834 **Email:** alena.thouin@ontario.ca

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TOR_2528-#23258644-v2-Follow-up_Letter_-_ASC_.pdf



Blake, Cassels & Graydon LLP
Barristers & Solicitors
Patent & Trade-mark Agents
199 Bay Street
Suite 4000, Commerce Court West
Toronto ON M5L 1A9 Canada
Tel: 416-863-2400 Fax: 416-863-2653

December ●, 2017

VIA E-MAIL
CONFIDENTIAL

Mr. Rafe Engle
R.S. Engle P.C.
26 Sussex Avenue
Toronto, ON M5S 1J7

Joshua A. Krane

Partner

Dir: 416-863-4187

joshua.krane@blakes.com

Reference: 14229/1

**PRIVILEGED AND
CONFIDENTIAL – DRAFT**

Dear Mr. Engle:

ASC Ref. # 142792, 142861 and 142892 – Fair Hydro Plan

Further to your letter of November 13, 2017, we confirm your understanding that electricity bills to hydro customers will be lowered, on average, by 25% effective January 1, 2017, and, for the next four years, any increases to these reduced rates will not exceed the annual rate of inflation. In response to the other two issues, we provide additional information below. We would be pleased to convene a call with you to discuss this matter once you have reviewed this submission.

A. Affordability Claim

It is important that the ASC assess the affordability claim in the context of the entire message, which we reproduce below:

Recent changes have made electricity bills more affordable. By this summer, household electricity bills will be an average of 25% less, and electricity rates won't increase beyond the rate of inflation for four years. Learn more at Ontario.ca/FairHydroPlan.

Your memorandum acknowledges that the claim may be "literally true" but we understand the ASC's position is that the claim is not sufficiently qualified in light of the "longer term financial pain, as has been argued by critics of the program."

First, the "affordability claim" in the message above is made in the context of the "25% reduction" claim. Electricity bills are more affordable today (and will be for the next four years) because the government, through the Ontario Energy Board, has taken steps to reduce the invoice amounts by an average of 25% and will hold any increases to the rate of inflation. The qualifying language starting with the words "by this summer" is just as prominent in the message as the words "more affordable". In the leading case on this issue, the Ontario Superior Court dismissed an application for an injunction finding that the qualifying words "up to" appeared as prominently in the advertising as the associated "40% less" claim:

The qualifiers in the instant case must be considered in the context which the general impression of the advertisement conveys. These qualifiers, like the disclaimers in the above-noted cases, attempt to explain or further restrict the generality of the given representation. Most importantly, the qualifiers form part of the primary representation in that they do not appear elsewhere in the ad in small print marked with an asterisk. (Emphasis added)¹

The affordability claim cannot be disentangled from the 25% reduction claim, which immediately follows, nor should the MOE be required to make additional disclosure in a 30-second radio spot about *possible* long term increases in invoice amounts. No advertiser is ever held to a standard that requires it to explain that invoices/prices may increase after a price reduction.

Second, your memo states that “conventional advertisers cannot tax their customers indirectly or directly, as governments can, for additional revenue to make up any shortfall in the actual cost of what’s being sold by the advertiser and purchased by the consumer.” This statement is not an accurate representation of how the current Plan achieves the invoice reductions. No additional taxes are being levied to make up a shortfall.

The majority of the invoice reductions (15%) will be achieved by refinancing the “global adjustment” or “GA”, which represents the capital costs that have been incurred to rebuild Ontario’s electricity generation and transmission system. Instead of making consumers pay those costs today, the government has mandated that those costs be repaid over the life-cycle period for the assets. The GA refinancing ensures that the deferred costs are borne by future ratepayers, who ~~are will be the~~ users the electricity system, and not taxpayers.

The government achieves the bulk of the remaining reductions (8%) through a rebate of the provincial portion of the HST. Again, the government is not taxing Ontarians to cover this rebate. After four years, the HST on electricity ~~may could~~ be reinstated, but ~~it is this would not be~~ a new tax.

The MOE acknowledges that the smallest portion of the rate reduction (2%) is being funded through tax revenues, but these are the costs that ought to properly be borne by taxpayers and not ratepayers. The OESP and RRRP are programs designed to support specific electricity consumers ~~that who~~ 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. The decision was not made to recover a shortfall between the cost of electricity and amounts recovered from ratepayers

Third, the government has not hidden the fact that electricity invoices ~~may could~~ increase at levels above inflation in 2021. As noted above, the 30-second radio spot directed consumers to the Fair Hydro Plan website where they ~~can could~~ obtain additional information about how the Plan works. The government’s policy objective was to ensure that ratepayers, today and in the future, pay for the

Commented [TB1]: Not sure if the decision to use may vs. could is deliberate based on case law or some other reason. I have made the edits based on what I think sounds more appropriate but feel free to ignore.

Commented [TB2]: This point doesn’t seem to connect to the rest of the paragraph. Consider ending paragraph at previous sentence. Or adding another sentence after this one to elaborate and conclude paragraph.

¹ Purolator Courier Ltd. v. United Parcel Service Canada Ltd., 1995 CanLII 7313 (ON SC) at para. 56.

investments in the electricity system in proportion to the benefit these consumers receive from the system. ~~The MOE~~The Ministry has been clear with Ontarians that prices ~~may~~could increase over time.²

It is not certain that invoices will be higher in 2021 and therefore, the representations are not misleading. Moving forward, 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 and help ensure the affordability of electricity into the future. Ontario has released its 2017 Long-Term Energy Plan (2017 LTEP) which is focussed on continuing to put downward pressure on electricity bills over the long-term. For example, the Independent Electricity System Operator's (IESO) Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The project is expected to save up to \$5.2 billion and forms a key component of Ontario's plan to manage the cost of electricity over the long-term.

Accordingly, the MOE's position is that the affordability claim is qualified by the fact that invoices will not increase for four years and directs ratepayers to visit the Fair Hydro Plan website for more information. If the ASC is aware of standalone "affordability claims", i.e., without the additional language referenced above, the MOE would be pleased to discuss this matter further. However, it is the MOE's understanding that no such claims have been brought to the ASC's attention at this time.

B. Reliability Claim

The claim in issue is that "upgrades to our electricity system have made it more reliable." This claim is true and supported by substantial evidence available from the IESO. As noted in the prior submission:

- Between 2005 and 2015, the province saw a net growth in electricity supply: over six GW of installed coal-fired capacity was shut down and replaced with more than 14 GW of renewable, natural gas fired, nuclear and demand response resources.
- Transmission capacity has increased by about 10,000 MW since 2003, which allows the electricity system to reliably transfer increased amounts of power from one part of Ontario to another.

- [NTD: the ASC's position is that the consumer understands "reliability" to mean continuity of supply, i.e., when a customer goes to turn on an electricity source, the source delivers electricity. The ASC referenced "outages" as the key metric, which also appears as a key metric in the NERC definition of "adequate level of reliability". Accordingly, please provide outage statistics showing that the electricity system has fewer outages today than it did in 2005 or, alternatively, that Ontario has put in place mechanisms to ensure that electricity is restored more quickly today compared to 2005.]**

² "The plan enables the Independent Electricity System Operator and Ontario Power Generation to work together to spread out the costs of our clean electricity investments over a longer period of time. We've committed to holding rates to inflation for four years. In later years, the cost of refinancing will be recovered from ratepayers." See <https://www.ontario.ca/page/ontarios-fair-hydro-plan>.

Commented [TB3]: ASC begins their submission by referring to us as MOE and then later refers to us as the Ministry or government. Not sure if there are pros/cons to using one label over another.

Commented [TB4]: Consider whether there are there any other independent metrics or sources that we could cite in addition to the IESO? It might make this point stronger if the sources cited are less close to government. (I need to think about this further)

Commented [TB5]: This is an interesting point. My understanding is that the system has fewer outages today as a result of the upgrades made after the blackout in 2003. However, as I understood there are multiple things that can cause blackouts severe weather, animals, trees falling, power failures in other parts of the grid. Not sure if it would be beneficial to address the issue that sometimes outages are caused by things outside of government's control.

Commented [TB6]: Should we cite evidence that outages aren't the only metric for measuring reliability for consumers? Or is it enough that this consumer has complained to the ASC about outages.

Blakes

Page 4

While it is possible that some consumers have experienced less reliable service today, this does not detract from the truthfulness of the advertising. For the vast majority of consumers, Ontario's electricity system, as a whole, is more reliable today than in 2005 following the more than \$70 billion in investments made to increase generation and transmission capacity and **[NTD: supplement with outage information]**.

* * * * *

The MOE appreciates the ASC's willingness to continue a dialogue in respect of the messages in issue. If it would be helpful, we can make ourselves available for a call to discuss this submission and next steps.

Yours very truly,

Joshua A. Krane

- c. Sam Lyon, *Ministry of Energy*
Laurie Sloan, *Advertising Review Board*
Maud Murray, *Legal Services Branch*

Commented [TB7]: Is it accurate to add in something like this?

RE_ ASC response - Privileged and Confidential.pdf

From: [Thouin, Alena \(ENERGY\)](#)
To: [Kacaba, Jennifer \(ENERGY\)](#)
Subject: RE: ASC response - Privileged and Confidential
Date: November 28, 2017 12:15:44 PM

Thanks

Let's chat about this.

We already raised similar argument and it got rejected as you saw.

Although it was in respect of legislation. Interesting thought.

Let's discuss.

Sent with BlackBerry Work
(www.blackberry.com)

From: Kacaba, Jennifer (ENERGY) <Jennifer.Kacaba@ontario.ca>
Date: Tuesday, Nov 28, 2017, 11:46 AM
To: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: ASC response - Privileged and Confidential

Hi Alena,

I was reviewing the ASC code this morning and noticed in the provision on Non-reviewable complaints, the ASC states:

ASC or Council shall decline to accept, or to proceed further with, a complaint, or any part thereof, where it is of the opinion that:

...

c. the advertising, or such part of the advertising to which the complaint refers:

- i. is, substantially, also the subject of litigation or other legal action then actively undertaken and pursued in Canada; or
- ii. is under review, or subject to an order, by a Canadian court, or an agent or agency (or some other comparable entity) of the Canadian Government; or

Since the National Steel Car case is essentially about whether the GA appropriately allocates costs, it is fundamentally attacking the entire underpinning of the Fair Hydro Plan. I think there is an argument that at least the underpinning of the Fair Hydro Plan is the subject of litigation, although the code highlights 'substantially' so we need to think through how to position this.

I asked James about the link between National Steel Car and Fair Hydro Plan (I didn't tell him about the ASC complaint). I understand that National Steel Car didn't raise the Fair Hydro Plan in its pleadings but in Tom Adam's affidavit there was a reference to the Fair Hydro Plan.

I have asked James to send me Tom Adams affidavit and will review in more detail.

Jennifer

From: Kacaba, Jennifer (ENERGY)
Sent: November 27, 2017 9:23 PM
To: Thouin, Alena (ENERGY)
Subject: RE: ASC response - Privileged and Confidential

Hi Alena,

I have a few comments on the draft. Happy to discuss tomorrow. In the meantime, I will continue to think through some of the comments that I made in the bubbles and see if I can come up with additional comments or examples.

Jennifer

From: Thouin, Alena (ENERGY)
Sent: November 27, 2017 6:16 PM
To: Kacaba, Jennifer (ENERGY)
Subject: RE: ASC response - Privileged and Confidential

I would suggest as soon as you have a moment.

Alena Thouin

Deputy Director, Legal Services Branch
Ministries of Energy / Infrastructure / Economic Development & Growth /
Research, Innovation & Science / Accessibility
56 Wellesley St. W. 18th Floor, Toronto, ON M7A 2E7
Tel: 416-325-1834 **Email:** alena.thouin@ontario.ca

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From: Kacaba, Jennifer (ENERGY)
Sent: November 27, 2017 6:15 PM
To: Thouin, Alena (ENERGY)
Subject: RE: ASC response - Privileged and Confidential

Ok do you want me to review tonight or tomorrow am?

From: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Date: Monday, Nov 27, 2017, 6:14 PM
To: Kacaba, Jennifer (ENERGY) <Jennifer.Kacaba@ontario.ca>
Subject: RE: ASC response - Privileged and Confidential

Please
We can discuss tomorrow

Alena Thouin

Deputy Director, Legal Services Branch
Ministries of Energy / Infrastructure / Economic Development & Growth /
Research, Innovation & Science / Accessibility
56 Wellesley St. W. 18th Floor, Toronto, ON M7A 2E7
Tel: 416-325-1834 **Email:** alena.thouin@ontario.ca

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From: Kacaba, Jennifer (ENERGY)
Sent: November 27, 2017 6:14 PM
To: Thouin, Alena (ENERGY)
Subject: FW: ASC response - Privileged and Confidential

Hi Alena,

I meant to connect with you on this response this afternoon but I forgot. Do you want me to review the draft?

Jennifer

From: KRANE, JOSHUA <JOSHUA.KRANE@blakes.com>
Date: Monday, Nov 27, 2017, 11:36 AM
To: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Cc: Kacaba, Jennifer (ENERGY) <Jennifer.Kacaba@ontario.ca>
Subject: RE: ASC response - Privileged and Confidential

Privileged and Confidential

Hi Alena and Jennifer,

Thanks for sending the draft. A revised submission and blackline are attached for your reference.

In terms of the changes made:

- I added a confirmatory statement at the beginning of the letter about the 25% reduction claim that the ASC had requested on page 3 of its November 13 memo.
- I kept most of the text on the affordability claim but repackaged it into three main arguments:
 - o The claim needs to be read in light of the 25% reduction. It is not a blanket claim that electricity bills are more affordable.
 - o The ASC's assumption (that the reductions were being achieved through tax increases) is not accurate.
 - o It is not certain that invoices will be higher in 2021 due to the efforts being taken to find cost savings in the system.
- On reliability, the ASC's memo was clear that it is looking for evidence of fewer outages/quicker restoration of electricity. The ASC assesses claims based on the general impression from a typical consumer. Ideally, the MOE can provide the ASC with 2 or 3 documents (even if they are from the IESO) that show that Ontarians experience fewer outages on average or have their service restored more quickly today compared to 2005, following the significant investments that have been made.

Please let me know if you would like to schedule a call to discuss.

I would also appreciate your confirmation that I can go back to the ASC to let them know that we are working on a response since it has been two weeks since they sent their memo.

Best regards,

Josh

Joshua A. Krane
Partner
joshua.krane@blakes.com
Dir: 416-863-4187
Cell: 416-471-2068



Blake, Cassels & Graydon LLP
199 Bay Street, Suite 4000, Toronto ON M5L 1A9
Tel: 416-863-2400 Fax: 416-863-2653

blakes.com | [Twitter](#) | [Unsubscribe](#)

Blake, Cassels & Graydon LLP | Barristers & Solicitors | Patent & Trade-mark Agents

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L'information paraissant dans ce message électronique est CONFIDENTIELLE. Si ce message vous est parvenu par erreur, veuillez immédiatement m'en aviser par téléphone ou par courriel et en détruire toute copie. Merci.

From: Thouin, Alena (ENERGY) [<mailto:Alena.Thouin@ontario.ca>]

Sent: Friday, November 24, 2017 6:25 PM

To: KRANE, JOSHUA

Cc: Kacaba, Jennifer (ENERGY)

Subject: FW: ASC response

Hi Josh

Our DM has approved the following supporting responses. These ofcourse will need to be turned into a draft submission.

The timing is relatively tight, not sure if this is something you can prepare by EOD Monday?

Thanks and let us know how we can assist.

Alena Thouin

Deputy Director, Legal Services Branch

Ministries of Energy / Infrastructure / Economic Development & Growth /
Research, Innovation & Science / Accessibility

56 Wellesley St. W. 18th Floor, Toronto, ON M7A 2E7

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RE_ASC(1).pdf

From: [Lyon, Sam \(ENERGY\)](#)
To: [Yordi, Samer \(ENERGY\)](#)
Cc: [Schlaepfer, Martin \(ENERGY\)](#); [Berg, Denna \(ENERGY\)](#); [Thouin, Alena \(ENERGY\)](#); [Murray, Maud \(ENERGY/MEDG/MRIS/MOI\)](#); [Barbaro, Rachel \(ENERGY\)](#); [Chatterjee, Jeet \(ENERGY\)](#)
Subject: RE: ASC
Date: December 1, 2017 5:39:40 PM

Hi Sam,

Thanks for the note.

S.

From: Yordi, Samer (ENERGY)
Sent: December 1, 2017 5:33 PM
To: Lyon, Sam (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY); Chatterjee, Jeet (ENERGY)
Subject: RE: ASC

Hi Sam.

We've been able to find them going back to 2014. We've included those figures in a chart in the attached BN.

Thanks,
Sam

From: Lyon, Sam (ENERGY)
Sent: December 1, 2017 3:58 PM
To: Yordi, Samer (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY); Chatterjee, Jeet (ENERGY)
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In the paragraph added at the foot of page 3, there's a line that has a comment (DK1) referencing 2016 numbers. The DM is wondering if there are comparative year figures to those?

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Subject: RE: ASC

Hi Sam,

Please find attached the letter with additional information on the reliability claim (tracked).
SNAP ADM approved.

Thanks,
Sam

From: Lyon, Sam (ENERGY)
Sent: November 29, 2017 9:37 AM
To: Yordi, Samer (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY); Chatterjee, Jeet (ENERGY)
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Sorry all, meant to include Jeet on the chain.

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Subject: RE: ASC
Importance: High

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As you can see in the attached, Blakes feels additional information is required on the reliability claim.
We received the following comment from them:

“the ASC’s memo was clear that it is looking for evidence of fewer outages/quicker restoration of electricity. The ASC assesses claims based on the general impression from a typical consumer. Ideally, the MOE can provide the ASC with 2 or 3 documents (even if they are from the IESO) that show that Ontarians experience fewer outages on average or have their service restored more quickly today compared to 2005, following the significant investments that have been made.”

We have flagged this for the DM, and he would like SNAP to see what additional material there could be to meet this. Could you please get back to us by EOD tomorrow on that?

Thanks,

Sam

From: Yordi, Samer (ENERGY)
Sent: November-22-17 7:30 PM
To: Lyon, Sam (ENERGY); Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY)
Subject: RE: ASC

Hi Sam,

Please find attached SNAP ADM approved response on the reliability piece.

Thanks,
Sam

From: Lyon, Sam (ENERGY)
Sent: November 17, 2017 12:35 PM
To: Yordi, Samer (ENERGY); Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY)
Subject: ASC

Hi Sam, Hilary,

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Could ESP please take the lead on developing the affordability response, and could SNAP please take the lead on the reliability piece?

The Deputy has flagged a couple of items on both fronts that should be of use for the content. With respect to affordability, we should highlight the permanent shifting of costs, through the OFHP, off the ratebase onto the tax-base, as this is making bills more affordable in the long-term, not just the short.

Regarding reliability, the DM had a similar point to that made by Andrew in the meeting, and flagged [this annual report](#) from the OEFC from 2004, which includes discussion on procurements required for reliability purposes in 2003 for temporary generation (e.g., pg. 10), and also this [report from the IMO](#) from 2003. He recalls a speech made to the IMO as well that apparently had a good reference – I'll see if I can dig that up.

Would it be possible to get your thoughts by EOD Tuesday? Please let me know if that doesn't work.

Cheers,

S.

Sam Lyon | Director (A)
Communications | Ministry of Energy
4th Floor, Hearst Block, 900 Bay Street
Tel: 416-327-6541 | BB: 416-347-4677
E-mail: sam.lyon@ontario.ca

RE_ASC(2).pdf

From: [Yordi, Samer \(ENERGY\)](#)
To: [Lyon, Sam \(ENERGY\)](#)
Cc: [Schlaepfer, Martin \(ENERGY\)](#); [Berg, Denna \(ENERGY\)](#); [Thouin, Alena \(ENERGY\)](#); [Murray, Maud \(ENERGY/MEDG/MRIS/MOI\)](#); [Barbaro, Rachel \(ENERGY\)](#); [Chatterjee, Jeet \(ENERGY\)](#)
Subject: RE: ASC
Date: December 1, 2017 5:33:21 PM
Attachments: [BN - ASC OFHP Ad Complaint - Reliability Claim clean.docx](#)

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Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY)

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Cheers,

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Sam Lyon | Director (A)

Communications | Ministry of Energy

4th Floor, Hearst Block, 900 Bay Street

Tel: 416-327-6541 | BB: 416-347-4677

E-mail: sam.lyon@ontario.ca

BN - ASC OFHP Ad Complaint - Reliability Clai.pdf

Briefing Note: Advertising Standards Council Complaint Related to “Reliability Claim”

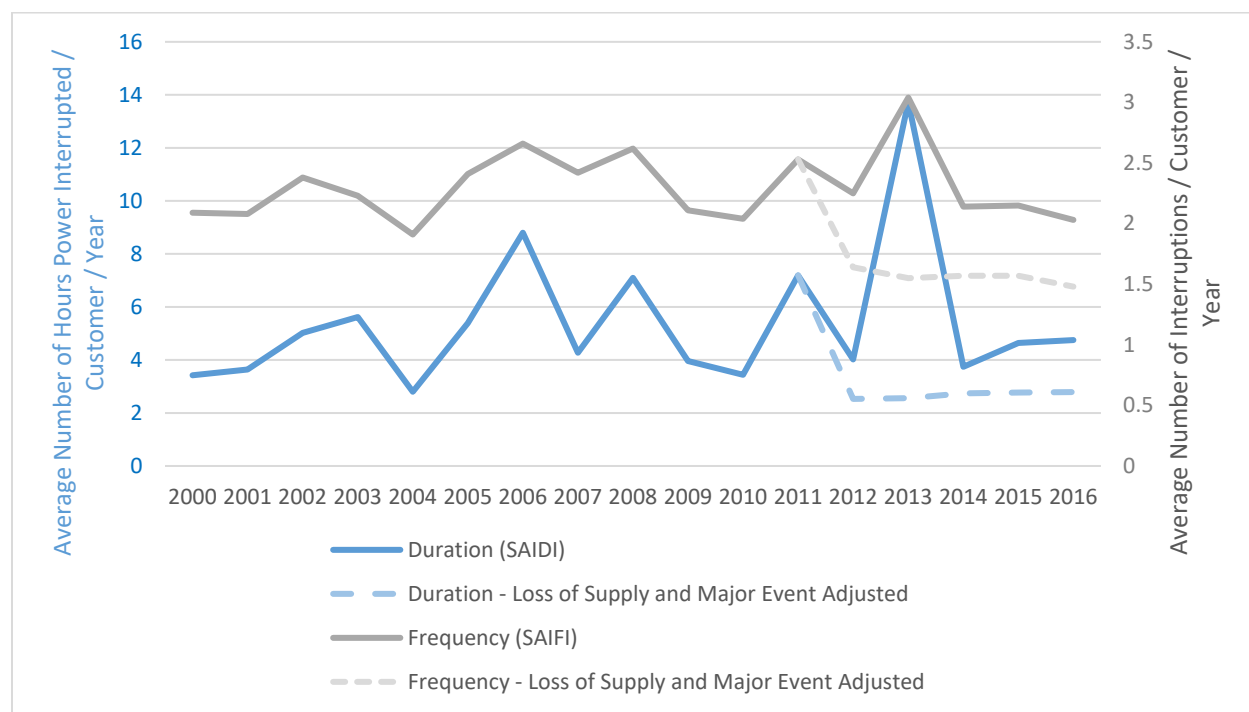
Issue:

- The Advertising Standards Council (ASC) received complaints about advertising related to the Fair Hydro Plan, including the claim that “Upgrades to our [Ontario’s] electricity system have made it more reliable for Ontarians” (“reliability claim”).
- The ASC position is that the consumer understands “reliability” to mean continuity of supply, i.e., when a customer goes to turn on an electricity source, the source delivers electricity and has referenced “outages” as the key metric. Blake, Cassels & Graydon LLP has requested outage statistics showing that the electricity system has fewer outages today than it did in 2005 or, alternatively, that Ontario has put in place mechanisms to ensure that electricity is restored more quickly today compared to 2005.

Summary:

- A review of the reliability metrics for both the distribution and transmission system does not support the claim that there are fewer outages today than in 2005.
- The frequency and duration of outages across Ontario’s distributors is relatively flat over the period for which we have data (2000 to 2016).

Chart 1: Distribution System Frequency and Duration of Outages



Notes:

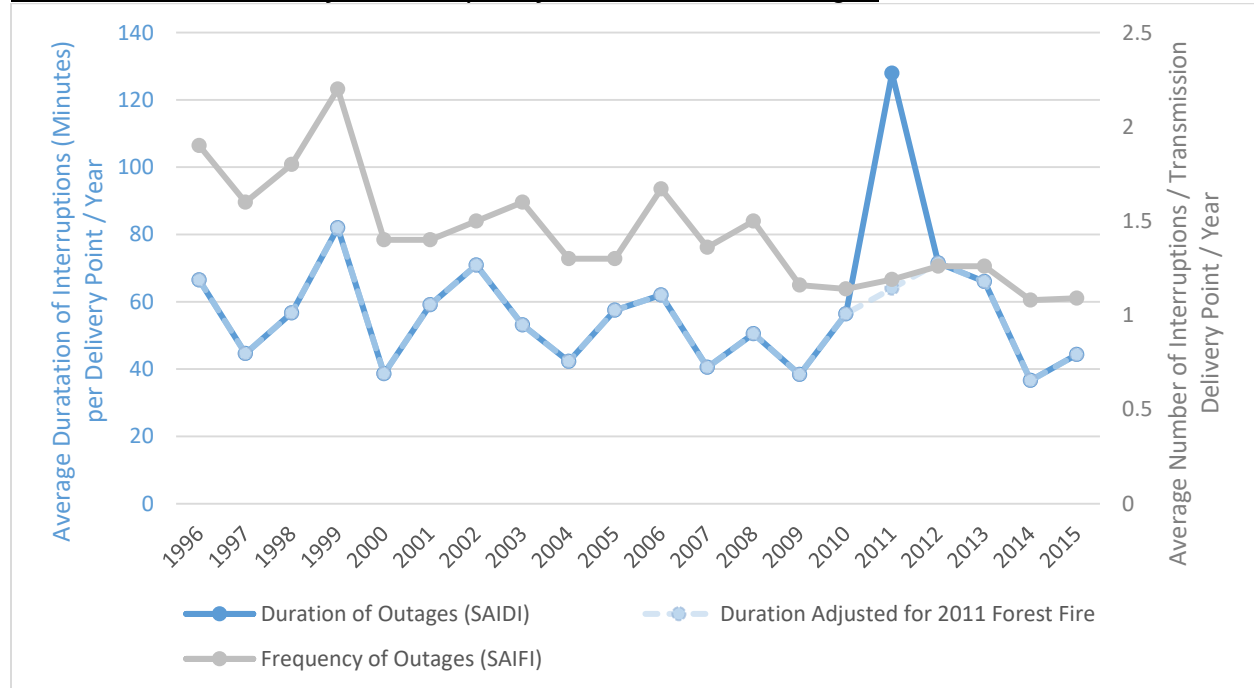
Data from 2000-2005 is from Power Workers Union submission to a Board proceeding in 2008, based on calculations from OEB data. See pdf page 48, https://www.oeb.ca/oeb/Documents/EB-2007-0673/submission_PWU_Cronin_20080415.pdf

Data from 2006-2016 is based on the OEB's distributor yearbooks.

Loss of Supply Adjusted System Reliability Indicators exclude outages caused by a loss of supply. Loss of supply refers to customer interruptions due to problems in the bulk electricity supply system. For this purpose, the bulk electricity supply system is distinguished from the distributor's system based on established ownership demarcation points. Major Event Adjusted System Reliability Indicators exclude outages caused by a loss of supply and outages related to Major Event(s). The Board began tracking Loss of Supply adjusted metrics in 2012, and major event adjusted metrics in 2016.

- The Ontario Energy Board has worked to standardize the collection of this data over the last several years. For example, since 2012, the Board has required utilities to separately track these metrics adjusted for loss of supply and, since 2016, adjusted for major events. Earlier data may be less accurate as distributors lacked clarity on a methodology.
- The duration of outages on the transmission system is relatively flat, while the frequency of outages shows a slight decrease over the period for which we have data (2002-2015).

Chart 2: Transmission System Frequency and Duration of Outages



Notes:

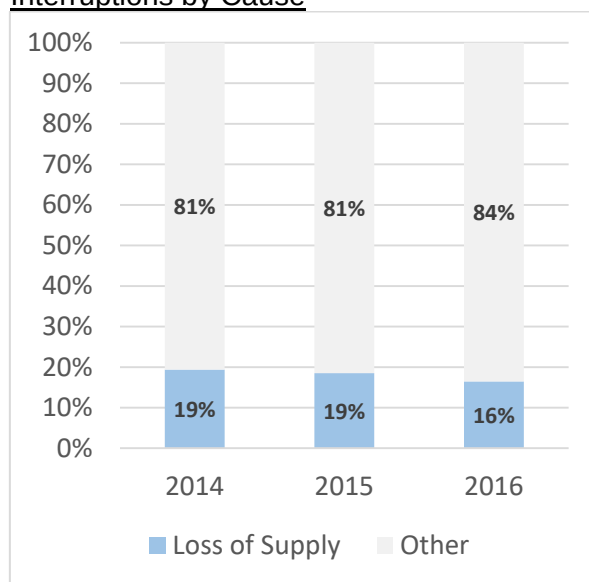
1996-2005 Data based on data included in Hydro One's 2007 transmission rate application: See pages 19 and 20 of the following pdf: https://www.hydroone.com/abouthydroone/RegulatoryInformation/txrates/Documents/2007%202008%20files/Tab_15_Sched_1-Tx_Business_Perf-Feb_23_07.pdf

2006-2015 Data based on Hydro One's 2017/18 Rate Application

2003 excludes the impact of the 2003 blackout, 2006 excludes the impact of the Caledonia event in 2006, 2013 excludes the impact of GTA flooding.

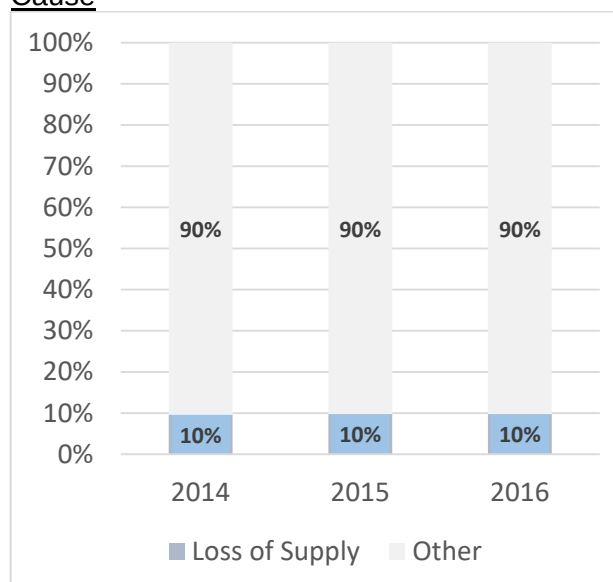
- It is worth noting that in general it is difficult to link the year over year changes to specific investments.
- Outages on the distribution system are influenced by a number of factors including scheduled outages for repairs and upgrades, tree contact, lightening, adverse weather and environment, defective equipment, as well as loss of supply caused by the bulk electricity system. In 2016, loss of supply caused approximately 16% of outages and only 10% of outage minutes on the distribution system.

Chart 3: Frequency of Customer Interruptions by Cause



Source: Data is based on the OEB's distributor yearbooks (2014-2016)

Chart 4: Duration of Customer Interruptions by Cause



Source: Data is based on the OEB's distributor yearbooks (2014-2016)

PATH FORWARD:

- As a result of the above, the Ministry could inform the ASC that there are different ways to define and measure reliability. Customer outages, as the ASC suggests, is one way, while adequacy of supply is another. The Ministry could suggest openness to revising our messaging in the future to reflect that we have a more reliable supply of electricity.

Updated Response:

- The ASC understands “reliability” to mean customer reliability, measured through frequency of outages at the customer level (i.e. on the distribution system).
- Outages on the distribution system are influenced by a number of factors including scheduled outages for repairs and upgrades, tree contact, lightening, adverse weather and environment, defective equipment, as well as loss of supply caused by the bulk electricity system. In 2016, loss of supply caused approximately 16% of outages and only 10% of outage minutes on the distribution system.
- The Ministry's statement regarding investments supporting increased reliability relate more to resource availability and transmission capability, which both influence the reliability of supply of the bulk electricity system.
- In June 2003, the Independent Electricity Market Operator, now the Independent Electricity System Operator (IESO), indicated that resource shortfalls were forecast for 2003 and 2004 necessitating the procurement of temporary gas generation to help address the tight supply situation. Investments in the system since 2003 have increased this margin of available resources and so have in general resulted in a more resilient and reliable system.
- According to the IESO, between 2005 and 2015, the province saw a net growth in electricity supply: over six GW of installed coal-fired capacity was shut down and

replaced with more than 14 GW of renewable, natural gas fired, nuclear and demand response resources.

- In addition, the IESO estimates that significant transmission projects have increased the transmission capacity by about 10,000 MW since 2003. New generation resources are often supported by transmission investments to deliver the new resource. In this context, an increase in transmission capacity represents the combined capability of the transmission system to reliably transfer increased amounts of power from one part of Ontario to another. For example the Bruce to Milton Transmission Reinforcement project, completed in 2012, connected more than 3000 MW of clean and renewable energy.
- The investments above have clearly improved the system in terms resource availability and transmission capability. However it is possible for the bulk system reliability to be improved as a whole, as per the statement made in the advertisement, without resulting in perceived improvements for every electricity customer across the province.
- To reflect the different perspectives on this complex issue, the Ministry could revise our messaging in the future to reflect these nuances.

Prepared by SNAP
November 30, 2017

RE_ASC(3).pdf

From: [Berg, Denna \(ENERGY\)](#)
To: [Thouin, Alena \(ENERGY\)](#); [Lyon, Sam \(ENERGY\)](#); [Schlaepfer, Martin \(ENERGY\)](#)
Cc: [Murray, Maud \(ENERGY/MEDG/MRIS/MOI\)](#); [Chatterjee, Jeet \(ENERGY\)](#)
Subject: RE: ASC
Date: December 1, 2017 4:50:44 PM

Yup!

From: Thouin, Alena (ENERGY)
Sent: December-01-17 4:48 PM
To: Berg, Denna (ENERGY); Lyon, Sam (ENERGY); Schlaepfer, Martin (ENERGY)
Cc: Murray, Maud (ENERGY/MEDG/MRIS/MOI); Chatterjee, Jeet (ENERGY)
Subject: RE: ASC

Thank you.

Sounds like we are looking at December 15, 2017 as the deadline. We will communicate this on to Blakes, let us know if we are not correct.

Regards,
Alena

Alena Thouin

Deputy Director, Legal Services Branch
Ministries of Energy / Infrastructure / Economic Development & Growth /
Research, Innovation & Science / Accessibility
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From: Berg, Denna (ENERGY)
Sent: December 1, 2017 4:45 PM
To: Thouin, Alena (ENERGY); Lyon, Sam (ENERGY); Schlaepfer, Martin (ENERGY)
Cc: Murray, Maud (ENERGY/MEDG/MRIS/MOI); Chatterjee, Jeet (ENERGY)
Subject: RE: ASC

Hi all,

After discussing timelines with comms, the DM and the MO, I think it's best if we ask the ASC if it's okay for our response to come within the next two weeks.

Thanks and have a good weekend,
Denna

From: Thouin, Alena (ENERGY)
Sent: December-01-17 2:58 PM
To: Lyon, Sam (ENERGY); Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY)
Cc: Murray, Maud (ENERGY/MEDG/MRIS/MOI); Chatterjee, Jeet (ENERGY)
Subject: RE: ASC

Just an update, Blakes got another call from ASC (in addition to the one mentioned below looking for the date when this additional information will be provided).

Let us know.

Thank you.
Alena

Alena Thouin

Deputy Director, Legal Services Branch
Ministries of Energy / Infrastructure / Economic Development & Growth /
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Cc: Murray, Maud (ENERGY/MEDG/MRIS/MOI); Thouin, Alena (ENERGY); Chatterjee, Jeet (ENERGY)
Subject: FW: ASC

Hi Martin, Denna,

Attached is an updated draft of the ASC letter, with additional input from SNAP in response to questions from Blakes.

If DM is comfortable with this, we will provide back to Blakes for additional drafting, and then run the resulting product up through divisions and into then on to DMO/MO/MAG/CO/PO.

One thing to flag is that Blakes heard from the ASC legal folks who are looking to get an idea of our timelines on responding. We should probably have some kind of timeframe we can give them – perhaps the 15th? I think we can plan to get this through in two weeks, but would defer to you and DM on likely timeframe.

Please let us know if this is good to share back with Blakes, and if there's anything we can tell them to pass on to ASC re: timing.

Cheers,

S.

From: Yordi, Samer (ENERGY)

Sent: December 1, 2017 10:57 AM

To: Lyon, Sam (ENERGY)

Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY); Chatterjee, Jeet (ENERGY)

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We have flagged this for the DM, and he would like SNAP to see what additional material there could be to meet this. Could you please get back to us by EOD tomorrow on that?

Thanks,

Sam

From: Yordi, Samer (ENERGY)
Sent: November-22-17 7:30 PM
To: Lyon, Sam (ENERGY); Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY)
Subject: RE: ASC

Hi Sam,

Please find attached SNAP ADM approved response on the reliability piece.

Thanks,
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From: Lyon, Sam (ENERGY)
Sent: November 17, 2017 12:35 PM
To: Yordi, Samer (ENERGY); Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY)
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Cheers,

S.

Sam Lyon | Director (A)
Communications | Ministry of Energy
4th Floor, Hearst Block, 900 Bay Street
Tel: 416-327-6541 | BB: 416-347-4677
E-mail: sam.lyon@ontario.ca

RE_ASC(4).pdf

From: [Yordi, Samer \(ENERGY\)](#)
To: [Lyon, Sam \(ENERGY\)](#)
Cc: [Schlaepfer, Martin \(ENERGY\)](#); [Berg, Denna \(ENERGY\)](#); [Thouin, Alena \(ENERGY\)](#); [Murray, Maud \(ENERGY/MEDG/MRIS/MOI\)](#); [Barbaro, Rachel \(ENERGY\)](#); [Chatterjee, Jeet \(ENERGY\)](#)
Subject: RE: ASC
Date: December 1, 2017 10:56:33 AM
Attachments: [TOR_2528-#23258644-v3-Follow-up_Letter_-_ASC_re_Fair_Hydro_Plan.docx](#)

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Subject: RE: ASC

Sorry all, meant to include Jeet on the chain.

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Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY)
Subject: RE: ASC
Importance: High

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E-mail: sam.lyon@ontario.ca

TOR_2528-#23258644-v3-Follow-up_Letter_-_ASC_.pdf



Blake, Cassels & Graydon LLP
Barristers & Solicitors
Patent & Trade-mark Agents
199 Bay Street
Suite 4000, Commerce Court West
Toronto ON M5L 1A9 Canada
Tel: 416-863-2400 Fax: 416-863-2653

Joshua A. Krane

Partner

Dir: 416-863-4187

joshua.krane@blakes.com

Reference: 14229/1

December •, 2017

VIA E-MAIL
CONFIDENTIAL

Mr. Rafe Engle
R.S. Engle P.C.
26 Sussex Avenue
Toronto, ON M5S 1J7

**PRIVILEGED AND
CONFIDENTIAL – DRAFT**

Dear Mr. Engle:

ASC Ref. # 142792, 142861 and 142892 – Fair Hydro Plan

Further to your letter of November 13, 2017, we confirm your understanding that electricity bills to hydro customers will be lowered, on average, by 25% effective January 1, 2017, and, for the next four years, any increases to these reduced rates will not exceed the annual rate of inflation. In response to the other two issues, we provide additional information below. We would be pleased to convene a call with you to discuss this matter once you have reviewed this submission.

A. Affordability Claim

It is important that the ASC assess the affordability claim in the context of the entire message, which we reproduce below:

Recent changes have made electricity bills more affordable. By this summer, household electricity bills will be an average of 25% less, and electricity rates won't increase beyond the rate of inflation for four years. Learn more at Ontario.ca/FairHydroPlan.

Your memorandum acknowledges that the claim may be “literally true” but we understand the ASC’s position is that the claim is not sufficiently qualified in light of the “longer term financial pain, as has been argued by critics of the program.”

First, the “affordability claim” in the message above is made in the context of the “25% reduction” claim. Electricity bills are more affordable today (and will be for the next four years) because the government, through the Ontario Energy Board, has taken steps to reduce the invoice amounts by an average of 25% and will hold any increases to the rate of inflation. The qualifying language starting with the words “by this summer” is just as prominent in the message as the words “more affordable”. In the leading case on this issue, the Ontario Superior Court dismissed an application for an injunction finding that the qualifying words “up to” appeared as prominently in the advertising as the associated “40% less” claim:

The qualifiers in the instant case must be considered in the context which the general impression of the advertisement conveys. These qualifiers, like the disclaimers in the above-noted cases, attempt to explain or further restrict the generality of the given representation. Most importantly, the qualifiers form part of the primary representation in that they do not appear elsewhere in the ad in small print marked with an asterisk. (Emphasis added)¹

The affordability claim cannot be disentangled from the 25% reduction claim, which immediately follows, nor should the MOE be required to make additional disclosure in a 30-second radio spot about *possible* long term increases in invoice amounts. No advertiser is ever held to a standard that requires it to explain that invoices/prices may increase after a price reduction.

Second, your memo states that “conventional advertisers cannot tax their customers indirectly or directly, as governments can, for additional revenue to make up any shortfall in the actual cost of what’s being sold by the advertiser and purchased by the consumer.” This statement is not an accurate representation of how the current Plan achieves the invoice reductions. No additional taxes are being levied to make up a shortfall.

The majority of the invoice reductions (15%) will be achieved by refinancing the “global adjustment” or “GA”, which represents the capital costs that have been incurred to rebuild Ontario’s electricity generation and transmission system. Instead of making consumers pay those costs today, the government has mandated that those costs be repaid over the life-cycle period for the assets. The GA refinancing ensures that the deferred costs are borne by future ratepayers, who are the users the electricity system, and not taxpayers.

The government achieves the bulk of the remaining reductions (8%) through a rebate of the provincial portion of the HST. Again, the government is not taxing Ontarians to cover this rebate. After four years, the HST on electricity may be reinstated, but it is not a new tax.

The MOE acknowledges that the smallest portion of the rate reduction (2%) is being funded through tax revenues, but these are the costs that ought to properly be borne by taxpayers and not ratepayers. 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. The decision was not made to recover a shortfall between the cost of electricity and amounts recovered from ratepayers

Third, the government has not hidden the fact that electricity invoices may increase at levels above inflation in 2021. As noted above, the 30-second radio spot directed consumers to the Fair Hydro Plan website where they could obtain additional information about how the Plan works. The government’s policy objective was to ensure that ratepayers, today and in the future, pay for investments in the

¹ *Purolator Courier Ltd. v. United Parcel Service Canada Ltd.*, 1995 CanLII 7313 (ON SC) at para. 56.

electricity system in proportion to the benefit these consumers receive from the system. The MOE has been clear with Ontarians that prices could increase over time.²

It is not certain that invoices will be higher in 2021 and therefore, the representations are not misleading. Moving forward, 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 and help ensure the affordability of electricity into the future. Ontario has released its 2017 Long-Term Energy Plan (2017 LTEP) which is focussed on continuing to put downward pressure on electricity bills over the long-term. For example, the Independent Electricity System Operator's (IESO) Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The project is expected to save up to \$5.2 billion and forms a key component of Ontario's plan to manage the cost of electricity over the long-term.

Accordingly, the MOE's position is that the affordability claim is qualified by the fact that invoices will not increase for four years and directs ratepayers to visit the Fair Hydro Plan website for more information. If the ASC is aware of standalone "affordability claims", i.e., without the additional language referenced above, the MOE would be pleased to discuss this matter further. However, it is the MOE's understanding that no such claims have been brought to the ASC's attention at this time.

B. Reliability Claim

The claim in issue is that "upgrades to our electricity system have made it more reliable." This claim is true and supported by substantial evidence available from the IESO.

The ASC understands "reliability" to mean customer reliability, measured through frequency of outages at the customer level (i.e. on the distribution system). Outages on the distribution system are influenced by a number of factors including scheduled outages for repairs and upgrades, tree contact, lightening, adverse weather and environment, defective equipment, as well as loss of supply caused by the bulk electricity system.³ In 2016, loss of supply caused approximately 16% of customer interruptions and only 10% of customer-hours of interruptions on the distribution system.⁴

² "The plan enables the Independent Electricity System Operator and Ontario Power Generation to work together to spread out the costs of our clean electricity investments over a longer period of time. We've committed to holding rates to inflation for four years. In later years, the cost of refinancing will be recovered from ratepayers." See <https://www.ontario.ca/page/ontarios-fair-hydro-plan>.

³ OEB 2016 Yearbook of Electricity Distributors, Frequency by Cause of Interruptions and Duration by Cause of Interruptions, page 15, [https://www.oeb.ca/oeb/Documents/RRR/2016 Yearbook of Electricity Distributors.pdf](https://www.oeb.ca/oeb/Documents/RRR/2016%20Yearbook%20of%20Electricity%20Distributors.pdf) See the definition of Loss of Supply in the glossary on page 140, "Cause Code 2 (Loss of Supply) includes customer interruptions due to problems associated with assets owned and/or operated by another party, and/or in the bulk electricity supply system. For this purpose, the bulk electricity supply system is distinguished from the distributor's system based on ownership demarcation."

⁴ OEB 2016 Yearbook of Electricity Distributors, Frequency by Cause of Interruptions and Duration by Cause of Interruptions, page 15, [https://www.oeb.ca/oeb/Documents/RRR/2016 Yearbook of Electricity Distributors.pdf](https://www.oeb.ca/oeb/Documents/RRR/2016%20Yearbook%20of%20Electricity%20Distributors.pdf)

Commented [DK1]: These terms come from the Yearbook glossary – page 139:
[https://www.oeb.ca/oeb/Documents/RRR/2016 Yearbook of Electricity Distributors.pdf](https://www.oeb.ca/oeb/Documents/RRR/2016%20Yearbook%20of%20Electricity%20Distributors.pdf)

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The Ministry's statement regarding investments supporting increased reliability relate to resource availability and transmission capability, which both influence the reliability of supply of the bulk electricity system.

In June 2003, the Independent Electricity Market Operator, now the Independent Electricity System Operator (IESO), indicated that resource shortfalls were forecast for 2003 and 2004 necessitating the procurement of temporary gas generation to help address the tight supply situation.⁵ Investments in the system since 2003 have increased this margin of available resources and so have in general resulted in a more resilient and reliable system.

As noted in the prior submission, ¹:

Between-between 2005 and 2015, the province saw a net growth in electricity supply: over six GW of installed coal-fired capacity was shut down and replaced with more than 14 GW of renewable, natural gas fired, nuclear and demand response resources.

Transmission capacity has increased by about 10,000 MW since 2003, which allows the electricity system to reliably transfer increased amounts of power from one part of Ontario to another. New generation resources are often supported by transmission investments to provide for the delivery of power generated by the new resource. In this context, an increase in transmission capacity represents the combined capability of the transmission system to reliably transfer increased amounts of power from one part of Ontario to another. For example the Bruce to Milton Transmission Reinforcement project, completed in 2012, connected more than 3000 MW of clean and renewable energy generation to the grid.

The investments above have clearly improved the system in terms of resource availability and transmission capability. However, it is possible for the bulk system reliability to be improved as a whole, as per the intent of the statement made in the advertisement, without resulting in perceived improvements for every electricity customer across the province.

• **[NTD: the ASC's position is that the consumer understands "reliability" to mean continuity of supply, i.e., when a customer goes to turn on an electricity source, the source delivers electricity. The ASC referenced "outages" as the key metric, which also appears as a key metric in the NERC definition of "adequate level of reliability". Accordingly, please provide outage statistics showing that the electricity system has fewer outages today than it did in 2005 or, alternatively, that Ontario has put in place mechanisms to ensure that electricity is restored more quickly today compared to 2005.]**

While it is possible that some consumers have experienced less reliable service today, this does not detract from the truthfulness of the advertising. Ontario's electricity system, as a whole, is more reliable

⁵ IESO, 18-Month Outlook: An Assessment of the Reliability of the Ontario Electricity System from July 2003 to December 2004

The logo for Blakes, featuring the word "Blakes" in a stylized, cursive script font.

Page 5

today than in 2005 following the more than \$70 billion in investments made to increase generation and transmission capacity ~~and [NTD: supplement with outage information].~~

* * * * *

The MOE appreciates the ASC's willingness to continue a dialogue in respect of the messages in issue. ~~To reflect the different perspectives on this complex issue of reliability, MOE is willing to revise messages in the future to better reflect these nuances.~~ If it would be helpful, we can make ourselves available for a call to discuss this submission and next steps.

Yours very truly,

Joshua A. Krane

- c. Sam Lyon, *Ministry of Energy*
Laurie Sloan, *Advertising Review Board*
Maud Murray, *Legal Services Branch*

RE_ ASC.pdf

From: [Chatterjee, Jeet \(ENERGY\)](#)
To: [Lyon, Sam \(ENERGY\)](#); [Yordi, Samer \(ENERGY\)](#)
Cc: [Schlaepfer, Martin \(ENERGY\)](#); [Berg, Denna \(ENERGY\)](#); [Thouin, Alena \(ENERGY\)](#); [Murray, Maud \(ENERGY/MEDG/MRIS/MOI\)](#); [Barbaro, Rachel \(ENERGY\)](#)
Subject: RE: ASC
Date: December 4, 2017 11:38:47 AM

Sam (Yordi),

The DM is concerned that the note/letter does not effectively provide support to the original messaging regarding reliability.

He asked staff to examine other ways in which we can provide supporting evidence – perhaps reach out to Alectra or other large LDCs to see if there is data that they can provide to substantiates our messaging.

Let me know what staff plan to do in terms of providing a strong argument.

Thanks,

Jeet

Jeet Chatterjee
Senior Policy Advisor, Deputy Minister's Office
Ontario Ministry of Energy
P: 416-327-7025

From: Lyon, Sam (ENERGY)
Sent: December-01-17 5:40 PM
To: Yordi, Samer (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY); Chatterjee, Jeet (ENERGY)
Subject: RE: ASC

Hi Sam,

Thanks for the note.

S.

From: Yordi, Samer (ENERGY)
Sent: December 1, 2017 5:33 PM
To: Lyon, Sam (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY); Chatterjee, Jeet (ENERGY)
Subject: RE: ASC

Hi Sam.

We've been able to find them going back to 2014. We've included those figures in a

chart in the attached BN.

Thanks,
Sam

From: Lyon, Sam (ENERGY)
Sent: December 1, 2017 3:58 PM
To: Yordi, Samer (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY); Chatterjee, Jeet (ENERGY)
Subject: RE: ASC

Hi Sam,

In the paragraph added at the foot of page 3, there's a line that has a comment (DK1) referencing 2016 numbers. The DM is wondering if there are comparative year figures to those?

Thanks,

S.

From: Yordi, Samer (ENERGY)
Sent: December-01-17 10:57 AM
To: Lyon, Sam (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Berg, Denna (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Barbaro, Rachel (ENERGY); Chatterjee, Jeet (ENERGY)
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Sam Lyon | Director (A)
Communications | Ministry of Energy
4th Floor, Hearst Block, 900 Bay Street
Tel: 416-327-6541 | BB: 416-347-4677
E-mail: sam.lyon@ontario.ca

RE_ Action Items - Nov 1.pdf

From: [Sermat-Harding, Kaili \(ENERGY\)](#)
To: [Schlaepfer, Martin \(ENERGY\)](#); [Hume, Steen \(ENERGY\)](#); [Talwar, Shruti \(ENERGY\)](#); [Christie, Tim \(ENERGY\)](#); [Katona, Keley \(MOF\)](#); [Smith, Mike \(ENERGY\)](#)
Subject: RE: Action Items - Nov 1
Date: November 1, 2017 10:23:07 AM
Attachments: [Action Items_Nov 1.docx](#)

One edit from me (I stand corrected; trustees meeting tomorrow is actually in person. Meetings alternate between in person and call in).

From: Schlaepfer, Martin (ENERGY)
Sent: November-01-17 9:08 AM
To: Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Talwar, Shruti (ENERGY); Christie, Tim (ENERGY); Katona, Keley (MOF); Smith, Mike (ENERGY)
Subject: Action Items - Nov 1

Hi everyone,

Attached are today's action items. Please let me know if you have any edits/changes.

Thanks,
Martin

Martin Schlaepfer

Director of Operations
Deputy Minister's Office
Ministry of Energy
T: 416-326-7688
E: martin.schlaepfer@ontario.ca

Action Items_ Nov 1.pdf

Action Items

November 1, 2017

Agenda

1) GA Refinancing

- o General Business Update (OPG / IESO / ENERGY)
 - Rating agencies would like to interview IESO
 - Energy to work on letter to OPG to clarify that although the FAA Letter includes negative amounts, OPG can still incur charges (e.g., interest) – alternative option includes a regulation
 - IESO meeting with OPG and dealers tomorrow to finalize outstanding issues (e.g., agreement, security)
 - By the end of November IESO has to post their quarterly financial statements up to the end of September, which will include a regulatory asset of approximately \$800M
 - OFA has intercept letter for IESO to sign for Line of Credit
- o Provincial Protection and Assurances Agreement (OFA / OPG)
 - OFA working with OPG to finalize agreement by the end of the week
- o Commercial Agreement (OPG/ IESO)
- o OPG's Financing Plan (OPG)
 - Ministry would like to see a draft as soon as possible
 - OPG expects to have draft document by the end of next week
 - OPG expects to go to market by end of November – to include an offering memorandum, which goes to identified investors
 - Ministry would like to see a road map from OPG on the process of going to market
 - Potential Technical Media briefing on OPG financing plan in early December – OPG to work on outline of deck
 - Ministry to determine whether a NR or statement would need to be issued about a quiet period while OPG goes to market
- o Regulatory Amendments (ENERGY)
 - IESO carrying costs to be recovered from GA
 - Amendments to General reg may be required to address unintended consequences of acceleration and negative FAA amounts
 - Minister to provide a letter to OPG confirming the intent to pass a reg with regs to track to LRC on December 11

2) Sepcial Report – Debrief

3) Other OFHP Initiatives

- o RRRP, OESP and FN (SNAP)
 - Reg tracking to LRC in December for OESP
- o Affordability Fund (CRED)
 - Next Trustees meeting is November 2nd. ~~tomorrow by phone~~

RE_ Action Items Dec 7.pdf

From: [Sermat-Harding, Kaili \(ENERGY\)](#)
To: [Schlaepfer, Martin \(ENERGY\)](#); [Hume, Steen \(ENERGY\)](#); [Christie, Tim \(ENERGY\)](#); [Thouin, Alena \(ENERGY\)](#); [Talwar, Shruti \(ENERGY\)](#)
Subject: RE: Action Items Dec 7
Date: December 7, 2017 9:44:56 AM
Attachments: [Action Items_Dec 7.docx](#)

My edits attached.

From: Schlaepfer, Martin (ENERGY)
Sent: December-07-17 9:26 AM
To: Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Christie, Tim (ENERGY); Thouin, Alena (ENERGY); Talwar, Shruti (ENERGY)
Subject: Action Items Dec 7

Hi everyone,

Attached are the action items. Please let me know if you have any edits / concerns.

Thanks,
Martin

Martin Schlaepfer
Director of Operations
Deputy Minister's Office
Ministry of Energy
T: 416-326-7688
M: 647-980-4634
E: martin.schlaepfer@ontario.ca

Action Items_Dec 7.pdf

Action Items

December 7, 2017

Agenda

1) GA Refinancing

- o Provincial Support Agreements (OFA / OPG / ENERGY)
 - To be ready to be signed early next week (Monday or Tuesday) – required for OPG to obtain final credit rating of warehouse
- o General Business Update (OPG / IESO / ENERGY)
 - OPG working to finalize the offering memorandum and investor presentation by end of next week
 - Sometime next week EY to provide updated memo
 - OPG to share with TBS documentation provided to EY for review
 - OPG financing plan – to be presented at Minister's briefing on the 14th
 - PILs exemption – MOF drafting Minister's reg
 - Commercial agreements between IESO and OPG finalized – IESO to prepare one pager for Minister's briefing on 14th

2) OPG's Market Activities – Rollout (All)

- OPG anticipates going to market 3 to 4 times in 2018

3) Other OFHP Initiatives

- o RRRP, OESP and FN (SNAP)
 - Look at options around resources for transferring the OESP to province
- o Affordability Fund (CRED)
 - Implementation agreement near finalized - about 45 LDCs have signaled intent to ~~deliver the launch~~ programs and an additional 5 are interested
 - Trustees are concerned about implications of HAP program changes on the Affordability Fund
 - Affordability Fund briefing ~~to be scheduled for on~~ the week of December 18th, including IESO

RE_ Ad Standards Council - Fair Hydro Plan (1).pdf

From: [Murray, Maud \(ENERGY/MEDG/MRIS/MOI\)](#)
To: [Mallen, Jane \(MAG\)](#); [McKenzie, Ashley \(MAG\)](#); [Phan, Cathy \(MAG\)](#); [Thouin, Alena \(ENERGY\)](#)
Subject: RE: Ad Standards Council - Fair Hydro Plan
Date: January 17, 2018 6:36:55 PM
Attachments: [Re MOEAd Standards - Options ProsCons.msg](#)

We just got this from Josh.

From: Mallen, Jane (MAG)
Sent: January-17-18 6:29 PM
To: McKenzie, Ashley (MAG); Phan, Cathy (MAG); Murray, Maud (ENERGY/MEDG/MRIS/MOI); Thouin, Alena (ENERGY)
Subject: RE: Ad Standards Council - Fair Hydro Plan

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Subject: FW: Ad Standards Council - Fair Hydro Plan

Please see timing indicated below by Energy officials. Is that right? We aren't going to aim for anything tonight?

Ashley McKenzie
Counsel to the Deputy Attorney General

From: Archer, Amy (MAG) <Amy.Archer@ontario.ca>
Date: Wednesday, Jan 17, 2018, 6:21 PM
To: McKenzie, Ashley (MAG) <Ashley.McKenzie2@ontario.ca>
Subject: FW: Ad Standards Council - Fair Hydro Plan

I assume we're ok with this?

Amy Archer
Senior Policy Advisor
Office of Hon. Yasir Naqvi, Attorney General
(416) 326-2266

From: Berry, James (ENERGY) <James.Berry5@ontario.ca>
Date: Wednesday, Jan 17, 2018, 6:19 PM
To: Archer, Amy (MAG) <Amy.Archer@ontario.ca>
Subject: Fw: Ad Standards Council - Fair Hydro Plan

FYI below Amy. Officials reporting that there will be a regroup tomorrow morning. Any

concerns on your end, considering deadline is today?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Wednesday, January 17, 2018 6:16 PM
To: Berry, James (ENERGY)
Cc: Imbrogno, Serge (ENERGY); Whittington, Matt (ENERGY); Tresise, Landon (ENERGY); Berg, Denna (ENERGY); Perkins, Michael (ENERGY); Armstrong, Hillary (ENERGY); Baker, Carys (ENERGY)
Subject: RE: Ad Standards Council - Fair Hydro Plan

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Let us know if you have any comments or concerns.

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Subject: RE: Ad Standards Council - Fair Hydro Plan

We're fine with this.

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Cc: Imbrogno, Serge (ENERGY); Whittington, Matt (ENERGY); Tresise, Landon (ENERGY); Berg, Denna (ENERGY); Perkins, Michael (ENERGY); Armstrong, Hillary (ENERGY); Baker, Carys (ENERGY)
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Thanks,
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Subject: Ad Standards Council - Fair Hydro Plan

Hi James, Matt and Landon,

Attached is an updated version of the ASC letter. Currently it is being reviewed by MAG and CO. We are hoping to have an updated version by tomorrow morning.

Let us know if you have any further comments or concerns.

Thanks,
Martin

Re_ MOE_Ad Standards - Options, Pros_Cons.pdf

From: KRANE, JOSHUA [JOSHUA.KRANE@blakes.com]
To: Murray, Maud (ENERGY/MEDG/MRIS/MOI) [Maud.Murray3@ontario.ca]; Thouin, Alena (ENERGY) [Alena.Thouin@ontario.ca]
Subject: Re: MOE/Ad Standards - Options, Pros/Cons
Date: Wednesday, January 17, 2018 18:29:59
Attachment 1: image8c61f9.GIF

Privileged and Confidential

Dear Maud and Alena,

We are in receipt of the mark-up from CO, which substantially modifies the prior draft reviewed and approved by the other agencies. You have asked us to outline options available to us and related pros and cons.

Below is the requested assessment.

Please note that I will be available until midnight to make a submission to Ad Standards. Otherwise, I will be back in the office tomorrow morning.

OPTIONS

Option

Pros

Cons

1. No response:

“My client declines to respond to the complaint.”

- No admission or acknowledgment regarding the nature of the tweet

- Possibility, though remote, Ad Standards declines to pursue this further
- If the matter is referred to a Standards Council, our Oct. 31 submission may be included
- Inability to argue that the tweet and related communications are not reviewable
- Leaves the allegation regarding a breach of MOE's undertaking on the record without response
- Damages the government's relationship with Ad Standards

2. Submit revised letter

- Gives the policy context for the tweet and allows Ad Standards to assess reviewability in light of this context
- Puts our Oct. 31 submission and Nov. 13 memo from Ad Standards on the record
- Distinguishes the tweet from the FHP campaign in issue in the prior matter
- Ad Standards may not accept the submission if submitted Jan. 18 or later
- Ad Standards may not provide the Oct. 31 submission or Nov. 13 memo to the Standards Council
- Ad Standards may view a late submission negatively

3. Propose a call with Ad Standards; no letter

- Issues can be discussed in an informal manner without a written record
- Allows for participation across multiple agencies
- Direct communication with Ad Standards management
- Ad Standards may decline a call without a written response
- No written submission to go before a Standards Council
- Ad Standards may view a request for a call without a submission negatively

4. Ask for an extension

- Gives more time to consider options and refine the current draft
- Very unlikely to receive an acknowledgement on Jan 17
- Low likelihood of any material extension (beyond a day)
- Ad Standards may view the request negatively

On a related note, Ad Standards does not function like a court. It operates on the basis of goodwill and participation from industry and counsel. Part of the reason why Ad Standards has afforded us flexibility is due to our relationship with its counsel. To not provide a response when we committed to doing so undermines that goodwill.

Accordingly, while we would have preferred the longer (unedited) submission which presents stronger arguments, our view is that proceeding on the basis of Option 2 – i.e., submitting the abridged letter tonight – provides the best prospect for resolution at this stage without the matter being referred to a Standards Council for adjudication and prejudicing our relationship with Ad Standards and its counsel.

Please let us know if you wish to discuss and how we should proceed.

Josh

Joshua A. Krane
Partner
joshua.krane@blakes.com
Dir: 416-863-4187
Cell: 416-471-2068

Blake, Cassels & Graydon LLP

199 Bay Street, Suite 4000, Toronto ON M5L 1A9

Tel: 416-863-2400 Fax: 416-863-2653

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Blake, Cassels & Graydon LLP | Barristers & Solicitors | Patent & Trade-mark Agents

This email communication is CONFIDENTIAL AND LEGALLY PRIVILEGED. If you are not the intended recipient, please notify me at the telephone number shown above or by return email and delete this communication and any copy immediately. Thank you.

L'information paraissant dans ce message électronique est CONFIDENTIELLE. Si ce message vous est parvenu par erreur, veuillez immédiatement m'en aviser par téléphone ou par courriel et en détruire toute copie. Merci.

image8c61f9.pdf

Blakes

RE_ Ad Standards Council - Fair Hydro Plan .pdf

From: [Murray, Maud \(ENERGY/MEDG/MRIS/MOI\)](#)
To: [McKenzie, Ashley \(MAG\)](#); [Mallen, Jane \(MAG\)](#); [Phan, Cathy \(MAG\)](#); [Thouin, Alena \(ENERGY\)](#)
Subject: RE: Ad Standards Council - Fair Hydro Plan
Date: January 17, 2018 6:45:01 PM
Attachments: [Letter to R. Engle re Twitter Matter.pdf](#)

This is what the response would look like if we submitted tonight with CO's changes reflected.

From: McKenzie, Ashley (MAG)
Sent: January-17-18 6:42 PM
To: Murray, Maud (ENERGY/MEDG/MRIS/MOI); Mallen, Jane (MAG); Phan, Cathy (MAG); Thouin, Alena (ENERGY)
Subject: RE: Ad Standards Council - Fair Hydro Plan

Ok thanks.

Ashley McKenzie
Counsel to the Deputy Attorney General

From: Murray, Maud (ENERGY/MEDG/MRIS/MOI) <Maud.Murray3@ontario.ca>
Date: Wednesday, Jan 17, 2018, 6:41 PM
To: McKenzie, Ashley (MAG) <Ashley.McKenzie2@ontario.ca>, Mallen, Jane (MAG) <Jane.N.Mallen@ontario.ca>, Phan, Cathy (MAG) <Cathy.Phan2@ontario.ca>, Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Ad Standards Council - Fair Hydro Plan

Yes, if those are the instructions.

From: McKenzie, Ashley (MAG)
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To: Murray, Maud (ENERGY/MEDG/MRIS/MOI); Mallen, Jane (MAG); Phan, Cathy (MAG); Thouin, Alena (ENERGY)
Subject: RE: Ad Standards Council - Fair Hydro Plan

Thanks. Would we also consider making the submission tonight and exploring settlement options tomorrow by phone?

Ashley McKenzie
Counsel to the Deputy Attorney General

From: Murray, Maud (ENERGY/MEDG/MRIS/MOI) <Maud.Murray3@ontario.ca>
Date: Wednesday, Jan 17, 2018, 6:36 PM
To: Mallen, Jane (MAG) <Jane.N.Mallen@ontario.ca>, McKenzie, Ashley (MAG) <Ashley.McKenzie2@ontario.ca>, Phan, Cathy (MAG) <Cathy.Phan2@ontario.ca>, Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
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Letter to R. Engle re Twitter Matter.pdf



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Barristers & Solicitors
Patent & Trade-mark Agents
199 Bay Street
Suite 4000, Commerce Court West
Toronto ON M5L 1A9 Canada
Tel: 416-863-2400 Fax: 416-863-2653

Joshua A. Krane

Partner

Dir: 416-863-4187

joshua.krane@blakes.com

Reference: 14229/1

January 17, 2018

VIA E-MAIL
CONFIDENTIAL

Mr. Rafe Engle
R.S. Engle P.C.
26 Sussex Avenue
Toronto, ON M5S 1J7

Dear Rafe:

Twitter Matter

Further to your email of January 4, 2018, we are writing to respond to the issues you raised concerning a complaint received by Ad Standards on December 28, 2017 with respect to a tweet from Premier Kathleen Wynne highlighting the government's policy decision to reduce electricity bills by 25%.

The suggestion in your email that the Ministry breached its commitment to Ad Standards is very concerning to my client and it strongly opposes this view. It is our view that the Premier's tweet was not part of the advertising campaign in issue. The complainant acknowledges this. It remains the case that the Ministry has not revived the advertising campaign.

We elaborate on these points in the remainder of this letter.

1. The Premier's Tweet is not an Extension of the Fair Hydro Plan Campaign

The measures taken to reduce Ontarians' electricity bills by 25% on average under the Fair Hydro Plan is government policy. On March 2, 2017, the Office of the Premier released a news release indicating that the government would take measures to lower electricity bills by 25% on average for all residential customers.¹ On May 11, 2017, the Minister of Energy introduced the *Fair Hydro Act, 2017* to direct the

¹ See Ontario, Office of the Premier, "Ontario Cutting Electricity Bills by 25 Per Cent" (March 2, 2017), online: <https://news.ontario.ca/opo/en/2017/03/ontario-cutting-electricity-bills-by-25-per-cent.html>:

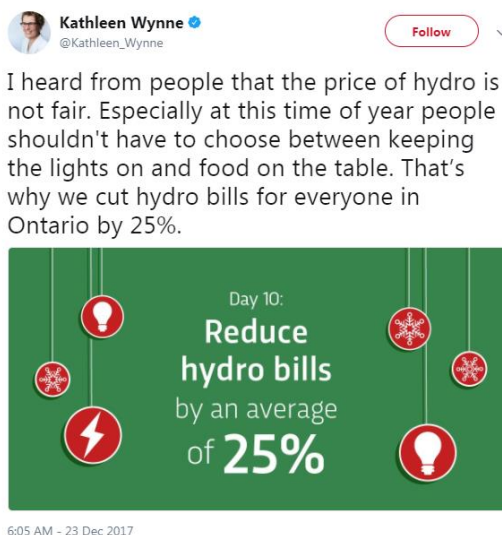
Ontario is lowering electricity bills by 25 per cent on average for all residential customers as part of a significant system restructuring that will address long-standing policy challenges and ensure greater fairness.

Starting this summer, Ontario's Fair Hydro Plan would provide households with this 25 per cent break.

Ontario Energy Board to implement the reduction (see Appendix).² On May 31, 2017, the Legislature passed the *Fair Hydro Act, 2017*.³ On June 22, 2017, the Ontario Energy Board announced how bills would be reduced by an average of 25% as of July 1, 2017.⁴ The Premier has reiterated in the Legislature how the Fair Hydro Plan has resulted in an average 25% cut to residential ratepayers' invoices.⁵

The Premier's tweet, which is reproduced below, is an unpaid communication regarding government policy. Twitter, like a news release, is a modern form of communicating government policy to the public.

Figure 1 – Tweet of Premier Kathleen Wynne (December 23, 2017, 6:05 am)



² See Ontario, Ministry of Energy, "Ontario Cutting Electricity Bills by 25 Per Cent" (May 11, 2017), online: <https://news.ontario.ca/mei/en/2017/05/ontario-cutting-electricity-bills-by-25-per-cent.html>.

³ See Ontario, Ministry of Energy, "Ontario Passes Legislation to Lower Electricity Bills by 25 Per Cent" (May 31, 2017), online: <https://news.ontario.ca/mei/en/2017/05/ontario-passes-legislation-to-lower-electricity-bills-by-25-per-cent.html>; "Ontario passed legislation today that will lower electricity bills by 25 per cent on average for all residential customers to provide significant rate relief and ensure greater fairness."

⁴ See Ontario, Ontario Energy Board, "Electricity prices are dropping again on July 1" (June 22, 2017), online: <https://www.oeb.ca/newsroom/2017/electricity-prices-are-dropping-again-july-1>:

For residential and small business customers that buy their electricity from their utility, the OEB has set new lower Regulated Price Plan (RPP) electricity prices that build on the reduction in RPP prices that came into effect on May 1. With the new RPP prices that will start to apply on July 1, the total bill for the proxy customer described under the Fair Hydro Act, 2017 will be about \$121. That is about \$41 or 25% lower than it would have been without the following mitigation.

⁵ Ontario, Legislative Assembly, Official Report of Debates (Hansard), 41st Parl, 2nd Sess, No 106 (October 18, 2017) at 5709 (Hon. Kathleen O. Wynne).

The policy being expressed in this communication is the reduction in electricity bills by 25%. This is a policy being promoted to the electorate by the Premier.

It would be inconsistent with the Code for Ad Standards or a Standards Council to treat communications from the Premier expressing a policy choice as reviewable. The Code includes an express exclusion for communications regarding government policy. It is not intended for a Standards Council to review communications between elected representatives and their constituents on matters of public policy, as is plain in the text of the Code.

2. *The Ministry has not Breached its Commitment to Ad Standards*

The advertising in question, namely the radio advertising referenced in the three complaints, was discontinued. The Premier's tweet was not part of the advertising campaign in issue. The complainant acknowledges this in its complaint. It remains the case that the Ministry has not revived the same advertising campaign.

* * * * *

Yours very truly,



Joshua A. Krane

C. Maud Murray and Alena Thouin, *Legal Services Branch*

Appendix – How the Board Achieved a 25% Reduction

The Board implemented the following measures to reduce invoiced amounts to residential consumers by 25%:

- A portion of the fixed costs of running Ontario's power generation fleet and conservation programs were refinanced over a longer term. This accounted for a 15% reduction to the Electricity line on hydro bills. To achieve the reductions for consumers, the Board lowered the time-of-use prices per kilowatt hour (kWh) effective July 1, 2017.
- The Board shifted the costs associated with social support programs such as the Ontario Electricity Support Program and the Rural or Remote Protection Program from rate payers to the general revenue fund, resulting in a 2% reduction.
- The Government issued an 8% rebate for the provincial portion of the HST.

The Board determined that the rates effective July 1, 2017 under the Program resulted in a typical monthly bill of \$121, which is 25% lower than the \$162 bill the consumer would have received absent the Program.



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Reference: 14229/1

October 31, 2017

VIA E-MAIL
CONFIDENTIAL

Mr. Rafe Engle
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26 Sussex Avenue
Toronto, ON M5S 1J7

Dear Mr. Engle:

ASC Ref. # 142792, 142861 and 142892 – Fair Hydro Plan

We are writing in response to Janet Feasby's letter of September 25, 2017 and our call with you and Ms. Feasby of October 3, 2017. The Ministry of Energy would like to assure the ASC that its advertising is intended to inform Ontarians about the substantial benefits of new legislation designed to reduce hydro bills for residential consumers and is in no way intended to mislead consumers about the Fair Hydro Plan Program ("**Program**"). The Ministry stands behind the advertising.

A. SUMMARY OF THE ISSUES

On our October 3, 2017 call, you indicated that the ASC received complaints in respect of three specific claims:

- 1) "Household electricity bills will be an average of 25% less" ("**25% reduction claim**");
- 2) "Recent changes have made bills more affordable" ("**affordability claim**"); and
- 3) "Upgrades to our [Ontario's] electricity system have made it more reliable for Ontarians" ("**reliability claim**").

As a preliminary matter, the Ministry's position is that the 25% reduction claim and affordability claim – are "non-reviewable" in accordance with the ASC's Consumer Complaints Procedure ("**Procedure**"). As explained in more detail below, the regulations under the *Ontario Fair Hydro Plan Act, 2017* (the "**Act**") specifically authorize the making of these claims¹. Additionally, the regulations require electricity suppliers to make such claims on their invoices and on bill inserts. On this basis, the claims are not reviewable and the Ministry submits that the ASC should cease its review of the complaints.

¹ *Ontario Fair Hydro Plan Act, 2017*, S.O. 2017, c. 16, Sched. 1, online: <https://www.ontario.ca/laws/statute/17o16>.

Even if all three claims were reviewable, none of these claims contravenes the *Canadian Code of Advertising Standards*. In brief, and as discussed in more detail below:

1) The 25% reduction claim is accurate and does not contravene section 1(a) of the Code.

- The Act and accompanying regulations task the Ontario Energy Board (“**Board**”) to take measures to ensure that a typical residential consumer receives an invoice that is 25% less than the consumer would have received in the absence of the Program.
- The government implemented a number of measures to reduce consumer invoices, including: 1) requiring the OEB to lower time-of-use prices through regulation (electricity rates), 2) moving the funding for electricity support programs to the tax base, and 3) providing an 8% rebate equivalent to the provincial portion of the HST.
- As a result of these measures, a typical consumer now receives a monthly bill of \$121, which is 25% lower than the \$162 bill that the consumer would have received absent the Program.

2) The affordability claim does not contravene section 1(b) of the Code since it is properly qualified and does not omit relevant information about long term costs.

- Contrary to the complaint, the representation in issue actually states: “Recent changes have made electricity bills more affordable. By this summer, household electricity bills will be an average of 25% less, and electricity rates won’t increase beyond the rate of inflation for four years.” The time limitation for the affordability claim is clear: rate increases will be held to inflation for four years.
- The Ministry is not under any obligation to include in its advertising what might happen after four years, just like any other advertiser that advertises new, lower prices on a product or service. The advertiser is free to choose whether to subsidize the lower prices from current or future revenues and is under no obligation to disclose this to the public.
- Furthermore, the Government has taken additional steps to reduce electricity bills in the short term and system costs in the long term by implementing programs to support farms, businesses and consumers on First Nations reserves, implementing more competitive procurement programs and deferring new construction of electricity generation infrastructure, and enhancing the efficiency of the electricity market.

3) The reliability claim is supported by competent and reliable evidence and thus does not contravene section 1(e) of the Code.

- Since 2003, approximately \$70 billion has been invested in clean generation, conservation and improving Ontario’s transmission and distribution grid. As a result:

- The province experienced a net growth in electricity supply: over six gigawatts (GW) of installed coal-fired capacity was shut down and replaced with more than 14 GW of renewable, natural gas fired, nuclear and demand response resources.
- Only four appeals have been issued by the system operator in the last ten years to reduce power consumption on hot days due to supply shortages, and they all occurred over four days and were localized to the GTA due to outages caused by severe flooding.

We elaborate on these points in the remainder of this submission.

B. DISCUSSION

Preliminary Issue: The 25% reduction claim and the affordability claim are non-reviewable complaints under the Procedure.

Under the Procedure, the “Council shall decline to accept, or to proceed further with, a complaint, or any part thereof, where it is of the opinion that: the advertising, or such part of the advertising to which the complaint refers ... has been, specifically, approved by an agency (or some other comparable entity) of the Canadian Government.” Although the Procedure does not define the term “Canadian Government”, we understand that the ASC’s position is that the provision is intended to apply to situations where the advertisement has been authorized by a government entity and thus could not, under law, be found to be false or materially misleading.

The Ministry’s view is that the ASC should declare that the complaints are non-reviewable since the claims in issue have been specifically authorized by regulations made by the Lieutenant Governor in Council (“**LGIC**”).²

By way of background, on June 1, 2017, the Act received Royal Assent and entered into force. Section 7 of the Act requires that the Board take measures to ensure that typical consumers receive an invoice that is 25% less than the consumer would have received in the absence of the Program. Section 11 of the Act authorizes the LGIC to make regulations that set out the applicable methodologies for reducing a consumer’s bill.

Ontario Regulation 195/17: *Fair Adjustment under Part II of the Act* (“**Fair Adjustment Regulation**”) explains how the reduction in the invoiced amount is to be achieved. Section 3 of the Fair Adjustment Regulation requires that the total invoice paid by a typical consumer must be 25% lower than the invoice would have been absent the adjustment by the Board.

Regulated rate consumers, first fair adjustment under s. 7 of the Act

3. For the purposes of section 7 of the Act, the Board shall determine the rates that

² See Ontario, Backgrounder: The Lieutenant Governor’s Roles, online: <https://news.ontario.ca/opo/en/2014/09/the-lieutenant-governors-roles.html>.

would, when applied for the purposes of determining the commodity price of the electricity included in Total Invoice Amount B, result in Total Invoice Amount B being 25 per cent less than Total Invoice Amount A.

In a separate regulation, Ontario Regulation 196/17: *Invoicing Requirements* (“**Invoicing Requirements Regulation**”), the LGIC specifically mandated the use of certain statements on electricity bills. Section 1 of the Invoicing Regulation states that invoices must include the following statement:

“Ontario’s Fair Hydro Plan substantially lowers electricity bills for typical residential consumers. This includes the eight per cent rebate introduced in January 2017, and builds on previous initiatives to deliver broad-based relief on all electricity bills.”

Section 2 requires that paper invoices must include bill inserts that feature the following statements in reasonably prominent locations on the face of the bill insert: “Ontario’s Fair Hydro Plan” and “Bringing electricity bills down”. Moreover, the insert must contain the following wording:

Ontario’s Fair Hydro Plan

Electricity bills will be lowered by 25 per cent on average for residential consumers

Rate increases will be held to inflation for four years

As many as half a million small businesses and farms will also benefit from this reduction

Lower-income Ontarians and those living in eligible rural communities will receive even greater reductions, as much as a 40 to 50 per cent cut

The benefit will vary for individual consumers depending on electricity usage and service territory. These measures include the eight per cent rebate introduced in January 2017 and build on previous initiatives to deliver broad-based relief on all electricity bills.

To find out more, visit ontario.ca/FairHydroPlan.

Electricity suppliers must include these bill inserts at least once every quarter in the case of specified consumers billed on a monthly basis or twice during the period in the case of consumers billed on a seasonal basis. The Minister can authorize electricity suppliers to use different wording if the supplier cannot incorporate the above-noted language onto its invoices.

In essence, the very claims that are at the subject of the complaints before the ASC have been specifically authorized by the LGIC. If electricity suppliers are required by law to make the 25% reduction claim and the affordability claim, then surely the Ministry and other agencies of the Government of Ontario can make the same claims free of scrutiny from the ASC.

On this basis, the Ministry asks that the ASC declare the 25% reduction claim and the affordability claim “non-reviewable” complaints.

Issue 1: The 25% reduction claim is accurate and does not contravene section 1(a) of the Code.

The Board implemented the following measures to reduce invoiced amounts to residential consumers by 25%:

- A portion of the fixed costs of running Ontario’s power generation fleet and conservation programs were refinanced over a longer term. This accounted for a 15% reduction to the Electricity line on hydro bills. To achieve the reductions for consumers, the Board lowered the time-of-use prices per kilowatt hour (kWh) effective July 1, 2017.
- The Board shifted the costs associated with social support programs such as the Ontario Electricity Support Program and the Rural or Remote Protection Program from rate payers to the general revenue fund, resulting in a 2% reduction.
- The Government issued an 8% rebate for the provincial portion of the HST.

The Board determined that the rates effective July 1, 2017 under the Program resulted in a typical monthly bill of \$121, which is 25% lower than the \$162 bill the consumer would have received absent the Program.³

Issue 2: The affordability claim does not contravene section 1(b) of the Code since it is properly qualified and does not omit relevant information about long term costs.

Contrary to the complaint, the representation in issue actually states: “Recent changes have made electricity bills more affordable. By this summer, household electricity bills will be an average of 25% less, and electricity rates won’t increase beyond the rate of inflation for four years.” The time limitation for the affordability claim is clear: rate increases will be held to inflation for four years.

The Ministry is not under any obligation to include in its advertising what might happen after four years, just like any other advertiser that advertises new, lower prices on a product or service. The Government is free to choose whether to subsidize the lower prices from current or future revenues and is under no obligation to disclose this to the public.

The 30-second radio advertisements directed consumers to the ontario.ca/fairhydroplan website where they could learn more about the Program. The website makes it clear that prices will be held to inflation for four years and that the cost of refinancing will be recovered from ratepayers in later years. The Government also indicates on the website that it will find opportunities to reduce costs to address affordability issues in the long term.

³ A “proxy” or “typical” consumer uses 750 kWh of electricity per month and has a typical time-of-use profile.

In addition to the 25% reduction in the typical bill, the Government has also taken steps to reduce electricity bills in the short term and system costs in the long term.

- The Government implemented additional programs to reduce the invoiced amounts for farms and businesses as well as increased support – as much as 30 to 40% – for rural and remote customers. On-reserve First Nations consumers and vulnerable Ontarians are benefiting from even greater reductions.
- As a result of the Government annual price reviews, revised procurement totals, and the introduction of competitive procurement for large renewable projects, the Feed-in-Tariff, microFIT and Large Renewable Procurement initiatives are expected to cost at least \$3 billion less than forecast in the 2013 Long-Term Energy Plan (“LTEP”). Also, the Government renegotiated the Green Energy Investment Agreement reducing costs by \$3.7 billion and deferred the construction of new nuclear units to reduce system costs, avoiding an estimated \$15 billion in new construction costs.
- The Government has released the 2017 LTEP, which is focused on continuing to take additional costs out of the electricity system. For example, the Independent Electricity System Operator’s (“IESO”) Market Renewal initiative will result in meeting future system needs at the lowest cost by creating a more efficient marketplace with competitive and transparent mechanisms. This is expected to save up to \$5.2 billion over a 10-year period and forms a key component of Ontario’s plan to ensure the affordability of electricity in the longer term.

Issue 3: The reliability claim is supported by competent and reliable evidence, and thus does not contravene section 1(e) of the Code.

Since 2003, approximately \$70 billion has been invested in clean generation, conservation and improving Ontario’s transmission and distribution grid. The diversity of the current supply mix insulates Ontario against sudden changes in cost or availability of any one source, and is one of the greatest strengths of Ontario’s electricity system. Those investments have resulted in net growth of electricity supply.

According to the IESO, between 2005 and 2015, the province saw a net growth in electricity supply: over six GW of installed coal-fired capacity was shut down and replaced with more than 14 GW of renewable, natural gas fired, nuclear and demand response resources.⁴ The addition of new natural gas supply supports reliability in Northern and rural communities. According to the IESO, Ontario’s electricity system is reliable: “The outlook for the reliability of Ontario’s electricity system remains positive for the next 18 months, with adequate domestic generation and transmission to supply

⁴ See IESO, Ontario Planning Outlook: A technical report on the electricity system prepared by the IESO (September 1, 2016), p. 2, online: <http://www.ieso.ca/-/media/files/ieso/document-library/publications/serving-ontarios-electricity-consumers.pdf?la=en>.

Ontario's demand under normal weather conditions."⁵ From 2002-2007, the IESO (and its predecessor the Independent Market Operator or IMO) issued numerous public appeals to Ontarians to reduce power consumption on hot days due to supply shortages. Only four appeals have been issued in the last ten years and they all occurred over four days and were localized to the GTA due to outages caused by severe flooding.

Ontario's generation is clearly more reliable today as a result of these significant investments.⁶

C. NEXT STEPS

The Ministry would appreciate receiving the ASC's feedback as soon as possible in order to come to a satisfactory resolution of this matter. Due to the nature of the ads and the advertiser, we would also appreciate the opportunity to discuss any continuing concerns that the ASC may have in respect of the advertising before any further steps are taken to refer this matter to the Standards Council.

Thank you again for your consideration of our submission.

Yours very truly,



Joshua A. Krane

- c. Sam Lyon, *Ministry of Energy*
Laurie Sloan, *Advertising Review Board*
Maud Murray, *Legal Services Branch*

⁵ See IESO, 18-Month Outlook, An assessment of the reliability and operability of the Ontario electricity system (September 21, 2017), p. ii, online: http://www.ieso.ca/-/media/files/ieso/document-library/planning-forecasts/18-month-outlook/18monthoutlook_2017sep.pdf?la=en.

⁶ See Ontario Energy Report, Q2 2017, online: http://www.ontarioenergyreport.ca/pdfs/6127_IESO_OERQ22017_Electricity_EN_FA.pdf.

STRICTLY CONFIDENTIAL & PRIVILEGED

November 13, 2017

Mr. Joshua A. Krane
Blake, Cassels & Graydon LLP
Barristers & Solicitors
199 Bay Street
Suite 4000
Toronto, ON
M5L 1A9

Re: Ontario Ministry of Energy's *Fair Hydro Plan*

Dear Mr. Krane,

When Ad Standards receives advertising-related complaints from consumers, such as the consumer complaints about recent advertising by the Ontario Ministry of Energy (MOE) concerning the Ontario government's *Fair Hydro Plan*, Ad Standards tests the advertising by asking the following questions before sending the complaints to Council for its adjudication,:

1. Is this an "advertisement" as defined in the *Canadian Code of Advertising Standards (Code)*?
2. If "yes", is this particular advertising exempted from review under any provision of the *Code*?
3. If "no", does Ad Standards believe a *prima facie* case has been made concerning this complaint and advertising such that a Council of Ad Standards could reasonably conclude the advertising in question contravenes one or more provisions of the *Code*?

Preliminary Matter:

After applying this multi-step test to the complaints from consumers about Ontario's *Fair Hydro Plan* advertising, this is where Ad Standards nets out on the advertising in question, and the submissions to Ad Standards made in your October 31, 2017 brief made on behalf of the MOE.

- i. The material and claims under review qualifies, in the opinion of Ad Standards, as "advertising" as defined in the *Code*. (See the Definitions Section of the *Code*.)
- ii. Ad Standards is also of the opinion that this advertising qualifies as "Government advertising" and, as such, is reviewable under the *Code*. (See "Application" Section of the *Code*.)
- iii. Furthermore, Ad Standards is of the opinion that the advertising about which the complaints were made to Ad Standards has not "been specifically approved by an agency (or some other comparable entity) of the Canadian government."

- iv. In other words, Ad Standards disagrees with your written submission of October 31st in which you argued that the making of the contested advertising (viewed as a whole as distinct from several statements made within the advertising) has “been specifically authorized” under the Ontario Fair Hydro Plan Act, 2017 (the “Act”). On that basis, Ad Standards does not agree that it is or should be required to cease its review.

Ad Standards understands that under Ontario Regulation 196/17, invoices to hydro consumers must include certain prescribed statements; and that, with regulated frequency, these invoices must include inserts on which prescribed statements must be prominently made about certain benefits the government claims the *Fair Hydro Plan* delivers.

Ad Standards would never, and does not now, contest the government’s right or authority to legislate exact language that must be used in communicating with the public. Nor would Ad Standards ever, and does not now, propose that its *Code* takes primacy over the exact language the government might legislate be used in its communications through advertising or otherwise.

However, without altering the exact language the government has said must be included in hydro invoices to its customers, and in other hydro-related *communiqués* to the public, the issue in this case is whether the ‘advertising’ (which is the limit of Ad Standards’ purview) when viewed as a whole may communicate impressions that a Standards Council, acting not unreasonably, believes contravenes the *Code*.

The function of Council is to adjudicate complaints by consumers. The responsibility of Ad Standards in issues related to consumer complaints is to determine if the complaints raise a *prima facie* case of *Code* contravention based strictly on the *Code* and its provisions.

Council would not be entitled or authorized to conclude that the language prescribed by legislation needs to be changed. Council is perfectly competent to conclude, however, that the general impression likely to be conveyed by advertising is misleading or otherwise in contravention of the *Code*; and, without proposing changes to the prescribed language, that the advertisement(s) need to correct that impression. Unless, of course, the Ministry responsible for the advertising decides to amend the mandated language.

These are legitimate issues and questions for Council to work on and deliberate over, the outcome of which Ad Standards has, and exercises, no authority to predetermine.

It needs repeating that, in matters involving questions of “accuracy and clarity” in advertising, the primary concern in the *Code* is not with the intent of the sender (of the advertising claim, representation or message). Nor is it with the precise legality of the presentation. Rather the focus is on the message, claim or representation as received or perceived, i.e. on the general impression conveyed by the advertisement.

As you know, Ad Standards has applied this fundamental principle to advertising about which a Ministry of the Ontario government has imposed a requirement to disclose a set of prescribed facts that, when disclosed, are lengthy and complicated to understand. We refer to price advertising of motor vehicles in Ontario, regardless of the advertising medium that is used. This legislation has not prevented a Council from reviewing the complained-of advertising under the *Code* when, allegedly, the television advertising was unreadable (the font used in the disclaimer was too small and on-screen too briefly); and the details could not be understood by readers or viewers of the advertising, contrary to the *Code*.

Issue One: The “25% Reduction” Claim

Ad Standards does not, at this time, take issue with the “25% reduction” claim made in the advertising which, Ad Standards understands, is this: electricity bills to hydro’s customers will be lowered, on average, by 25% effective now; and, for the next four years, any increases to these reduced rates will not exceed the annual rate of inflation.

On that basis, Ad Standards would not ask Council to adjudicate on the merits of the complaints about “issue one”.

Please confirm that Ad Standards’ understanding correctly states the facts represented in issue one.

Issue Two: The “Affordability” Claim

Ad Standards does not subscribe to the analogy you made in your submission between the Ministry’s obligation to make fair and reasonable disclosures in its advertising, and the obligation of what you termed “other advertiser(s)” who “advertise new, lower prices on a product or service”.

The strongest distinguishing feature between these two categories of advertisers is this: conventional advertisers only receive revenue sourced from consumers when they purchase the advertised product and services. Conventional advertisers cannot tax their customers, indirectly or directly, as governments can, for additional revenue to make up any shortfall in the actual cost of what’s being sold by the advertiser and purchased by the consumer.

While the Ministry’s advertising in this case may be literally true, it falls short of informing its customers, who are also citizens and taxpayers, that the consequence of the short term (four year) gain from reduced hydro bills by all odds will result in longer term financial pain, as has been argued by critics of the program.

We make no suggestion in this memo as to how this part of the Ministry’s message may be acceptably balanced. However, before deciding to ask Council to consider this issue, we would be pleased to discuss the options with you.

In your submission you wrote that the Government is free to choose whether to subsidize the lower prices from current or future revenues and is under no obligation to disclose this to the public. It is our view that a better analogy would have been to say, for example, that Loblaw or Metro does not have to advertise that it will make up for its loss-leader price advertising after the loss-leader program expires by charging an amount per product or service that is equal to the losses experienced during the price reduction program. In the conventional commercial scenario, the customer is free to decide whether it wants to continue buying from Loblaw or Metro at the higher price (assuming Loblaw or Metro does not have a monopoly). But in the case of hydro, consumers do not have the luxury of a competitive market. Consumers cannot find a different supplier of hydro. Consumers cannot withdraw or decline from paying the higher taxes and rates that inevitably will follow in four or more years after the *Ontario Fair Hydro Plan* expires.

Issue Three: The “Reliability” Claim

You acknowledged in your written submission that the reliability claim and language was not subject to the *Ontario Fair Hydro Act* or Regulations made thereunder.

Both a casual as well as more careful reading of the arguments you made in support of the reliability claim seem, to Ad Standards, to boil down to the statement that the Ministry has competent and reliable evidence that the claim is true. You referenced the significant investment that has been made since 2003 in "clean generation" (which is not a reliability issue); in "conservation" (which is not necessarily a reliability issue); and in "improving Ontario's transmission and distribution" (which may or may not be a reliability issue).

But where is the evidence that the system is more reliable now and everywhere: in Ontario's rural and northern communities as well as to conventional, residential consumers?

The language of issue three in the now-suspended advertising is categorical and unconditional: "Upgrades to our electrical system...have made it more reliable (impliedly more reliable than "ever before")...for all Ontarians." To complainants who personally have experienced outages, this reliability claim may not ring true, as evidenced by a complainant in this case.

Ad Standards invites the Ministry to consider and discuss with us how the Ministry may be able to advertise "reliability" without provoking the negative response from disbelievers based on their actual, personal experiences.

On a final note, it needs repeating that if Council were eventually asked to adjudicate any one or more of the three issues, and if as a result one or more complaints were upheld by Council, the *Code* provides that, in cases where the advertising and/or claims in question were withdrawn prior to Council's adjudication and not reinstated as such, Ad Standards will take care that the advertiser is not identified or identifiable in the report on Council's decisions that are periodically published on Ad Standards' website.

Yours sincerely,

Ad Standards

Per:



R.S. Engle
Legal Counsel to Ad Standards

/dce

Copy by email to: Janet Feasby
Vice President, Standards
Ad Standards

RE_ Advertising Standards Adjudication(1).pdf

From: [Evans, Karen \(ENERGY\)](#)
To: [Thouin, Alena \(ENERGY\)](#)
Cc: [Murray, Maud \(ENERGY\)](#)
Subject: RE: Advertising Standards Adjudication
Date: September 28, 2017 5:01:17 PM

I heard the deputy say that he would welcome the extra time. I think you should action it soonest.

From: Thouin, Alena (ENERGY)
Sent: September-28-17 1:40 PM
To: Evans, Karen (ENERGY)
Cc: Murray, Maud (ENERGY)
Subject: RE: Advertising Standards Adjudication

Hi Karen

Can I kindly ask you to please confirm bullet 2 below. Are we to give Blakes instructions to call their contact at ASC to see whether we can ask for more time OR should we wait until Blakes have drafted a note so we can brief the DM first before taking any action. My notes indicated that we should do the BN first, get DMO approval and then contact.

Many thanks
Alena

From: Evans, Karen (ENERGY)
Sent: September 28, 2017 12:12 PM
To: Schlaepfer, Martin (ENERGY)
Cc: Murray, Maud (ENERGY); Thouin, Alena (ENERGY); Cusimano, Jo-Anne (ENERGY); Barbaro, Rachel (ENERGY)
Subject: RE: Advertising Standards Adjudication

Hi Martin

In follow-up to our meeting this morning, we:

- Are arranging a note on Ad Standards Council process
- Will attempt to extend the timelines with Ad Standards Council
- Have engaged CO once again and they are attending our call with ASC and ARB on October 3 at 2 p.m.
- Have been made aware that Deputy Betzner is advised
- Have assembled a file of background materials for a legal team
- Will work with policy staff to gather evidence of the claims in the advertising; rates will decrease by 25% on average and our system is more reliable

Thanks,
Karen

From: Evans, Karen (ENERGY)
Sent: September-28-17 10:05 AM
To: Schlaepfer, Martin (ENERGY)
Subject: Advertising Standards Adjudication

Good morning,

Advertising Standards has received three complaints regarding our summer Fair Hydro Plan advertising campaign. In general, the complaints charge that the advertising is misleading. In August, through the Advertising Review Board, we received these complaints and were asked to respond by providing our radio script and then a letter addressing the complaints. Advertising Standards responded indicating that the Standards Council will adjudicate.

A date for the adjudication has not been indicated but our Ministry has been given until October 6 to file any additional documentation.

Finally, it is noteworthy that Advertising Standards did receive one complaint following our spring Fair Hydro Plan campaign which we were able to close with a letter of response.

All of the correspondence received by the Ministry on the matter is attached.

Thank you,
Karen

Karen Evans
Director, Communications Branch
Ontario Ministry of Energy
4th Floor, Hearst Block, Queen's Park
900 Bay Street, Toronto, ON M7A 2E1
O: 416-327-6541 C:416-705-9637

RE_ Advertising Standards Adjudication(2).pdf

From: [Schlaepfer, Martin \(ENERGY\)](#)
To: [Evans, Karen \(ENERGY\)](#)
Cc: [Murray, Maud \(ENERGY\)](#); [Thouin, Alena \(ENERGY\)](#); [Cusimano, Jo-Anne \(ENERGY\)](#); [Barbaro, Rachel \(ENERGY\)](#); [Berg, Denna \(ENERGY\)](#)
Subject: RE: Advertising Standards Adjudication
Date: September 28, 2017 12:34:33 PM

Thanks for the update, Karen. The Deputy will be touching base with Lynn this afternoon to discuss.

Martin

From: Evans, Karen (ENERGY)
Sent: September 28, 2017 12:12 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Murray, Maud (ENERGY) <Maud.Murray3@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Cusimano, Jo-Anne (ENERGY) <Jo-Anne.Cusimano@ontario.ca>; Barbaro, Rachel (ENERGY) <Rachel.Barbaro@ontario.ca>
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To: [Thouin, Alena \(ENERGY\)](#)
Cc: [Murray, Maud \(ENERGY\)](#)
Subject: RE: Advertising Standards Adjudication
Date: September 28, 2017 5:19:55 PM

Hi Alena,

Given the fact that we do not have internal expertise regarding this kind of adjudication, please proceed to instruct Blakes to engage with the Ad Standards Council to determine the nature of their concerns and understand timelines and any opportunity to extend them to enable our preparedness.

We also welcome Blakes' sharing its expertise with us on process in these matters.

With thanks,

Karen

Karen Evans
Director, Communications Branch
Ontario Ministry of Energy
4th Floor, Hearst Block, Queen's Park
900 Bay Street, Toronto, ON M7A 2E1
O: 416-327-6541 C:416-705-9637

From: Thouin, Alena (ENERGY)
Sent: September-28-17 5:13 PM
To: Evans, Karen (ENERGY)
Cc: Murray, Maud (ENERGY)
Subject: RE: Advertising Standards Adjudication

Hi Karen

I spoke to Blakes today, they insist that they would like instructions for us to allow them to call ASC to get more information in order to help us determine what type of docs we would need. They are also working on a deck for tomorrow.

Are you comfortable providing instructions for Blakes to call ASC to get some more information and see whether more time can be acquired?

Please confirm.

Many thanks
Alena

From: Evans, Karen (ENERGY)
Sent: September 28, 2017 5:01 PM
To: Thouin, Alena (ENERGY)
Cc: Murray, Maud (ENERGY)
Subject: RE: Advertising Standards Adjudication

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In follow-up to our meeting this morning, we:

- Are arranging a note on Ad Standards Council process
- Will attempt to extend the timelines with Ad Standards Council
- Have engaged CO once again and they are attending our call with ASC and ARB on October 3 at 2 p.m.
- Have been made aware that Deputy Betzner is advised
- Have assembled a file of background materials for a legal team
- Will work with policy staff to gather evidence of the claims in the advertising; rates will decrease by 25% on average and our system is more reliable

Thanks,
Karen

From: Evans, Karen (ENERGY)
Sent: September-28-17 10:05 AM
To: Schlaepfer, Martin (ENERGY)
Subject: Advertising Standards Adjudication

Good morning,

Advertising Standards has received three complaints regarding our summer Fair Hydro Plan advertising campaign. In general, the complaints charge that the advertising is misleading. In August, through the Advertising Review Board, we received these complaints and were asked to

respond by providing our radio script and then a letter addressing the complaints.
Advertising Standards responded indicating that the Standards Council will adjudicate.

A date for the adjudication has not been indicated but our Ministry has been given until October 6 to file any additional documentation.

Finally, it is noteworthy that Advertising Standards did receive one complaint following our spring Fair Hydro Plan campaign which we were able to close with a letter of response.

All of the correspondence received by the Ministry on the matter is attached.

Thank you,
Karen

Karen Evans
Director, Communications Branch
Ontario Ministry of Energy
4th Floor, Hearst Block, Queen's Park
900 Bay Street, Toronto, ON M7A 2E1
O: 416-327-6541 C:416-705-9637

RE_ Advertising Standards Council Issue.pdf

From: [Thouin, Alena \(ENERGY\)](#)
To: [Murray, Maud \(ENERGY\)](#)
Subject: RE: Advertising Standards Council Issue
Date: October 10, 2017 6:45:45 PM

Sounds good. I'll be in between 8 and 8:30

From: Murray, Maud (ENERGY) <Maud.Murray3@ontario.ca>
Date: Tuesday, Oct 10, 2017, 6:26 PM
To: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Advertising Standards Council Issue

There is more. I will fill you in in the morning.

From: Thouin, Alena (ENERGY)
Sent: October-10-17 6:25 PM
To: Murray, Maud (ENERGY)
Subject: RE: Advertising Standards Council Issue

Interesting issues.

CAB has been involved from the beginning when this file became an issue. I guess it takes a while for them to digest.

Also William personally reviewed the response to the complaint before it went to the complainant and we took his comments.

Let's discuss tomorrow.

From: Murray, Maud (ENERGY) <Maud.Murray3@ontario.ca>
Date: Tuesday, Oct 10, 2017, 6:17 PM
To: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Advertising Standards Council Issue

Fyi...

From: Mallen, Jane (MAG)
Sent: October-10-17 4:20 PM
To: Murray, Maud (ENERGY)
Subject: FW: Advertising Standards Council Issue

Jane Mallen | Portfolio Director
Office of the Assistant Deputy Attorney General | Civil Law Division
720 Bay St. 6th Floor | Toronto, ON M5G 2K1 | ph (416) 325-2399 | jane.n.mallen@ontario.ca

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message and any attachments from your system.

From: Shin, Linda (MAG)
Sent: October 10, 2017 1:52 PM
To: Mallen, Jane (MAG); Helie, Michel (MAG); Kearney, Sean (MAG)
Cc: McKenzie, Ashley (MAG)
Subject: FW: Advertising Standards Council Issue

Hey there,

Do you have time to have a chat later today about this? thanks!

From: Bromm, William (CAB)
Sent: October-10-17 12:58 PM
To: Shin, Linda (MAG)
Subject: Advertising Standards Council Issue

Hi Linda, this issue would not be on your radar screen at all, but the SOC would like the Deputy to review the situation and provide some advice to our office.

As you know, there is a federal Advertising Standards Council that can review complaints about government advertising. The council is in receipt of a complaint regarding the government's fair hydro plan ads, specifically the reference to rate payers receiving 25% off their hydro bills.

Originally this was being managed through the Ministry of Energy and they were working with external counsel, Blakes, on the province's defence to the complaint. At one point it looked as though the matter had been resolved, but the council has recently revived the complaint (which I understand is quite unusual).

A couple of issues have recently come up that move it from a standard issue, and this is where the SOC would like the Deputy's advice.

The first issue relates to a potential apprehension of bias on the part of the adjudicator. Mr. Rafe Engle is the adjudicator for the council. Although we understand he is very respected in the advertising legal world, he has been in the past and may still be an advisor to Ontario's Auditor General on the application of the Government Advertising Act standards. This raises the question of at least some apprehension of bias on the part of Mr. Engle to adjudicate this particular matter, particularly given the Auditor General's issues with government advertising in recent years. This was discussed with Blake's counsel, who felt this was not the appropriate time to raise this issue. I am not fully aware of their reasons for this position – it may be that they have taken this view simply because this is in very early stages. The Secretary would like to ensure this issue is properly explored.

The second issue relates to recent instruction from the Council. Apparently in a call last week, they indicated that the government must remove all reference to the 25% issue from all government websites. We are not aware of how extensively the figure is raised on Ontario.ca, but the SOC would

like to understand 1) the authority of the council to give that instruction and 2) the implications for either agreeing or not agreeing to remove those references (the formal ads themselves were pulled following the complaints, so this is primarily about Ontario.ca).

A third and related issue relates to the implications should the government agree to remove the references. For example, one of the reasons counsel might say we should agree is because it could render the complaint moot, meaning the Council will not continue with the complaint. However, should that occur, we would need to know whether this would mean the government is essentially precluded from raising the 25% figure in the future because of the risk that the Council will once again revive the complaint.

Finally, the Secretary would like to have a good understanding of the outcome of the complaint, particularly the implications for a finding that the standards have been contravened. As I understand it, there may be no formal enforcement mechanism other than reference in an annual report of the council, but we would like confirmation of this. We would also like confirmation of any appeal/JR mechanism should the complaint proceed and the council make an adverse finding.

Maud Murray in Energy Legal is familiar with these issues. Maude and I spoke earlier today so she is aware that I will be reaching out to you for some assistance.

Give me a call when you have a chance and we can discuss next steps, etc.

Thanks

William

RE_ Briefing Note -OFHP Complaints(1).pdf

From: [Scarfone, Janet \(MAG\)](#)
To: [Mallen, Jane \(MAG\)](#); [Thouin, Alena \(ENERGY\)](#); [Murray, Maud \(ENERGY\)](#)
Cc: [Kearney, Sean \(MAG\)](#); [D'Angelo, Joseph \(MAG\)](#); [Sheridan, Paul \(MAG\)](#); [Hatzis, Len \(TBS\)](#)
Subject: RE: Briefing Note -OFHP Complaints
Date: October 12, 2017 7:34:02 PM

I recommend putting (ASC) at the end of the phrase Advertising Council in the Issue section. The abbreviation is used in the summary but it may not be obvious to the reader that that is what the note is referring to.

Also, there seems to be some inconsistency in references to the Council and the standards in various parts of the note. I think this is because we had a number of contributors to the note.

From: Sheridan, Paul (MAG)
Sent: Thursday, October 12, 2017 6:43 PM
To: Hatzis, Len (TBS); Mallen, Jane (MAG); Thouin, Alena (ENERGY)
Cc: Murray, Maud (ENERGY); Scarfone, Janet (MAG); Kearney, Sean (MAG); D'Angelo, Joseph (MAG)
Subject: RE: Briefing Note -OFHP Complaints

Hello Alena,

The advice in the note on the issue of bias reflects the email advice that CLOC provided yesterday.

We are fine with the note subject to the following minor points:

- There is a statement on p.1 (and repeated on p. 6) that appears to be missing a few words (our proposed revision in red): "CLOC's view **is that**, based our current understanding of the facts, it would be difficult for the government to establish that a reasonable apprehension of bias exists in these circumstances for the following reasons:"
- Same issue re: another statement on p. 6: "CLOC's view is **that it is** likely that the Council owes a duty of fairness to ASC's members, including the Ontario government."
- The bullets setting out the reasons for CLOC's view re: bias on p. 6 need to be indented, as they are on p. 1.

Thanks,

Paul

From: Hatzis, Len (TBS)
Sent: October 12, 2017 5:56 PM
To: Mallen, Jane (MAG); Thouin, Alena (ENERGY); Sheridan, Paul (MAG)
Cc: Murray, Maud (ENERGY); Scarfone, Janet (MAG); Kearney, Sean (MAG)
Subject: RE: Briefing Note -OFHP Complaints

We have reviewed and have nothing further to add . Thanks

From: Mallen, Jane (MAG) <Jane.N.Mallen@ontario.ca>

Date: Thursday, Oct 12, 2017, 5:38 PM

To: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>, Sheridan, Paul (MAG) <Paul.Sheridan@ontario.ca>, Hatzis, Len (TBS) <Len.Hatzis@ontario.ca>
Cc: Murray, Maud (ENERGY) <Maud.Murray3@ontario.ca>, Scarfone, Janet (MAG) <Janet.Scarfone@ontario.ca>, Kearney, Sean (MAG) <Sean.Kearney@ontario.ca>
Subject: RE: Briefing Note -OFHP Complaints

We had indicated to the DMO that we would get this note to them by end of day so if you could provide comments to Alena as soon as possible it would be very much appreciated.

Jane Mallen | Portfolio Director
Office of the Assistant Deputy Attorney General | Civil Law Division
720 Bay St. 6th Floor | Toronto, ON M5G 2K1 | ph (416) 325-2399 | jane.n.mallen@ontario.ca

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From: Thouin, Alena (ENERGY)
Sent: October-12-17 5:29 PM
To: Sheridan, Paul (MAG); Hatzis, Len (TBS)
Cc: Mallen, Jane (MAG); Murray, Maud (ENERGY); Scarfone, Janet (MAG); Kearney, Sean (MAG)
Subject: FW: Briefing Note -OFHP Complaints

Good afternoon,
Please find attached draft consolidated note for the DAG on the OFHP Complaints for your comments. We still need some thoughts from folks on the JR issue and whether the ACS decisions are subject to it.

Thank you again and look forward to any comments.

Regards,
Alena

Alena Thouin
Deputy Director, Legal Services Branch
Ministries of Energy / Infrastructure / Economic Development & Growth /
Research, Innovation & Science / Accessibility
56 Wellesley St. W. 18th Floor, Toronto, ON M7A 2E7
Tel: 416-325-1834 **Email:** alena.thouin@ontario.ca

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RE_ Briefing Note -OFHP Complaints(2).pdf

From: [Mallen, Jane \(MAG\)](#)
To: [Thouin, Alena \(ENERGY\)](#); [Murray, Maud \(ENERGY\)](#)
Subject: RE: Briefing Note -OFHP Complaints
Date: October 12, 2017 5:15:14 PM

Please go ahead and circulate. Can you please raise the JR issue? I don't think Advisory or TBS was specifically asked to provide input on that issue but it will have to be addressed – likely as part of the discussion re: the complaints process. Perhaps TBS can add something there?

From: Thouin, Alena (ENERGY)
Sent: October-12-17 5:09 PM
To: Mallen, Jane (MAG); Murray, Maud (ENERGY)
Subject: RE: Briefing Note -OFHP Complaints

Hi Maud and Jane

I am sending to you at the same time to expedite the process. Still in draft form.

I have addressed the issues to the extent I can and have knowledge. I have not yet received anything on JR front, but appeals process is included.

Are you ok with me sending this version to TBS/CLOC? Or would you like me to send the next version.

Sorry for the delay, but I was in an interview panel in the AM and have been tracking down some facts in order to address the issues

Thanks
Alena

From: Mallen, Jane (MAG)
Sent: October 12, 2017 9:15 AM
To: Thouin, Alena (ENERGY); Murray, Maud (ENERGY)
Subject: Briefing Note -OFHP Complaints

Hi, I know this was a rough draft but I thought it might easier if I provided detailed comments at this stage.

As a general comment, I think the SoC's questions should be answered up front, followed by the general overview of the ASC and the complaints process, followed by the background re: these complaints. This will make the note quite long, so if you see opportunities to cut some of the detail please do so.

Once you have a draft that includes the bias discussion, I would recommend sending to TBS and CLOC Advisory for review. The note should also indicate that it was drafted in consultation with those branches.

Under the next steps, I think we need to address Blakes' ongoing role but I'm not sure what to say at this point. I will think on that a bit more. The bottom line is that the SoC

is looking for strategic advice re: next steps.

Let me know if a discussion would be helpful. We should aim to get this up to the DMO today.

Thanks,
Jane

RE_ Briefing Note -OFHP Complaints(3).pdf

From: [Thouin, Alena \(ENERGY\)](#)
To: [Murray, Maud \(ENERGY\)](#); [Mallen, Jane \(MAG\)](#)
Subject: RE: Briefing Note -OFHP Complaints
Date: October 12, 2017 3:18:00 PM

Thanks Jane
I should have a re-drafted version soon

From: Murray, Maud (ENERGY)
Sent: October 12, 2017 2:59 PM
To: Mallen, Jane (MAG); Thouin, Alena (ENERGY)
Subject: RE: Briefing Note -OFHP Complaints

Thanks, Jane. We will review your comments and changes and revise accordingly.

From: Mallen, Jane (MAG)
Sent: October-12-17 9:15 AM
To: Thouin, Alena (ENERGY); Murray, Maud (ENERGY)
Subject: Briefing Note -OFHP Complaints

Hi, I know this was a rough draft but I thought it might easier if I provided detailed comments at this stage.

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Let me know if a discussion would be helpful. We should aim to get this up to the DMO today.

Thanks,
Jane

RE_ Briefing Note -OFHP Complaints.pdf

From: [Mallen, Jane \(MAG\)](#)
To: [Thouin, Alena \(ENERGY\)](#); [Murray, Maud \(ENERGY\)](#)
Subject: RE: Briefing Note -OFHP Complaints
Date: October 12, 2017 7:34:12 PM

One last thing –since no one has weighed in on the JR issue I say we leave this out for now.

From: Mallen, Jane (MAG)
Sent: October-12-17 7:06 PM
To: Thouin, Alena (ENERGY); Murray, Maud (ENERGY)
Subject: FW: Briefing Note -OFHP Complaints

Is there any chance of getting the final note back before 8:00 p.m? Michel is coming back to the office to pick something up and I can probably get a minute with him to go over the note.

(sorry, I owe you candy)

From: Scarfone, Janet (MAG)
Sent: October-12-17 6:57 PM
To: Mallen, Jane (MAG); Thouin, Alena (ENERGY); Murray, Maud (ENERGY)
Cc: Kearney, Sean (MAG); D'Angelo, Joseph (MAG); Sheridan, Paul (MAG); Hatzis, Len (TBS)
Subject: RE: Briefing Note -OFHP Complaints

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Subject: RE: Briefing Note -OFHP Complaints

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Paul

From: Hatzis, Len (TBS)
Sent: October 12, 2017 5:56 PM
To: Mallen, Jane (MAG); Thouin, Alena (ENERGY); Sheridan, Paul (MAG)
Cc: Murray, Maud (ENERGY); Scarfone, Janet (MAG); Kearney, Sean (MAG)
Subject: RE: Briefing Note -OFHP Complaints

We have reviewed and have nothing further to add . Thanks

From: Mallen, Jane (MAG) <Jane.N.Mallen@ontario.ca>
Date: Thursday, Oct 12, 2017, 5:38 PM
To: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>, Sheridan, Paul (MAG) <Paul.Sheridan@ontario.ca>, Hatzis, Len (TBS) <Len.Hatzis@ontario.ca>
Cc: Murray, Maud (ENERGY) <Maud.Murray3@ontario.ca>, Scarfone, Janet (MAG) <Janet.Scarfone@ontario.ca>, Kearney, Sean (MAG) <Sean.Kearney@ontario.ca>
Subject: RE: Briefing Note -OFHP Complaints

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Jane Mallen | Portfolio Director
Office of the Assistant Deputy Attorney General | Civil Law Division
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Good afternoon,
Please find attached draft consolidated note for the DAG on the OFHP Complaints for your comments. We still need some thoughts from folks on the JR issue and whether the ACS decisions are subject to it.

Thank you again and look forward to any comments.

Regards,
Alena

Alena Thouin

Deputy Director, Legal Services Branch
Ministries of Energy / Infrastructure / Economic Development & Growth /
Research, Innovation & Science / Accessibility

56 Wellesley St. W. 18th Floor, Toronto, ON M7A 2E7

Tel: 416-325-1834 **Email:** alena.thouin@ontario.ca

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RE_ By Friday afternoon - SCOPA_QA_Friendly_ENERGY(1).pdf

From: [Lightbody, Ava \(ENERGY\)](#)
To: [Cayley, Daniel \(ENERGY\)](#)
Subject: RE: By Friday afternoon - SCOPA_QA_Friendly_ENERGY
Date: January 25, 2018 12:55:22 PM

Hi Daniel,

Have put this response together from AG materials and a bit from the Estimates QAs. Have gone for lengthy as per the request.

[\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA friendly\SCOPA_QA_Friendly_ENERGY.docx](\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA friendly\SCOPA_QA_Friendly_ENERGY.docx)

Ava

From: Cayley, Daniel (ENERGY)
Sent: January-24-18 10:55 AM
To: Lightbody, Ava (ENERGY)
Subject: FW: By Friday afternoon - SCOPA_QA_Friendly_ENERGY

Ava – please draft the response to our attached friendly. Estimates QAs attached as a starting point.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: January 24, 2018 10:38 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: By Friday afternoon - SCOPA_QA_Friendly_ENERGY

Hi Guys –

We're going to move ahead on prep for Public Accounts on Chapter 2 of the AG report (I'll also be sending out the prelim pieces for Chapter 3 prep a little later). We've been asked to prep the attached 3 friendly Qs. IESO and OPG will tackle questions 2 and 3, but we're on the hook for a lengthy (DM needs 20 mins of content) response to Q1.

Looking to have this back by Friday afternoon.

HC

RE_ By Friday afternoon - SCOPA_QA_Friendly_ENERGY.pdf

From: [Christie, Tim \(ENERGY\)](#)
To: [Cox, Hilary \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Cc: [Lightbody, Ava \(ENERGY\)](#)
Subject: RE: By Friday afternoon - SCOPA_QA_Friendly_ENERGY
Date: January 25, 2018 3:55:00 PM
Attachments: [SCOPA_QA_Friendly_ENERGY.docx](#)

Hilary, here are our friendlys.

From: Cox, Hilary (ENERGY)
Sent: January-24-18 10:38 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: By Friday afternoon - SCOPA_QA_Friendly_ENERGY

Hi Guys –

We're going to move ahead on prep for Public Accounts on Chapter 2 of the AG report (I'll also be sending out the prelim pieces for Chapter 3 prep a little later). We've been asked to prep the attached 3 friendly Qs. IESO and OPG will tackle questions 2 and 3, but we're on the hook for a lengthy (DM needs 20 mins of content) response to Q1.

Looking to have this back by Friday afternoon.

HC

SCOPA_QA_Friendly_ENERGY.pdf

Ministry of Energy – Proposed Friendly Questions:

- 1. To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers 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.

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. Bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've 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 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 ratebase – 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.

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.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- 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).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

OPG was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG will arrange for the third party debt, and supplement this funding through the Province and additional funds contributed by OPG, through increased equity in the Trust at equivalent market rates.

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.

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

OPG has a 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.

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

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

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

OPG is uniquely positioned to be the Financial Services Managers, understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and IESO, and has experience in Treasury operations in the marketplace including relationships with the credit rating agencies.

OPG has begun 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 considerably less than original estimates.

The total estimated cost of the program has been revised downwards substantially to reflect revised inputs, including updated long-term cost projections for the electricity system and residential bills provided by the Independent Electricity System Operator (IESO). Current government estimates forecast that the peak debt over the thirty-year life of OFHP will be approximately \$20 billion. The preliminary estimate from March 2017 was about \$28 billion.

A number of variables, 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. Each of these factors will need to be managed and monitored closely.

With respect to the \$4 billion figure referenced by the Financial Accountability Office (FAO), it should be noted that the report was based on the initial Ministry of Energy estimates from March 2017. The FAO simply took an estimated cost of borrowing for the Ontario Financing Authority (OFA) and OPG and applied the difference to debt estimates based on Ministry of Energy data from March.

Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

The FAO report itself concluded by saying “the FAO’s estimates are subject to many assumptions and uncertainties (...) Fiscal impact may differ significantly from the FAO’s estimates.”

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.

Moving forward, Ontario’s 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario’s Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario’s electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

3. **To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?**

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

RE_ By Wednesday at 3 pm -Rate Mitigation Imple....pdf

From: [Edwards, Matthew \(ENERGY\)](#)
To: [Syed, Usman \(ENERGY\)](#); [Colalillo, Sam \(ENERGY\)](#); [Johnson, Paul \(ENERGY\)](#)
Cc: [Defrancesco, Anna \(ENERGY\)](#); [Ieraci, Vanessa \(ENERGY\)](#); [Kolodziej, Monika \(ENERGY\)](#); [Schwab-Pflug, Emma \(ENERGY\)](#)
Subject: RE: By Wednesday at 3 pm -Rate Mitigation Implementation Meeting
Date: November 21, 2017 1:27:40 PM
Attachments: [2017 OHHP Matrix and Outstanding Business Issues - Week of Nov 20.DOCX.....docx](#)

This request has been updated. Instead of updating the document sent in the below email, we are now being asked to update the attached merged OFHP Matrix/Business issues list.

Same due date as below – tomorrow noon.

Matt

From: Edwards, Matthew (ENERGY)
Sent: November 21, 2017 10:36 AM
To: Syed, Usman (ENERGY) <Usman.Syed@ontario.ca>; Colalillo, Sam (ENERGY) <Sam.Colalillo@ontario.ca>; Johnson, Paul (ENERGY) <Paul.Johnson3@ontario.ca>
Cc: Defrancesco, Anna (ENERGY) <Anna.Defrancesco@ontario.ca>; Ieraci, Vanessa (ENERGY) <Vanessa.Ieraci@ontario.ca>; Kolodziej, Monika (ENERGY) <Monika.Kolodziej@ontario.ca>; Schwab-Pflug, Emma (ENERGY) <Emma.Schwab-Pflug@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>
Subject: FW: By Wednesday at 3 pm -Rate Mitigation Implementation Meeting

ESP has sent the OFHP Matrix for update. Please update for tomorrow at noon – file to update starts with 2017-10-27 OFHP Matrix.

Note, ESP has sent the following as FYI – to help with your updates:

1. Last week's OFHP Minister's update (ppt)

From: Cox, Hilary (ENERGY)
Sent: November 20, 2017 6:33 PM
To: Yordi, Samer (ENERGY) <Samer.Yordi@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: FW: By Wednesday at 3 pm -Rate Mitigation Implementation Meeting

Hi All –

Please use attached action items and OFHP matrix from the last OFHP morning group meeting to update for this Thursday's group. I've also attached the OFHP update for Minister from last week as that is likely even more recent than these materials.

We'll also need to update the business issues list per OFHP Minister's update and next steps. Will get back to everyone tomorrow with who should update on what business issues.

Appreciate this back by Wednesday at 3 pm please.

HC

2017 OHHP Martix and Outstanding Business Iss_1.pdf

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 Protection and Assurance Agreement	Province to provide contingent supports to enable structure	- Draft Term Sheet - Performance Guarantee - Service Guarantee	MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. Timing: In advance of OPG Board Meeting on November 13, 2017
OPG's Financing Plan			Timing: Late November or early December – OPG Initial debt issuance
Equity Injection	Province to purchase shares of OPG on a monthly basis	- Master Subscription Agreement - Service Level Agreement - Notice of Subscription - Amendment to Articles	OFA / ENE to determine required monthly process and sign-off mechanism Timing: October for internal provincial mechanism
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: Fall
PILs Exemption	Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	- Comfort Letter - Tax Regulation	MOF legal to draft comfort letter and regulation (currently with MOF for review) Timing: Fall for regulation
OPG / IESO Commercial Agreement			OPG and IESO working to finalize Agreement Timing:

Commented [HS(1)]: ESP to update

Commented [HS(2)]: ESP to update

Commented [HS(3)]: SNAP to Update

Commented [HS(4)]: SNAP to update

Commented [HS(5)]: ESP to update

Commented [HS(6)]: ESP to update. Should likely call IESO.

Issue	Overview	Supporting Documentation	Timing / Next Steps

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

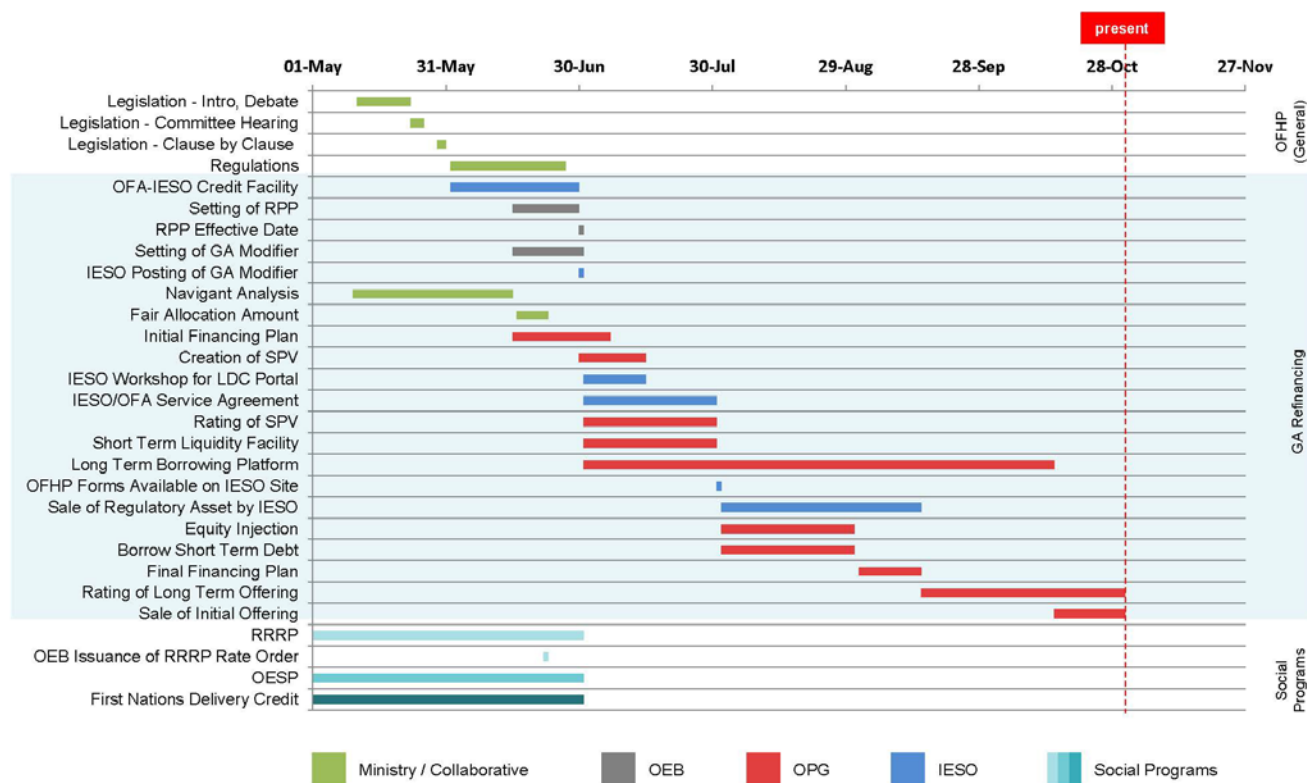
Item	Key Deliverables / Considerations	Timing / Next Steps
1) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
ENERGY, LSB and LDCs	<u>Recent Action Items</u> - All LDCs have indicated they have implemented the program - IESO has begun to submit reimbursement claims to the Ministry	Discussions 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	- 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
	- 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	
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 meeting is scheduled for November 2, 2017	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-back

Item	Key Deliverables / Considerations	Timing / Next Steps
		- Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets Late 2017/early 2018: - 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
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	Continue this work as part of 2017 LTEP implementation

Item	Key Deliverables / Considerations	Timing / Next Steps
	- 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.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

0

RE_Call.pdf

From: [Cusimano, Jo-Anne \(ENERGY\)](#)
To: [Thouin, Alena \(ENERGY\)](#)
Subject: RE: Call
Date: October 11, 2017 11:11:31 AM
Attachments: [ASC STATUS and Next Steps.docx](#)

I realized what I have is an account of the second set of complaints attached. I will revise to include the first complaint asap today.

Jo-Anne

From: Thouin, Alena (ENERGY)
Sent: October-11-17 9:38 AM
To: Cusimano, Jo-Anne (ENERGY)
Subject: RE: Call

Thanks

Can you please call my cell 4168730271

From: Cusimano, Jo-Anne (ENERGY) <Jo-Anne.Cusimano@ontario.ca>
Date: Wednesday, Oct 11, 2017, 9:35 AM
To: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: Re: Call

Hi Alena,
11:00 ok? I'll call you.
Jo-Anne

From: Thouin, Alena (ENERGY)
Sent: Wednesday, October 11, 2017 9:17 AM
To: Cusimano, Jo-Anne (ENERGY)
Subject: Call

Hi Jo-Anne
Hope you are well. Do you have a few minutes for a call this am?

Thanks
Alena

ASC STATUS and Next Steps.pdf

Advertising Standards Canada – Status and Next Steps

Tues. Oct. 3, 2017

Situation	Action	Result	Date
Received Notice of Adjudication from ASC – Mon, Sept. 25	Contacted ARB – L. Sloan for understanding of process	ARB advises this is the first time gov't advised of adjudication in at least 10 years	Tues, Sept. 26
		ARB contacts ASC to request understanding of adjudication process	Tues, Sept. 26
	Comms requested legal contact Blakes for counsel.		Tues, Sept. 26
	Comms meets with legal: Alena and Maud Comms prepares background materials – Business Case, Creative Briefs, Media blocking chart, Recorded Radio Spot Comms request reliability info from policy.	Request for correspondence with ASC. Comms Provides. Hold. Release if necessary.	Thurs, Sept. 28
		DM and Comms confirms with CO/PO the advertising will never run again.	Fri, Sept. 29
	Comms reaches out to IESO to prep reliability claim.	Comms provides Auditor General approval letters. Confirms all social media has been removed.	Mon, Oct. 2
	Blakes provides ASC process. DMO/MO Briefing on process – Joshua Krane/Blakes	Discussion/Strategy to prepare for Tues. Meeting: 1) Discuss details of specifics of reason for adjudication. Review process. 2) Advise ASC the advertising has been out of market since	Mon, Oct. 2

		August 13. The advertising will not run again. 3) Further information may take more time – reference below: 4) Brief on Fair Hydro Plan Adjustment Legislation and regulations 5) Brief on OEB Report on 25% 6) Prep removal of 25% from Ministry and OFHP website	
Call with ASC to gather facts of process and determine next steps on providing further information prior to adjudication.		Potential for postponement to provide further information prior to October council meeting of adjudication pending.	Tues. Oct 3
	Provide further info to ASC		Fri. Oct 6 th (TBC)

RE_ Fair Hydro Plan.pdf

From: [Evans, Karen \(ENERGY\)](#)
To: [Thouin, Alena \(ENERGY\)](#); [Cusimano, Jo-Anne \(ENERGY\)](#)
Subject: RE: Fair Hydro Plan
Date: October 3, 2017 1:37:43 PM
Sensitivity: Confidential

Yes. I have asked for an inventory.

We could let them know on the call that we are taking inventory and can remove all. A reminder that YouTube is not technically advertising but agreed, the ad is still technically publically available.

From: Thouin, Alena (ENERGY)
Sent: October-03-17 1:17 PM
To: Evans, Karen (ENERGY); Cusimano, Jo-Anne (ENERGY)
Subject: FW: Fair Hydro Plan
Sensitivity: Confidential

See below. Do you think others are out there?

From: KRANE, JOSHUA <JOSHUA.KRANE@blakes.com>
Date: Tuesday, Oct 03, 2017, 1:03 PM
To: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Fair Hydro Plan

Alena – please see below.

Joshua A. Krane
Partner
joshua.krane@blakes.com
Dir: 416-863-4187
Cell: 416-471-2068



Blake, Cassels & Graydon LLP
199 Bay Street, Suite 4000, Toronto ON M5L 1A9
Tel: 416-863-2400 Fax: 416-863-2653
blakes.com | [Twitter](#) | [Unsubscribe](#)

Blake, Cassels & Graydon LLP | Barristers & Solicitors | Patent & Trade-mark Agents
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L'information paraissant dans ce message électronique est CONFIDENTIELLE. Si ce message vous est parvenu par erreur, veuillez immédiatement m'en aviser par téléphone ou par courriel et en détruire toute copie. Merci.

From: Rafe Engle [mailto:counsel@rsengle.ca]
Sent: Tuesday, October 03, 2017 12:18 PM
To: KRANE, JOSHUA

Cc: 'Feasby, Janet'
Subject: Fair Hydro Plan
Sensitivity: Confidential

STRICTLY CONFIDENTIAL

Hi Josh:

I just checked and found that the TV commercial is still running on YouTube. The link is below:

https://www.youtube.com/watch?v=WwsHmh-C_Fo

Regards,

Rafe Engle

R.S. Engle
Professional Corporation
26 Sussex Avenue
Toronto, ON
M5S 1J7

Tel: (416) 598-3806
Fax: (416) 598-1786

This message may contain confidential and/or privileged information and any rights to privilege have not been waived. If you are not the intended recipient or authorized to receive this for the intended recipient, you must not use, copy, disclose or take any action based on this message or any information herein. If you have received this message in error, please advise the sender immediately by reply email and delete this message.

Thank you for your co-operation.

RE_ Final AG Report Materials.pdf

From: [Schlaepfer, Martin \(ENERGY\)](#)
To: [HARTWICK Ken -FINANCE](#); [KING Catriona -OFFCORPSEC](#); [DYKXHOORN Sandra -STAKEREL](#); [Kim Marshall](#); [Kate Longmoore](#); ["Jordan Penic"](#); [Hume, Steen \(ENERGY\)](#); [Calwell, Carolyn \(ENERGY\)](#); [Nelms, Scott \(MOF\)](#); [Evans, Karen \(ENERGY\)](#); [Murray, Maud \(ENERGY\)](#)
Cc: [Cox, Hilary \(ENERGY\)](#); [Ridd, Carl \(ENERGY\)](#); [Cengarle, John \(MOF\)](#); [Pau, Joseph \(MEDG/MRIS\)](#)
Subject: RE: Final AG Report Materials
Date: October 17, 2017 12:32:45 PM
Attachments: [Deloitte.pdf](#)

Hi everyone,

Attached is the Deloitte handout.

Thanks,
Martin

From: Schlaepfer, Martin (ENERGY)
Sent: October 17, 2017 11:25 AM
To: 'HARTWICK Ken -FINANCE' <ken.hartwick@opg.com>; KING Catriona -OFFCORPSEC <catriona.king@opg.com>; 'DYKXHOORN Sandra -STAKEREL' <sandra.dykxhoorn@opg.com>; 'Kim Marshall' <Kim.Marshall@ieso.ca>; 'Kate Longmoore' <Kate.Longmoore@ieso.ca>; 'Jordan Penic' <jordan.penic@ieso.ca>; Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; Evans, Karen (ENERGY) <Karen.Evans@ontario.ca>; Murray, Maud (ENERGY) <Maud.Murray3@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Ridd, Carl (ENERGY) <Carl.Ridd@ontario.ca>; Cengarle, John (MOF) <John.Cengarle@ontario.ca>; Pau, Joseph (MEDG/MRIS) <Joseph.Pau@ontario.ca>
Subject: Final AG Report Materials

Hi everyone,

Attached are the final materials in pdf, including the French Fact Sheet. QAs also attached in word. A Deloitte handout will be coming momentarily.

The technical briefing begins at 1pm in the Kenora / Nipissing / Nipigon room of the 2nd floor of Macdonald Block (900 Bay street). Please arrive by 12:45. We will be regrouping here on the 4th floor of Hearst outside the Executive Boardroom at 12:30, so that we can walk down for 12:45pm. Folks are welcome to join if they are unsure of where they are going.

Thanks,
Martin

Martin Schlaepfer
Director of Operations
Deputy Minister's Office
Ministry of Energy
T: 416-326-7688

E: martin.schlaepfer@ontario.ca

Deloitte.pdf

Public Sector Accounting Standards (PSAS) are silent on the question of how to account for the impacts of rate regulation. However, through an analysis of the guidance provided in PSAS, Deloitte concluded that it is appropriate for a public sector entity to select accounting policies that would result in the recognition of the impacts of rate regulation, by analogy to U.S. accounting standards and the related eligibility criteria on the topic.

Deloitte further concluded that any regulatory assets and liabilities recognized through the appropriate application of these policies would meet the criteria for recognition under PSAS.

It should be noted, however, that Deloitte did not include in its scope an assessment of the specific regulatory assets or liabilities recognized by the Independent Electricity System Operator (IESO) through the application of this accounting policy under PSAS.

- Deloitte, LLP.

RE_ For Approval - Initial Email to Ad Standards.pdf

From: [Evans, Karen \(ENERGY\)](#)
To: [Thouin, Alena \(ENERGY\)](#)
Cc: [Lyon, Sam \(ENERGY\)](#); [Barbaro, Rachel \(ENERGY\)](#); [Cusimano, Jo-Anne \(ENERGY\)](#)
Subject: RE: For Approval - Initial Email to Ad Standards
Date: October 5, 2017 2:25:43 PM

Alena

Can you please call me before you action this.

Tx

Karen

From: Evans, Karen (ENERGY)
Sent: October-05-17 2:18 PM
To: Thouin, Alena (ENERGY)
Cc: Lyon, Sam (ENERGY); Barbaro, Rachel (ENERGY); Cusimano, Jo-Anne (ENERGY)
Subject: FW: For Approval - Initial Email to Ad Standards

Hi Alena

Below email is approved and can go to ASC through Blakes.

Tx

Karen

From: Berg, Denna (ENERGY)
Sent: October-05-17 1:42 PM
To: Evans, Karen (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Cusimano, Jo-Anne (ENERGY); Barbaro, Rachel (ENERGY)
Subject: Re: For Approval - Initial Email to Ad Standards

DM approved. Thanks for sharing, Karen!

Sent from my iPad

On Oct 5, 2017, at 12:46 PM, Evans, Karen (ENERGY) <Karen.Evans@ontario.ca> wrote:

Hi Denna,

As a first step in our proceedings with the Advertising Standards Council, we are to send an email indicating that we have removed all references to the advertising.

I submit the draft email below, which will be sent to ASC through our counsel at Blakes for approval.

Alena Thouin has reviewed it.

If possible, we would like to send this to ASC today.

Tx

Karen

Ms Feasby,

Thank you for your time on our conference call this week to clarify the details of the

Advertising Standards Council's concerns. To follow up on our commitments, we will endeavour to provide further information to support the accuracy and truthfulness of the messaging within the advertising within an agreed upon timeframe.

In the interim, this will confirm that Ontario Fair Hydro Plan advertising that mentions the 25% bill reduction and/or electricity system reliability and rate affordability has been removed from public display.

Advertising adjustments and actions include:

- 1) All paid media advertising was completed in mid-August.
- 2) This confirms the advertising will not be used again.
- 3) All owned media channels – specifically website references within the overview section on [Ontario.ca/fairhydroplan](https://ontario.ca/fairhydroplan) and edits to energy.gov.on.ca websites. Social Media posts: YouTube, Facebook, Twitter have also been removed.

We appreciate your patience and understanding to allow us a deadline extension to share further information. We'll be in touch shortly to discuss a revised timeline for our written response.

Thank you,
J. Krane

CC: Rafe Engle, Yamina Bennacer, Laurie Sloan, Alena Thouin, Karen Evans

Karen Evans
Director, Communications Branch
Ontario Ministry of Energy
4th Floor, Hearst Block, Queen's Park
900 Bay Street, Toronto, ON M7A 2E1
O: 416-327-6541 C:416-705-9637

RE_ For Review - OPG OFHP Tech Briefing QA(1).pdf

From: [Lightbody, Ava \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#)
Cc: [Cayley, Daniel \(ENERGY\)](#); [Pinheiro, Alex \(ENERGY\)](#)
Subject: RE: For Review - OPG OFHP Tech Briefing QA
Date: January 24, 2018 4:11:15 PM

Oops – note the link is the correct version, but not the attachment.

From: Lightbody, Ava (ENERGY)
Sent: January-24-18 4:11 PM
To: Christie, Tim (ENERGY)
Cc: Cayley, Daniel (ENERGY); Pinheiro, Alex (ENERGY)
Subject: FW: For Review - OPG OFHP Tech Briefing QA

Hi Tim,

OPG tech briefing QAs for your review (almost identical to AG QAs):

[\\Etcptovspifs003\pd\EnergyPolicy\Economics\Comms\Requests\20180123 FHP technical briefing QAs\QA - OPG OFHP Debt FinancingTech Briefing - AH - 20180122 KMs added - v2.docx](#)

Ava

From: Thiru, Dhil (ENERGY)
Sent: January-17-18 11:32 AM
To: Cayley, Daniel (ENERGY)
Cc: Christie, Tim (ENERGY); DeSouza, Avril (ENERGY); Lightbody, Ava (ENERGY); Pinheiro, Alex (ENERGY)
Subject: FW: For Review - OPG OFHP Tech Briefing QA

Hi Daniel,

Attached is a QA for the Minister's upcoming OPG OFHP Technical briefing. DMO has shared this note with ESP only so kindly let me know if you believe other divisions would need to be involved. Kindly return to me by EOD Wednesday January 24.

Thanks.

From: Hendy, Adam (ENERGY)
Sent: January-17-18 11:04 AM
To: Thiru, Dhil (ENERGY)
Cc: Cox, Hilary (ENERGY); @ENERGY-COMM-Issues_and_MediaRelations; Berg, Denna (ENERGY); Lyon, Sam (ENERGY)
Subject: For Review - OPG OFHP Tech Briefing QA

Hey Dhil,

Attached for review is a QA we have put together for the Minister's use at the upcoming OPG OFHP Technical Briefing. This is simply a refresh/updated version of the QA we used for the October tech

briefing on the OAG's special report on the OFHP.

In the doc you will notice tracked X's as placeholders, these are in place of dollar figures that are likely to change when we know OPG's interest rate. Please feel free to change any numbers in the doc where appropriate.

Hoping we can get this back by Jan 25 at noon, or whenever the numbers become available to you.

Thanks,
Adam

RE_ For Review - OPG OFHP Tech Briefing QA(2).pdf

From: [Lightbody, Ava \(ENERGY\)](#)
To: [Cayley, Daniel \(ENERGY\)](#)
Subject: RE: For Review - OPG OFHP Tech Briefing QA
Date: January 24, 2018 1:50:57 PM
Attachments: [QA - OPG OFHP Debt FinancingTech Briefing - AH - 20180122 KMs added - v2.docx](#)

Hello,

OPG OFHP technical briefing QAs for your review. You will notice I did some rearranging so that more general questions are in their own section at the top, with the rest under a subtitle for "AG/FAO reports" – however I haven't added many new QAs, let me know if you think that may be needed as discussed yesterday.

[\\Etcptovspifs003\pd\EnergyPolicy\Economics\Comms\Requests\20180123 FHP technical briefing QAs\QA - OPG OFHP Debt FinancingTech Briefing - AH - 20180122 KMs added - v2.docx](#)

Also attached.

Ava

From: Thiru, Dhil (ENERGY)
Sent: January-17-18 11:32 AM
To: Cayley, Daniel (ENERGY)
Cc: Christie, Tim (ENERGY); DeSouza, Avril (ENERGY); Lightbody, Ava (ENERGY); Pinheiro, Alex (ENERGY)
Subject: FW: For Review - OPG OFHP Tech Briefing QA

Hi Daniel,

Attached is a QA for the Minister's upcoming OPG OFHP Technical briefing. DMO has shared this note with ESP only so kindly let me know if you believe other divisions would need to be involved. Kindly return to me by EOD Wednesday January 24.

Thanks.

From: Hendy, Adam (ENERGY)
Sent: January-17-18 11:04 AM
To: Thiru, Dhil (ENERGY)
Cc: Cox, Hilary (ENERGY); @ENERGY-COMM-Issues_and_MediaRelations; Berg, Denna (ENERGY); Lyon, Sam (ENERGY)
Subject: For Review - OPG OFHP Tech Briefing QA

Hey Dhil,

Attached for review is a QA we have put together for the Minister's use at the upcoming OPG OFHP Technical Briefing. This is simply a refresh/updated version of the QA we used for the October tech briefing on the OAG's special report on the OFHP.

In the doc you will notice tracked X's as placeholders, these are in place of dollar figures that are

likely to change when we know OPG's interest rate. Please feel free to change any numbers in the doc where appropriate.

Hoping we can get this back by Jan 25 at noon, or whenever the numbers become available to you.

Thanks,

Adam

QA - OPG OFHP Debt FinancingTech Briefing - A.pdf

CONFIDENTIAL

Jan 22, 2017

KEY MESSAGES

- Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history.
- OFHP has ~~introduced new measures to lower~~lowered electricity bills by 25 per cent on average for residential consumers 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.
- Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).
- OPG currently manages approximately \$20 billion¹ 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 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.
- Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government ~~since the FAO released its report in May 2017~~, and borrowing costs are now forecast to be substantially lower than original estimates.
- 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.

Commented [AL1]: Suggest removing since may not need to raise the reports as a km in this context

¹ Ontario Financing Authority

CONFIDENTIAL

Q&As – OFHP Debt Financing

Q. Why did the government introduce the Ontario 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. Since 2003, nearly \$70 billion² has been invested in the electricity system, including more than \$37³ 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 ~~has introduced new measures to lower~~^{ed} electricity bills by 25 per cent on average for residential consumers 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.

In developing the policy to refinance the Global Adjustment (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.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

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. What is the Global Adjustment (GA)?

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. The 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 accounts for 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 reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's 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 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.

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.

² Ministry of Energy, 2017 Long-Term Energy Plan

³ Ministry of Energy, 2017 Long-Term Energy Plan

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Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun 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 considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately \$20 billion⁴. The preliminary estimate from March 2017 was about \$28 billion⁵.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7X billion⁶ to approximately \$20 billion⁷. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as FSM and assume a 5% interest rate.

Commented [AL2]: Rather than reject comms tracked changes, I've tracked my own additions for process visibility

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Act Plan? Would 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).

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 program 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.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan 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.

⁴ Ministry of Energy

⁵ Ministry of Energy, submission to Financial Accountability Officer

⁶ Ministry of Energy

⁷ Ministry of Energy

⁸ Ontario Financing Authority

⁹ Ontario Power Generation

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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.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've 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.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to \$5.2 billion¹¹ over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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).

¹⁰ Ontario Power Generation

¹¹ Independent Electricity System Operator, Assessment of the Benefits of Market Renewal (Brattle Group)

[In development and implementation of Global Adjustment \(GA\) refinancing, 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.](#)

[Auditor General and Financial Accountability Office reports](#)

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

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.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan 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. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the \$4 billion¹² figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be [below approximately \\$20-20X billion](#)¹³. The preliminary estimate from March 2017 was about \$28 billion¹⁴.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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.

¹² Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

¹³ Ministry of Energy

¹⁴ Ministry of Energy, submission to Financial Accountability Officer

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If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$~~27.7~~~~27.7X~~ billion¹⁵ to approximately \$18.5X20 billion¹⁶. The higher March 2017 estimate was used by the FAO in its May 2017 report.

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

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$~~25~~~~25X~~ billion¹⁷ to less than \$19.48 X billion¹⁸.

Q. Have the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? I understand that the Office of the Auditor General (OAG) has asked what are the factors that resulted in the changes in estimates from March 1 to August 31?

With respect to the \$4 billion¹⁹ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below approximately \$20.20 X billion²⁰. The preliminary estimate from March 2017 was about \$28 billion²¹.

The revised estimates are the result of the following a number of factors, including updated long-term cost projections for the electricity system and residential bills provided by the Independent Electricity System Operator (IESO):

- The Independent Electricity System Operator (IESO) updated its long-term cost projections for the electricity system and residential bills;
- The Ontario Energy Board (OEB) provided "actual data" with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
- Based on expert third-party advice the interest rate assumptions for OFHP were updated (i.e., from 5%²² down to 4.5%²³).

Commented [AL3]: This bullet and the below bullet regarding the "August 31, 2017" don't seem that helpful but it's possible I am misunderstanding and am happy to discuss/keep them in.

Commented [AL4]: This bullet removed in accordance with the model we are using (to align with FAA letter)

¹⁵ Ministry of Energy

¹⁶ Ministry of Energy

¹⁷ Ministry of Energy

¹⁸ Ministry of Energy

¹⁹ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

²⁰ Ministry of Energy

²¹ Ministry of Energy, submission to Financial Accountability Officer

²² Ministry of Energy

²³ Navigant Consulting, *Assessment of the Alignment of the Costs and Benefits of Clean Energy Assets*

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~~In addition, for the August 31, 2017 estimate, the Ministry of Energy converted debt and interest amounts from calendar year to Regulated Price Plan (RPP) periods.~~

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion²⁴ to ~~approximately \$18.5~~\$20 billion²⁵. The higher March 2017 estimate was used by the FAO in its May 2017 report.

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

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 ~~X~~ billion²⁶ to less than \$18~~9~~X billion²⁷.

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 is 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. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Act? Would 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).~~

²⁴ Ministry of Energy

²⁵ Ministry of Energy

²⁶ Ministry of Energy

²⁷ Ministry of Energy

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OPG currently manages approximately \$20 billion²⁸ 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 program 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.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors²⁹, 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 billion³⁰ and two commercial paper programs.

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

Q. What does this mean for the How do you respond to the Financial Accountability Office's (FAO) suggestion from May 2017 that using Ontario Power Generation as the borrowing agent will cost \$4 billion more? Why not have the Province borrow for the OFHP?

The policy objective of OFHP 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 – not the tax-base.

We believe 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. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since the early 2000s³¹.

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

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak

Commented [AL5]: Moved up from below question (see highlighted comment), amalgamated hereto reduce repetition

²⁸ Ontario Financing Authority

²⁹ Ontario Power Generation

³⁰ Ontario Power Generation

³¹ Ministry of Finance

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debt over the thirty year life of OFHP will be ~~below approximately \$20-X-20~~ billion³². The preliminary estimate from March 2017 was about \$28 billion³³.

The FAO report itself concludes by saying "the FAO's estimates are subject to many assumptions and uncertainties (...) Fiscal impact may differ significantly from the FAO's estimates."

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion³⁴ to ~~approximately \$19.5-X-20~~ billion³⁵. The higher March 2017 estimate was used by the FAO in its May 2017 report.

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

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion³⁶ to ~~less than \$198~~ billion³⁷.

Q. Do you disagree with the FAO on financial costs?

With respect to the \$4 billion³⁸ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be ~~below approximately \$20-X-20~~ billion³⁹. The preliminary estimate from March 2017 was about \$28 billion⁴⁰.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

³² Ministry of Energy

³³ Ministry of Energy, submission to Financial Accountability Officer

³⁴ Ministry of Energy

³⁵ Ministry of Energy

³⁶ ~~Ministry of Energy~~

³⁷ ~~Ministry of Energy~~

³⁸ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

³⁹ Ministry of Energy

⁴⁰ Ministry of Energy, submission to Financial Accountability Officer

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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. ~~Further details will be released in the 2017 Long Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.~~

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion⁴¹ to ~~approximately \$18.5~~\$20 billion⁴². The higher March 2017 estimate was used by the FAO in its May 2017 report.

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

If pressed on interest costs:

The Ministry estimates of total interest cost also decreased from \$25 billion⁴³ to ~~less than \$19~~\$19 billion⁴⁴.

~~Q. The OAG's report claims that consumers will pay an additional \$4 billion in interest costs over the life of OFHP since OPG and its Financing Entity will pay a higher rate of interest compared to the Province. Why not have the Province borrow for the OFHP?~~

~~The policy objective of OFHP is to more fairly allocate the cost to ratopayers 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 ratopayers — not the tax base.~~

~~We believe it is appropriate for ratopayers 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. Having the rate base pay is not a new policy, for example Hydro One has borrowed in the capital markets since the early 2000s⁴⁵.~~

~~The \$4 billion⁴⁶ figure in the Office of the Auditor General's report was sourced from the FAO's May 2017 report and is important to note, that the FAO's calculation was based on preliminary estimates of the program when peak debt estimates for the thirty year program were substantially higher and interest costs were forecast to be higher than current projections.~~

~~Q. What is the Global Adjustment (GA)?~~

~~The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. The GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the~~

⁴¹ Ministry of Energy

⁴² Ministry of Energy

⁴³ Ministry of Energy

⁴⁴ Ministry of Energy

⁴⁵ Ministry of Finance

⁴⁶ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

Commented [AL6]: Amalgamated into above Q on 4 bill for succinctness

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marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also accounts for 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 reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's 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 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.

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.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage—providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've 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.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to \$5.2 billion⁴⁷ over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. Who was involved in the policy and implementation process to meet the mandate?

⁴⁷ Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal* (Brattle Group)

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Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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).

In development and implementation of Global Adjustment (GA) refinancing, 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.

Document Search

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

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

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

The Ministry does not intend to spend more than \$60,000 on this request. Although the retainer agreement includes a cap of up to \$500,000, as of September 21, 2017, only \$41,775.75 has actually been spent.

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 has 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 has been regularly providing AG batches of responsive documents.

Commented [AL7]: Might suggest removing this level of detail on AG process in this context

Reasoning for Accounting Approach

Q. How do you respond to the Auditor General's claim that the government ignored warnings regarding a potential adverse audit opinion of Ontario's public accounts?

The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

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In regards to rate-regulated accounting, PSAS are silent on the use of regulated accounting:

- PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
- US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference.

Many entities in Canada, including OPG and Hydro One use rate-regulated accounting:

- The OAG can refer to the CPA Canada research study that was shared.
- Rate-regulated accounting is well understood in the electricity sector.
- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America, including AESO, ISO New England, NYISO, MISO, PJM and ERCOT.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

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TBS's Detailed QAs re Ontario's Fair Hydro Plan

Q. The Auditor General says that the accounting structure for Ontario's Fair Hydro Plan is not transparent, has poor value for money, and is not in accordance with Public Sector Accounting Standards. How do you respond?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

~~The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.~~

With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

~~The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.~~

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

~~The Ministry of Energy would welcome further questions about OFHP and the government's investments in a reliable energy system.~~

Commented [AL8]: Moved these statements in a few places since this set of QAs is being prepared for the Minister

Q. The Auditor General makes two recommendations in her report – to record the true financial impact of Ontario's Fair Hydro Plan; and to use a financing structure that is the least costly for Ontarians. Will you adopt these recommendations?

The government does not agree with the assertions and conclusions expressed in the report.

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In developing OFHP, 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.

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

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

Ontario Power Generation (OPG) ~~is beginning the~~ has begun 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 considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately below \$20-20X billion⁴⁸. The preliminary estimate from March 2017 was about \$28 billion⁴⁹.

The Province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

⁴⁸ Ministry of Energy

⁴⁹ Ministry of Energy, submission to Financial Accountability Officer

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Q. Both the Auditor General and the Financial Accountability Officer (FAO) have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history.

In developing OFHP, 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.

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

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

Q. The Auditor General says that you are “obfuscating” the true financial impact of Ontario's Fair Hydro Plan through a “needlessly complex” accounting structure. How do you respond?

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, ~~with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP~~the plan and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

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Q. How can you justify the \$4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the Province, instead of the Province financing the entire electricity cost financing)?

Commented [AL9]: Concept covered above

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20 X billion⁵⁰. The preliminary estimate from March 2017 was about \$28 billion⁵¹.

Q. The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of 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 CEA.

⁵⁰ Ministry of Energy

⁵¹ Ministry of Energy, submission to Financial Accountability Officer

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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. What will happen if interest rates rise? The Financial Accountability Officer (FAO) estimates that if interest rates were to rise, the true cost of Ontario’s Fair Hydro Plan could be between \$69 and \$93 billion. How can you justify shifting this heavy burden onto future generations?

The implementation of Ontario’s Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ontario Power Generation (OPG) is beginning the process ~~has begun the process~~ of raising funds to finance the deferred costs of OFHP, and while total borrowing costs will not be known until the program is complete, accumulated interest is expected to be considerably less than the estimates cited in the May 2017 report of the FAO.

A number of variables, 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. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report, and borrowing costs are now forecast to be substantially lower than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below approximately \$20-20X billion⁵². The preliminary estimate from March 2017 was about \$28 billion⁵³.

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

⁵² Ministry of Energy

⁵³ Ministry of Energy, submission to Financial Accountability Officer

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Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've 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.

Government Officials

Q. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), 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.

Multiple options were considered in creating the OFHP framework – such as to have local distribution companies finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution companies to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

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

Audit Opinion

The government just received another qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in

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accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end. This change was supported by IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Q. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The Province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Q. Are you concerned that the Auditor General will issue an adverse opinion on the Province's Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the Province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts ~~next year in the future. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.~~

The Ministry of Energy, Finance and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and third-party accounting, financing and energy experts ~~to ensure due diligence on the implementation of Ontario's Fair Hydro Plan.~~

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

~~The financing plan for~~ OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all independent auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, 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.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Q. Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?

There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), 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.

The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Independent Electricity System Operator (IESO)

The Auditor General was critical of the Independent Electricity System Operator's accounting changes, which formed part of her basis for a qualified opinion in the 2016-17 Public Accounts. Are these accounting changes inappropriate?

On recognizing market accounts' assets:

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen 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.

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

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General (OAG) at that time.

This change has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

On rate-regulated accounting:

The 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.

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The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Rate-regulated Accounting

Q. Why use rate-regulated accounting? What is its benefit?

In certain circumstances, an organization may be required to incur a large expenditure that will be recovered from ratepayers in the future.

For example, damage caused by an ice storm that results in extraordinary costs to restore a disruption of electricity services for customers. Such costs are subject to application and approval for recovery by the regulator over a specific time period.

What rate-regulated accounting does is it allows organizations to recognize those costs, which can be significant within a year but will generate benefits over time, to be matched over the same period that the amounts are recovered from ratepayers.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

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It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

*"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator **or by its own governing board empowered by statute or contract to establish rates that bind customers**" [ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

Legislated Accounting

Q. The Auditor General says that you are essentially making up your own accounting rules. How are Ontarians supposed to believe things like a "balanced budget" when you keep changing the rules?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

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

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The recording of any asset resulting from transactions of OFHP will be assessed for recognition and measurement based on PSAS, and where appropriate, other accounting guidance where PSAS is silent on the issue.

Q. Why did the IESO change its accounting practices?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in their financial results.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's 2016 annual report, which was published online in March 2017.

The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements.

Additionally this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

This change has no impact to the province's annual deficit, net debt, accumulated deficit or on the ratepayers of Ontario.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. Why did the government not use the Canadian Public Sector Accounting Standards (PSAS)? How was Ontario's Fair Hydro Plan (OFHP) financing structure determined?

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18 as well as in the following years. Presenting its financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS is, however, silent on the recognition, measurement, presentation or 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. In this case, the Independent Electricity System Operator (IESO) consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.

This financing structure is similar to several jurisdictions in the U.S., and uses a form of securitization that is commonly used in the financial markets. It ensures the impact of the plan will be transparent.

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Under this system, credit rating agencies, securities regulators and the public at large get full information and full reporting of the impacts of the OFHP that are visible and specific.

Q. The Auditor General says that the Province legislated accounting through the Ontario Fair Hydro Plan Act, which is not allowed according to Public Sector Accounting Standards (PSAS). Is this true?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

The role of the Ontario Energy Board (OEB) and its mandate is provided in legislation. It is not uncommon for government policy, through regulations, to provide the ground rules over which the OEB is to preside.

This is the case with Ontario's Fair Hydro Plan (OFHP) itself, as the Act and the various regulations provide the direction and processes over which the OEB is to exercise oversight, review, and make conclusion on submissions brought forward.

Relationship with the Office of the Auditor General

Q. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

The government is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

~~The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.~~

Senior ministry officials ~~have~~ met and ~~continue to work~~ed with the Office of the Auditor General by participating in interviews and providing documentation.

If pressed:

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The Auditor General was informed throughout the course of this process.

If asked about the Ministry of Energy emails:

~~The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General. For questions related to the Ministry of Energy, please contact them directly.~~

Future Governments

Q. The Auditor General says that you are essentially handcuffing future governments with your financing structure. Why should future governments have to pay for your decisions?

By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade government policies have supported rebuilding the electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than \$70 billion⁵⁴ has been invested to modernize the system.

The government heard from people across the Province that the price of electricity had risen too quickly, which is why Ontario's Fair Hydro Plan (OFHP) will ensure costs are shared more fairly over the years ahead.

The Ontario electricity sector invested in renewing the provincial electricity system, including many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. 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.

In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

⁵⁴ Ministry of Energy, 2017 Long-Term Energy Plan

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and ensures the goals underlying the program are achieved in a cost-effective manner.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

For further questions related to Ontario's Fair Hydro Plan, please contact the Ministry of Energy.

Asset Sales

Q. Will you buy back Hydro One so that it is back under public control?

Maximizing the value of designated assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The Trillium Trust Act, 2014, provides for the dedication to the Trillium Trust of net revenue gains associated with the sale of designated assets to support investments in transit, transportation and other priority infrastructure across the province.

The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the Ontario Electricity Financial Corporation (OEF), which manages and pays down the debt and other liabilities of the former Ontario Hydro.

The government is on track to generate, over time, \$4 billion⁵⁵ in net revenue gains to be invested in transit and infrastructure, along with \$5 billion⁵⁶ to reduce debt, from broadening Hydro One's ownership.

The government will remain, by law, the largest single shareholder in Hydro One, restricting the Province from selling down to less than 40%⁵⁷ of the voting securities in Hydro One—and no other single shareholder or group of shareholders working in concert will be permitted to hold more than 10%⁵⁸ of the company's shares.

Commented [AL10]: Would suggest removing as may not be necessary in this context

⁵⁵ Ontario Financing Authority

⁵⁶ Ontario Financing Authority

⁵⁷ Ontario Financing Authority

⁵⁸ Ontario Financing Authority

RE_ For Review - OPG OFHP Tech Briefing QA(3).pdf

From: [Lightbody, Ava \(ENERGY\)](#)
To: [Cayley, Daniel \(ENERGY\)](#)
Subject: RE: For Review - OPG OFHP Tech Briefing QA
Date: January 23, 2018 2:52:14 PM

Hi Daniel,

FYI this one is due on Wed as originally actioned (there was some mix up with dates).

[\\Etcptovspifs003\pd\EnergyPolicy\Economics\Comms\Requests\20180123 FHP technical briefing QAs\QA - OPG OFHP Debt FinancingTech Briefing - AH - 20180122 KMs added.docx](#)

I think there are a couple of things to discuss here, so perhaps I will come to chat.

Ava

From: Thiru, Dhil (ENERGY)
Sent: January-17-18 11:32 AM
To: Cayley, Daniel (ENERGY)
Cc: Christie, Tim (ENERGY); DeSouza, Avril (ENERGY); Lightbody, Ava (ENERGY); Pinheiro, Alex (ENERGY)
Subject: FW: For Review - OPG OFHP Tech Briefing QA

Hi Daniel,

Attached is a QA for the Minister's upcoming OPG OFHP Technical briefing. DMO has shared this note with ESP only so kindly let me know if you believe other divisions would need to be involved. Kindly return to me by EOD Wednesday January 24.

Thanks.

From: Hendy, Adam (ENERGY)
Sent: January-17-18 11:04 AM
To: Thiru, Dhil (ENERGY)
Cc: Cox, Hilary (ENERGY); @ENERGY-COMM-Issues_and_MediaRelations; Berg, Denna (ENERGY); Lyon, Sam (ENERGY)
Subject: For Review - OPG OFHP Tech Briefing QA

Hey Dhil,

Attached for review is a QA we have put together for the Minister's use at the upcoming OPG OFHP Technical Briefing. This is simply a refresh/updated version of the QA we used for the October tech briefing on the OAG's special report on the OFHP.

In the doc you will notice tracked X's as placeholders, these are in place of dollar figures that are likely to change when we know OPG's interest rate. Please feel free to change any numbers in the doc where appropriate.

Hoping we can get this back by Jan 25 at noon, or whenever the numbers become available to you.

Thanks,
Adam

RE_ For Review - OPG OFHP Tech Briefing QA.pdf

From: [Christie, Tim \(ENERGY\)](#)
To: [Lightbody, Ava \(ENERGY\)](#)
Cc: [Cayley, Daniel \(ENERGY\)](#); [Pinheiro, Alex \(ENERGY\)](#)
Subject: RE: For Review - OPG OFHP Tech Briefing QA
Date: January 24, 2018 4:26:26 PM

Approved.

From: Lightbody, Ava (ENERGY)
Sent: January-24-18 4:11 PM
To: Christie, Tim (ENERGY)
Cc: Cayley, Daniel (ENERGY); Pinheiro, Alex (ENERGY)
Subject: FW: For Review - OPG OFHP Tech Briefing QA

Hi Tim,

OPG tech briefing QAs for your review (almost identical to AG QAs):

[\\Etcptovspifs003\pd\EnergyPolicy\Economics\Comms\Requests\20180123 FHP technical briefing QAs\QA - OPG OFHP Debt FinancingTech Briefing - AH - 20180122 KMs added - v2.docx](#)

Ava

From: Thiru, Dhil (ENERGY)
Sent: January-17-18 11:32 AM
To: Cayley, Daniel (ENERGY)
Cc: Christie, Tim (ENERGY); DeSouza, Avril (ENERGY); Lightbody, Ava (ENERGY); Pinheiro, Alex (ENERGY)
Subject: FW: For Review - OPG OFHP Tech Briefing QA

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Sent: January-17-18 11:04 AM
To: Thiru, Dhil (ENERGY)
Cc: Cox, Hilary (ENERGY); @ENERGY-COMM-Issues_and_MediaRelations; Berg, Denna (ENERGY); Lyon, Sam (ENERGY)
Subject: For Review - OPG OFHP Tech Briefing QA

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briefing on the OAG's special report on the OFHP.

In the doc you will notice tracked X's as placeholders, these are in place of dollar figures that are likely to change when we know OPG's interest rate. Please feel free to change any numbers in the doc where appropriate.

Hoping we can get this back by Jan 25 at noon, or whenever the numbers become available to you.

Thanks,
Adam

RE_ MOE_ASC - Follow-up from our call - Confide....pdf

From: [Thouin, Alena \(ENERGY\)](#)
To: [Evans, Karen \(ENERGY\)](#); [KRANE, JOSHUA](#)
Subject: RE: MOE/ASC - Follow-up from our call - Confidential
Date: October 6, 2017 12:07:00 PM

Thanks Karen
Let us know if we can help

-----Original Message-----

From: Evans, Karen (ENERGY)
Sent: October 5, 2017 3:22 PM
To: KRANE, JOSHUA
Cc: Thouin, Alena (ENERGY)
Subject: RE: MOE/ASC - Follow-up from our call - Confidential

Yes. We've been working on that. I have a range of different sources that I need to sift through and attempt to make a coherent response.

Hoping to have a better sense of timing tomorrow based on the draft I am trying to cobble together.

-----Original Message-----

From: KRANE, JOSHUA [<mailto:JOSHUA.KRANE@blakes.com>]
Sent: October-05-17 3:14 PM
To: Evans, Karen (ENERGY)
Cc: Thouin, Alena (ENERGY)
Subject: RE: MOE/ASC - Follow-up from our call - Confidential

Thanks, Karen. Next step is to get a sense of timing as to when we think we can reasonably respond to the ASC.

JK

Joshua A. Krane
Partner
joshua.krane@blakes.com
Dir: 416-863-4187
Cell: 416-471-2068

-----Original Message-----

From: Evans, Karen (ENERGY) [<mailto:Karen.Evans@ontario.ca>]
Sent: Thursday, October 05, 2017 3:13 PM
To: KRANE, JOSHUA
Subject: RE: MOE/ASC - Follow-up from our call - Confidential

Received. Thank you

-----Original Message-----

From: KRANE, JOSHUA [<mailto:JOSHUA.KRANE@blakes.com>]
Sent: October-05-17 2:57 PM
To: Thouin, Alena (ENERGY); Evans, Karen (ENERGY); Sloan, Laurie (MGCS)
Subject: Fwd: MOE/ASC - Follow-up from our call - Confidential

FYI

Joshua A. Krane

Partner
joshua.krane@blakes.com<<mailto:joshua.krane@blakes.com>>
Dir: 416-863-4187
Cell: 416-471-2068

Begin forwarded message:

From: Rafe Engle <counsel@rsengle.ca<<mailto:counsel@rsengle.ca>>>
Date: October 5, 2017 at 2:55:24 PM EDT
To: "KRANE, JOSHUA" <JOSHUA.KRANE@blakes.com<<mailto:JOSHUA.KRANE@blakes.com>>>
Cc: Janet Feasby <janet.feasby@adstandards.ca<<mailto:janet.feasby@adstandards.ca>>>
Subject: Re: MOE/ASC - Follow-up from our call - Confidential

Thank you Josh and all who were copied on your email (below).

For our part, we will respond as quickly as possible to your follow-up submission after it is received.

Regards,

Rafe Engle

This message may contain confidential and/or privileged information and any rights to privilege have not been waived. If you are not the intended recipient or authorized to receive this for the intended recipient, you must not use, copy, disclose or take any action based on this message or any information herein. If you have received this message in error, please advise the sender immediately by reply email and delete this message.

Thank you for your co-operation.

On 2017-10-05, at 2:36 PM, "KRANE, JOSHUA"
<JOSHUA.KRANE@blakes.com<<mailto:JOSHUA.KRANE@blakes.com>>> wrote:

Confidential

Rafe,

Thank you for your, Janet and Yamina's time on our conference call this week to clarify the details of the ASC's concerns.

The MOE will provide further information to support the accuracy and truthfulness of the messaging in issue. We will be in a position to provide you with a timing update shortly.

In the interim, this email confirms that the MOE has taken the measures discussed to temporarily withdraw/amend the Ontario Fair Hydro Plan advertising that mentions the 25% bill reduction and/or electricity system reliability and rate affordability.

The actions include:

- 1) All paid media advertising was completed in mid-August and has not been renewed.
- 2) Website references within the overview section on Ontario.ca/fairhydroplan<<http://Ontario.ca/fairhydroplan>><<http://Ontario.ca/fairhydroplan>> and on energy.gov.on.ca<<http://energy.gov.on.ca>><<http://energy.gov.on.ca>>, and the YouTube and Facebook social media posts, have been removed already or will be removed today.

We appreciate the ASC's patience and understanding to allow the MOE a deadline extension to submit its response. As noted above, we will be in touch shortly to discuss a revised timeline for delivery of those materials to you.

Please do not hesitate to reach out to me should you wish to discuss further.

Regards,

Josh

Joshua A. Krane
Partner
joshua.krane@blakes.com<<mailto:joshua.krane@blakes.com>>
Dir: 416-863-4187
Cell: 416-471-2068

<imagef8068c.GIF>

Blake, Cassels & Graydon LLP
199 Bay Street, Suite 4000, Toronto ON M5L 1A9
Tel: 416-863-2400 Fax: 416-863-2653
blakes.com<<http://www.blakes.com>> | Twitter<<http://twitter.com/BlakesLaw/>> |
Unsubscribe<<http://www.blakes.com/English/Resources/Bulletins/Pages/unsubscribe.aspx>>

Blake, Cassels & Graydon LLP | Barristers & Solicitors | Patent & Trade-mark Agents This email communication is CONFIDENTIAL AND LEGALLY PRIVILEGED. If you are not the intended recipient, please notify me at the telephone number shown above or by return email and delete this communication and any copy immediately. Thank you.

L'information paraissant dans ce message électronique est CONFIDENTIELLE. Si ce message vous est parvenu par erreur, veuillez immédiatement m'en aviser par téléphone ou par courriel et en détruire toute copie. Merci.

RE_ Materials for AG report.pdf

From: [Lyon, Sam \(ENERGY\)](#)
To: [Berry, James \(ENERGY\)](#); [Berg, Denna \(ENERGY\)](#); [Nekolaichuk, Colin \(ENERGY\)](#)
Cc: [Schlaepfer, Martin \(ENERGY\)](#); [Nutter, George \(ENERGY\)](#); [Hendy, Adam \(ENERGY\)](#); [Den Heijer, Kevin \(ENERGY\)](#)
Subject: RE: Materials for AG report
Date: December 5, 2017 5:15:00 PM
Attachments: [Auditor General 2017 Annual Report - ENERGY - KM QAs - 20171205.docx](#)
[FR - ICI-cybersecurity-market practices - ENERGY - 20171205 - Statement docx](#)
[EN - ICI-cybersecurity-market practices - ENERGY - 20171205 - Statement docx](#)
[CMSC Backgrounder Dec 4 v4 clean.docx](#)
[RT-GCG Backgrounder Dec 5 v5 clean.docx](#)

Updated full package of materials attached.

Please note that there have been minor edits to the two statements, just formatting the title and intro that CO requested to ensure they're consistent with other ones going out.

This has all been shared with CO.

Thanks,

S.

From: Berry, James (ENERGY)
Sent: December-05-17 4:59 PM
To: Berg, Denna (ENERGY); Nekolaichuk, Colin (ENERGY)
Cc: Lyon, Sam (ENERGY); Schlaepfer, Martin (ENERGY); Nutter, George (ENERGY); Hendy, Adam (ENERGY); Den Heijer, Kevin (ENERGY)
Subject: RE: Materials for AG report

The response to the below Q is missing. Otherwise, fine to share with CO.

Q. The findings of these audits aren't new. What took so long to clean up the composition of this working group?

From: Berg, Denna (ENERGY)
Sent: December-05-17 4:12 PM
To: Berry, James (ENERGY); Nekolaichuk, Colin (ENERGY)
Cc: Lyon, Sam (ENERGY); Schlaepfer, Martin (ENERGY); Nutter, George (ENERGY); Hendy, Adam (ENERGY)
Subject: Materials for AG report

Hi James and Colin,

Please find all the materials for the AG report attached. These are finals.

Thanks,

Denna Berg

Senior Policy & Strategic Communications Advisor
Office of the Deputy Minister | Ministry of Energy

4th Floor, Hearst Block, 900 Bay Street
Toronto, ON, M7A 2E1
T: 416-327-4334 | M: 647-308-8763
denna.berg@ontario.ca

Auditor General 2017 Annual Report - ENERGY -.pdf

KEY MESSAGES

Top Line

- We thank the Auditor General for her analysis.
- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.
- However, we disagree with a number of the report's findings, including:
 - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day and
 - The critique of the Industrial Conservation Initiative (ICI).
- We are confident in the Ontario Energy Board (OEB) and our system operator to run an efficient and fair electricity market for ratepayers across the province.
- Both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.
- If these programs were eliminated, reliability would be put at risk.

Instances of generators claiming ineligible costs under the Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) programs:

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.
- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.
- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next steps for the electricity market, including the Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) programs:

- Our system operator is working to transform our electricity market.
- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.
- It is projected that Market Renewal will save up to \$5.2 billion over 10 years.
- Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Interim steps until Market Renewal takes hold:

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.
- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from \$61 million in 2014 to \$23 million in 2016 – a more than 60 per cent cut in program costs over the course of two years.
- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.
- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

The Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to eliminate the need to build more electricity generation in the long-term.
- Our electricity system is planned to ensure we have enough generation to meet peak demand.
- By keeping peak system demand as low as it can be, we can avoid building costly new generation.
- This makes the system more cost-effective for all ratepayers.
- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

The contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted, including Lake Superior Power and Cochrane Power. In addition, the second round of the large renewable procurement process (LRP II) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to \$3.8 billion in electricity system costs relative to the 2013 LTEP forecast. Future reductions in peak demand due to ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.
- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.
- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.
- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.
- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

QUESTIONS & ANSWERS

Legend:

Real-Time Generation Cost Guarantee Program (IESO) = Standby Cost Recovery Program (AG)

Congestion Management Settlement Credits (IESO) = Lost Profit Recovery Program (AG)

**INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO) OVERSIGHT OF THE ELECTRICITY MARKET –
Recommendations 1, 2, 3, 5, 6, 7, 8, 9, 10, 11 & 12**

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

*The OAG's report states that about **\$1.6 billion** of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

- Payments made through these credits ensure reliability for our electricity system. In other words, they're baked into the way our system operates to make sure we keep the lights on.
- They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss

- Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability
- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go
- These are costs, about \$1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system
- These credits are needed to maintain the reliability of Ontario's electricity system.

*The OAG's report claims that as much as **\$260 million** in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

- Two thirds (**\$168 million**) of ineligible costs from this program have been returned to ratepayers.
- The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.
- The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

*The OAG's report also claims that **\$30 million** in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program.*

- The Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk -- not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.
- The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.
- As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from \$61 million in 2014 to \$23 million in 2016 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

- To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.
- Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from IESO since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

- There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)).
- Our system operator has the authority to conduct audits of claims made by generators and other market participants.
- And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.
- In the case of Goreway – a \$10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee claims.
- Our system operator is now working on additional resources to strengthen their oversight division.

Q. Why has IESO repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits as recommended by the Ontario Energy Board's Market Surveillance Panel?

- According to the Board's Market Surveillance Panel, many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.
- Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.
- Both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.
- Our system operator has the power to conduct audits of claims made by generators and other market participants.
- And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.
- Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

- According to the Board's Market Surveillance Panel, many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.
- This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

- At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.
- Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

- Our system operator and the Ontario Energy Board's Market Surveillance Panel (the Panel) have a shared responsibility to monitor behaviour in the province's electricity market.
- According to the Panel, many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.
- We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.
- Working with the Ontario Energy Board and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

- As we started the phase out of coal in 2009, our supply mix changed to include more gas-fired generation.
- Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.
- These improvements included:
 - Guaranteeing certain start-up operating and maintenance costs;
 - Tightening program eligibility criteria; and
 - Putting in place restrictions on eligible fuel costs.
- These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

- The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.
- As our generation supply mix has become cleaner, the program has been adjusted accordingly.

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

- All but one of the nine system operators in North America also commit generators and compensate them for starting up.
- Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~\$20 billion electricity market.
- As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.
- There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including \$175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

- Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.
- The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.
- Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.
- In the case of Goreway – a \$10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

- Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.
- In the case of Goreway – a \$10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.
- Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.
- Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of \$500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

- Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.
- These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.
- The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.
- These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.
- These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.
- Our system operator is working to transform our electricity market.
- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.
- It is projected that Market Renewal will save up to \$5.2 billion over 10 years.
- Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these

costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

- The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.
- As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group.
- The Market Renewal Working Group includes a diverse group of participants from consumers to generators.
- It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.
- The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.
- All Market Renewal sessions are fully transparent, and open to the public.
- Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.
- Through this process, our system operator is working to transform the province's electricity market.
- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.
- This transformation is expected to save up to \$5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses
- Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

- We are considering the potential need for additional legislative power to assist our system operator in performing its critical responsibilities, including its investigations.
- We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

- Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).
- We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

- This program makes sure our system operator can ensure on a daily basis that adequate electricity will be available to meet the expected electricity demand— an important factor in meeting North American reliability standards.
- The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.
- This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

- Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.
- These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.
- The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
- The program will result in up to \$5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.
- These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.
- As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.
- The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

- These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.
- Market Renewal is expected to save up to \$5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.
- Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.
- Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.
- In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

INDUSTRIAL CONSERVATION INITIATIVE (ICI) – Recommendation 4

Q. The AG Report states that the ICI program is “shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers”. Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

- The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.
- Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.
- Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.
- This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.
- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.
- This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers \$3.8 billion in costs for the electricity system.

More details on the peak reduction:

The peak demand reduction associated with ICI is equivalent to:

- The peak demand of a city roughly the size of Mississauga¹;
- Nearly 6 per cent of province-wide peak demand²;
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area³; or
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016⁴.

¹ According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. <http://www.ieso.ca/power-data/demand-overview/historical-demand>

² According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

³ Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. <https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf>

⁴ The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. <http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction>

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

- Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.
- Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.
- Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B⁵.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

- The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.
- Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.
- Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.
- It's a voluntary program and eligible consumers are able to opt in or out in June of each year.
- Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:
 - Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.
 - Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.
 - Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.
- In addition to the cost savings for participating businesses and organizations – a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.
- First, the Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.
- Second, it better aligns consumer costs with their contribution to those costs. For example, a large industrial facility with a flat load profile does not require investments in electricity peaking resources and adds less to the cost of running our electricity system, when compared to the load of residential electricity consumers.

⁵ <http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs>

- It also helps to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.
- We have partnered with the Ontario Chamber of Commerce to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative?

- The Ministry collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).
- Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B⁶.
- The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.
- Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW⁷. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.
- The Ministry continues to monitor the impact of ICI on an ongoing basis.

⁶ <http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs>

⁷ <http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en>

FR - ICI-cybersecurity-market practices - ENE_1.pdf

Déclarations de Glen Thibeault, ministre de l'Énergie, au sujet de la publication du rapport 2017 de la vérificatrice générale

6 décembre 2017

Glen Thibeault, ministre de l'Énergie, a fait les déclarations suivantes après la publication du rapport de la vérificatrice générale :

J'aimerais remercier le Bureau de la vérificatrice générale de son analyse. Notre gouvernement demeure déterminé à collaborer avec le Bureau de la vérificatrice générale et à examiner respectueusement les points de vue indépendants présentés à l'Assemblée législative.

Déclaration sur l'Initiative d'économies d'énergie en milieu industriel

Le programme Initiative d'économies d'énergie en milieu industriel a réussi à réduire la demande d'électricité en période de point, et a permis aux grands consommateurs de baisser leurs coûts d'électricité d'un tiers en moyenne, les aidant ainsi à demeurer compétitifs et à se concentrer sur la création d'emplois.

En effet, notre exploitant de réseau estime que ce programme a réduit la demande en période de pointe d'environ 1 300 mégawatts en 2016, ce qui équivaut à la demande d'électricité en période de pointe d'une ville grande à peu près comme Mississauga. Ce chiffre correspond environ à 6 pour cent de la demande d'électricité en période de pointe en Ontario.

Cette baisse signifie que ce programme a contribué à éviter le besoin de construire de nouvelles installations de production coûteuses sur le long terme, ce qui représente un avantage pour tous les contribuables de la province, aussi bien résidentiels que commerciaux.

En vertu du Plan ontarien pour des frais d'électricité équitables, le programme a été récemment élargi pour inclure beaucoup plus d'entreprises en Ontario, notamment celles des secteurs manufacturier et serricole dont la demande de pointe mensuelle moyenne dépasse 500 kilowatts.

Déclaration sur la cybersécurité

Protéger notre réseau d'électricité est une priorité absolue pour la Société indépendante d'exploitation du réseau d'électricité. La North American Electric Reliability Corporation (NERC) a récemment effectué une vérification de notre exploitant de réseau et a conclu que la SIERE est pleinement conforme aux normes d'exploitation à l'échelle du continent, y compris aux règles de protection en cas de cyberattaque récemment instaurées qui représentent un pas important pour atténuer les cybermenaces contre le réseau de production-transport. Notre exploitant de réseau accorde une grande importance à la cybersécurité, et a déjà amorcé le processus de recrutement d'un nouveau directeur de l'information (DI), en mettant l'accent sur la cybersécurité. Il envisage également de créer un poste de direction en cybersécurité dont le titulaire devra présenter des rapports aux membres de la direction et du conseil d'administration.

Notre exploitant de réseau a également entrepris de donner suite aux recommandations précédentes portant sur l'augmentation du nombre d'employés en cybersécurité, ce qui correspond aux recommandations de la vérificatrice générale.

Il est important de noter que notre exploitant de réseau se conforme à toutes les normes de Protection des infrastructures essentielles en vigueur de la NERC. Le secteur de l'électricité est unique, car il est le seul secteur d'infrastructures critiques devant respecter des normes en cybersécurité obligatoires et contraignantes.

Déclaration sur les programmes de commercialisation de la SIERE

Nous sommes convaincus que la Commission de l'énergie de l'Ontario et notre exploitant de réseau offriront un marché de l'électricité efficace, fiable et équitable à tous les contribuables de la province. Les programmes « Real-Time Generation Cost Guarantee » et « Congestion Management Settlement » jouent un rôle important dans notre réseau électrique afin de nous garantir un réseau sur lequel nous pouvons compter pour notre approvisionnement. Ces deux programmes sont conçus pour répondre aux besoins en électricité des familles et des entreprises ontariennes. S'ils sont supprimés, la fiabilité du réseau sera menacée.

En effet, les programmes ont évolué au fil des ans et les coûts ont été considérablement limités. Notre exploitant de réseau continue d'accorder la priorité à la fiabilité et d'optimiser les programmes au sein de la structure actuelle de notre réseau d'électricité.

Les abus dans le système sont totalement inacceptables. C'est la raison pour laquelle ils ont fait l'objet d'une enquête. Dans les cas où il y a eu abus, les coûts ont été recouvrés et remboursés aux contribuables. Nous collaborons également avec nos partenaires pour étudier la possibilité d'accroître les pouvoirs législatifs pour aider notre exploitant de réseau à assumer ses responsabilités essentielles.

Notre exploitant de réseau s'attache également à mettre en œuvre le renouvellement du marché, ce qui permettra de réformer les marchés de l'électricité en Ontario et ainsi d'améliorer la souplesse et l'efficacité. Le projet de renouvellement du marché devrait faire économiser jusqu'à 5,2 milliards sur dix ans.

Colin Nikolaichuk Bureau du ministre
Colin.Nikolaichuk@ontario.ca
416 325-2690

Disponible en ligne
Available in English

Natasha Demetriades Direction des communications
natasha.demetriades@ontario.ca
416 327-3855

EN - ICI-cybersecurity-market practices - ENE_1.pdf

Statements from Minister of Energy on the 2017 Auditor General's Report

December 6, 2017

Minister of Energy Glen Thibeault issued the following statements in response to the release of the Auditor General's report:

I would like to thank the Office of the Auditor General for its analysis. Our government remains committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

Statement on the ICI

The Industrial Conservation Initiative program has been successful at reducing peak electricity demand and helps large consumers lower electricity prices by one-third on average, helping them to remain competitive and focused on creating jobs.

In fact, our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 — the peak electricity demand of a city roughly the size of Mississauga. That's about 6 per cent of Ontario's peak electricity demand.

That means that this program helped avoid the need to build costly new generation in the longer term, which is a benefit to all ratepayers across the province, both residential and commercial.

Under Ontario's Fair Hydro Plan, the program was recently expanded to include many more Ontario businesses, including manufacturers and greenhouses with average monthly peak demand above 500 kilowatts.

Statement on Cybersecurity

Safeguarding the security of our electricity system is a top priority for the Independent Electricity System Operator. The North American Electric Reliability Corporation (NERC) recently audited our system operator and found the IESO fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. Our System Operator puts a strong emphasis on cybersecurity, and is already in the process of recruiting a new Chief Information Officer (CIO) with an enhanced focus on cybersecurity. They are also considering creating a senior-level position for cybersecurity with formal reporting to both executive leadership and the Board of Directors.

Our System Operator is also implementing previous recommendations to increase the number of cybersecurity staff, which is in line with the Auditor General's recommendation.

It's important to note that our System Operator complies with all applicable NERC Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable

cybersecurity standards.

Statement on IESO Market Programs

We are confident in the Ontario Energy Board and our System Operator to run an efficient, reliable and fair electricity market for ratepayers across the province. Both the Real-Time Generation Cost Guarantee Program and Congestion Management Settlement Credits play important roles in our electricity system, ensuring we have a system we can depend on to keep the lights on. These are programs that ensure that when Ontario families and businesses need electricity, it's there for them. If these programs were eliminated, reliability would be put at risk.

Both programs have evolved over the years, and costs have been constrained substantially. Our system operator continues to prioritize reliability and optimize programs within the existing electricity system framework.

Abuses within the system are completely unacceptable. That's why they have been investigated, and where wrongdoing was present, costs have been recovered and returned to ratepayers. We are also working together with our agency partners to review the potential for increasing legislative powers to assist our system operator in performing its critical responsibilities.

Our system operator is also in the process of implementing Market Renewal, which will reform Ontario's electricity markets, increasing both flexibility and efficiency. Market Renewal is projected to save up to \$5.2 billion over ten years.

Colin Nikolaichuk Minister's Office
Colin.Nikolaichuk@ontario.ca
416-325-2690

[Available Online](#)
[Disponible en Français](#)

Natasha Demetriades Communications Branch
natasha.demetriades@ontario.ca
416-327-3855

CMSC Backgrounder_Dec 4 v4 clean_1.pdf

Congestion Management Settlement Credits

Backgrounder

Key Facts

- Congestion Management Settlement Credits (CMSC) are needed to maintain the reliability of Ontario's electricity system
- They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss
- Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability
- CMSC is needed to meet North American power system reliability standards
- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go
- These are costs, about \$1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system
- The IESO has made more than a dozen market rule changes since market opening in 2002 to make the CMSC payments more efficient and transparent
- The IESO is now making fundamental changes to Ontario's electricity market through the Market Renewal Program, changes that would eliminate CMSC

"Many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

-- December 2016 Market Surveillance Panel Report

IESO has increased CMSC efficiency by taking actions to ensure:

- payments occur only in cases where offers of electricity to the market are reflective of actual operating costs
- payments are more closely aligned with the participant's abilities to actually deliver power
- accurate application of payments when generators have to deviate from IESO instructions for safety, environmental or legal reasons
- payments are reduced in situations where facilities do not come offline quickly

The Next Step: Eliminating CMSC

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market. These

changes are being made through the IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market. The Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) is supportive and is participating in this program.

The program will result in up to \$5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers. These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the IESO is changing the way it schedules resources so that costs associated with system constraints, such as transmission line limitations, are reflected in the market price, replacing the need for CMSC.

The IESO is currently working with a wide range of stakeholders on a high level design for Market Renewal initiatives and will begin the detailed design and implementation phase in 2019.

Background

The purchase and sale of electricity in Ontario is managed through the operation of a competitive wholesale market. Every hour, the IESO receives offers from a wide range of suppliers to provide electricity (as well as bids from large consumers to reduce electricity use on demand) and then schedules the lowest-cost offers needed to meet demand every five minutes.

However, price isn't the only factor when scheduling resources. The market must also respect physical limitations, such as transmission line limits. In this way, the IESO balances supply and demand to maintain the reliability of Ontario's electricity system.

Congestion Management Settlement Credits are paid when generators or consumers are instructed to consume or supply electricity when they would otherwise be doing so at an operating loss. This is an integral part of the current design of the market that incents market participants to follow the IESO's instructions and ensure reliability.

RT-GCG Backgrounder_Dec 5 v5 clean_1.pdf

Real-Time Generator Cost Guarantee Program

Background

Key Facts

- The Real Time-Generator Cost Guarantee (RT-GCG) program is a reliability measure that ensures sufficient generation is available to meet Ontario's demand for electricity
- The program is needed to adhere to North American power system reliability standards
- Eliminating this program would reduce the reliability of Ontario's electricity system
- Eight of nine North American system operators commit generators and compensate them for starting up
- Enhancements over the program's lifespan have resulted in pre-defined costs and stricter rules that increased transparency and efficiency
- The majority (up to 85 percent) of ineligible costs claimed under the previous design of the program have been recovered
- Two-thirds of the ineligible costs were submitted by one generator, who was fined an additional \$10 million
- The Market Renewal Program is making fundamental changes to Ontario's electricity market that will replace the RT-GCG program

Actions Taken to Improve the Program

- 2003** The RT-GCG program is created, then known as the Spare Generation Online Program
- 2009** More stringent eligibility requirements are introduced as new gas-fired generators come into service
- 2011** The Independent Electricity System Operator (IESO) commences comprehensive audit program of the RT-GCG program costs
- 2012** Revisions are made to eligibility and cost submissions
- 2013** The IESO completes onsite work for most audits and compiles preliminary findings
- 2014** The IESO commences settlement negotiations with a range of program participants and issues "Interpretation Bulletin" for generators to clarify eligible costs
- 2016** Total annual costs for the program are \$23 million, down significantly from \$61 million in 2014
- 2017** The IESO now pre-defines 14 of 15 eligible program costs, removing the potential for overpayments

The Next Step: Replacing the RT-GCG Program

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market. These

changes are being made through the IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market. The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.

The program will result in up to \$5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers. These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG Program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Background

The IESO-administered markets select and schedule enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having generators readily available allows the IESO to effectively meet demand, without reducing reliability.

Gas generators are often called on to meet Ontario's electricity demand but can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and be available that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, the IESO would be unable to ensure that generators are online to maintain reliability and would result in higher costs and negative impacts on reliability for Ontario and its neighbours.

The IESO's Market Assessment and Compliance Division monitors the operation of Ontario's electricity market, fostering compliance with the province's market rules and North American reliability standards. Their enforcement authorities also include the ability to audit certain market programs, and adjust payments from the program, similar to Canada Revenue Agency tax audits.

RE_ Newsroom Posting Plan_ AG's Annual Report.pdf

From: [Lyon, Sam \(ENERGY\)](#)
To: [Pontikis, Maria \(CAB\)](#)
Cc: [Sumi, Craig \(CAB\)](#); [Nutter, George \(ENERGY\)](#)
Subject: RE: Newsroom Posting Plan: AG's Annual Report
Date: December 5, 2017 5:13:00 PM
Attachments: [Auditor General 2017 Annual Report - ENERGY - KM QAs - 20171205.docx](#)
[FR - ICI-cybersecurity-market practices - ENERGY - 20171205 - Statement Format Final.docx](#)
[EN - ICI-cybersecurity-market practices - ENERGY - 20171205 - Statement Format Final.docx](#)
[CMSC Backgrounder Dec 4 v4 clean.docx](#)
[RT-GCG Backgrounder Dec 5 v5 clean.docx](#)

Updated statements are attached in the below format. Also attached are the Ministry's KMs/QAs, along with the IESO Backgrounder documents.

Thanks,

S.

From: Pontikis, Maria (CAB)
Sent: December-05-17 4:26 PM
To: Lyon, Sam (ENERGY)
Cc: Sumi, Craig (CAB); Nutter, George (ENERGY)
Subject: RE: Newsroom Posting Plan: AG's Annual Report
Importance: High

Hi Sam – just noticed your statement is formatted as a news release. Would the team please update the template and headline to make it a statement (EN/FR) and resend?

Sample format below.

Thanks!

MARIA PONTIKIS
t 416.212.0788 | c 416.567.2305

Statement from Attorney General on Auditor General's Annual Report

December 6, 2017

Attorney General Yasir Naqvi issued the following statement in response to the release of the Auditor General's report:

"TEXT OF STATEMENT"

From: Lyon, Sam (ENERGY)
Sent: December 5, 2017 1:53 PM
To: Pontikis, Maria (CAB)

Cc: Sumi, Craig (CAB); Nutter, George (ENERGY)
Subject: RE: Newsroom Posting Plan: AG's Annual Report

Hi Maria,

The finals of both versions of the statement, English and French, are attached. We also have these loaded into Newsroom ready to go. Please let us know our timing slot when you can.

Also attached are the IESO's backgrounders on the two programs.

We will have our QA/KM doc to you shortly.

Thanks,

S.

From: Pontikis, Maria (CAB)
Sent: December-05-17 12:35 PM
To: Phillips, Judy (MAG); Gemmiti, Paola (MEDG/MRIS); Swain, Deborah (MCI); Lyon, Sam (ENERGY); Theoret, Lori (MMA/MHO); Leaning, Murray (MET); DiMuzio, Sofie (TBS); Saint-Martin, Estelle (MOHLTC); Spencer, David (OMAFRA); McGetrick, Stuart (MCSCS)
Cc: McMichael, Rhonda (CAB); Whytock, John (CAB); Sumi, Craig (CAB)
Subject: Newsroom Posting Plan: AG's Annual Report

Hi everyone –

Below is a posting plan for tomorrow afternoon's AG statements. We will be staggering posting times in three groups by about 20 minutes to accommodate system pressures in Newsroom.

In preparation, please ensure your Newsroom contributor has EN/FR finals loaded into the system as draft. Early/mid-afternoon, you will receive a green light from me to go live – please don't publish until you hear from me.

Should you have questions, do give me a ring, otherwise I'll be in touch tomorrow when you can go live.

Thanks again,

MARIA PONTIKIS
t 416.212.0788 | c 416.567.2305

From: Pontikis, Maria (CAB)
Sent: November 28, 2017 1:51 PM
To: Phillips, Judy (MAG); Gemmiti, Paola (MEDG/MRIS); Swain, Deborah (MCI); Lyon, Sam (ENERGY); Theoret, Lori (MMA/MHO); Leaning, Murray (MET); DiMuzio, Sofie (TBS); Saint-Martin, Estelle (MOHLTC); Morier, Rebecca (OMAFRA); McGetrick, Stuart (MCSCS)
Cc: McMichael, Rhonda (CAB); Whytock, John (CAB); Sumi, Craig (CAB)

Subject: Update on AG's Annual Report: Minister Statements

Hi everyone –

First, thanks to for your work and help to date as we prep for the Auditor General's annual report release. Still no confirmed date, but we continue to track for the week of Dec. 4.

In preparation, and in line with last year's approach, each affected ministry will be positing a minister's statement on Newsroom in response to the report. These currently are being drafted by your MOs. (Here's [a sample of a statement from last year](#), should you not have been involved at that time.)

Statements will be sent to each CD by me on Thursday of this week. Each statement will require the following from ministries:

1. Please review the statement with your DMO from a **fact check** perspective. In most cases, DMOs have worked closely with MOs on these statements, but we want to ensure accuracy. Any discrepancies or proposed factual changes should be tracked and shared with me as soon as possible.
2. Statements should be **formatted and translated** by each responsible ministry.
3. Closer to release date, we will advise on a coordinated **posting time** to ensure you have your ministry's statement queued up in Newsroom.

Final, formatted and translated statements will be due back to CO by **end of day, Monday, Dec. 4**, so please ensure preparations for 1-3 above are well in hand.

I will follow up with each CD directly on Thursday with the MO-drafted statement.

As always, please reach out if you want to discuss.

Thanks,

MARIA PONTIKIS
Director of Communications
Cabinet Office & Ministry of Intergovernmental Affairs
Ontario Government

t 416.212.0788
c 416.567.2305
maria.pontikis@ontario.ca

Auditor General 2017 Annual Report - ENERGY -_1.pdf

KEY MESSAGES

Top Line

- We thank the Auditor General for her analysis.
- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.
- However, we disagree with a number of the report's findings, including:
 - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day and
 - The critique of the Industrial Conservation Initiative (ICI).
- We are confident in the Ontario Energy Board (OEB) and our system operator to run an efficient and fair electricity market for ratepayers across the province.
- Both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.
- If these programs were eliminated, reliability would be put at risk.

Instances of generators claiming ineligible costs under the Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) programs:

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.
- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.
- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next steps for the electricity market, including the Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) programs:

- Our system operator is working to transform our electricity market.
- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.
- It is projected that Market Renewal will save up to \$5.2 billion over 10 years.
- Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Interim steps until Market Renewal takes hold:

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.
- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from \$61 million in 2014 to \$23 million in 2016 – a more than 60 per cent cut in program costs over the course of two years.
- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.
- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

The Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to eliminate the need to build more electricity generation in the long-term.
- Our electricity system is planned to ensure we have enough generation to meet peak demand.
- By keeping peak system demand as low as it can be, we can avoid building costly new generation.
- This makes the system more cost-effective for all ratepayers.
- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

The contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted, including Lake Superior Power and Cochrane Power. In addition, the second round of the large renewable procurement process (LRP II) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to \$3.8 billion in electricity system costs relative to the 2013 LTEP forecast. Future reductions in peak demand due to ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.
- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.
- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.
- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.
- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

QUESTIONS & ANSWERS

Legend:

Real-Time Generation Cost Guarantee Program (IESO) = Standby Cost Recovery Program (AG)

Congestion Management Settlement Credits (IESO) = Lost Profit Recovery Program (AG)

**INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO) OVERSIGHT OF THE ELECTRICITY MARKET –
Recommendations 1, 2, 3, 5, 6, 7, 8, 9, 10, 11 & 12**

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

*The OAG's report states that about **\$1.6 billion** of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

- Payments made through these credits ensure reliability for our electricity system. In other words, they're baked into the way our system operates to make sure we keep the lights on.
- They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss

- Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability
- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go
- These are costs, about \$1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system
- These credits are needed to maintain the reliability of Ontario's electricity system.

*The OAG's report claims that as much as **\$260 million** in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

- Two thirds (**\$168 million**) of ineligible costs from this program have been returned to ratepayers.
- The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.
- The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

*The OAG's report also claims that **\$30 million** in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program.*

- The Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk -- not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.
- The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.
- As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from \$61 million in 2014 to \$23 million in 2016 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

- To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.
- Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from IESO since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

- There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)).
- Our system operator has the authority to conduct audits of claims made by generators and other market participants.
- And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.
- In the case of Goreway – a \$10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee claims.
- Our system operator is now working on additional resources to strengthen their oversight division.

Q. Why has IESO repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits as recommended by the Ontario Energy Board's Market Surveillance Panel?

- According to the Board's Market Surveillance Panel, many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.
- Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.
- Both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.
- Our system operator has the power to conduct audits of claims made by generators and other market participants.
- And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.
- Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

- According to the Board's Market Surveillance Panel, many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.
- This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

- At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.
- Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

- Our system operator and the Ontario Energy Board's Market Surveillance Panel (the Panel) have a shared responsibility to monitor behaviour in the province's electricity market.
- According to the Panel, many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.
- We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.
- Working with the Ontario Energy Board and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

- As we started the phase out of coal in 2009, our supply mix changed to include more gas-fired generation.
- Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.
- These improvements included:
 - Guaranteeing certain start-up operating and maintenance costs;
 - Tightening program eligibility criteria; and
 - Putting in place restrictions on eligible fuel costs.
- These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

- The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.
- As our generation supply mix has become cleaner, the program has been adjusted accordingly.

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

- All but one of the nine system operators in North America also commit generators and compensate them for starting up.
- Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~\$20 billion electricity market.
- As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.
- There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including \$175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

- Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.
- The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.
- Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.
- In the case of Goreway – a \$10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

- Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.
- In the case of Goreway – a \$10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.
- Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.
- Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of \$500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

- Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.
- These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.
- The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.
- These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.
- These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.
- Our system operator is working to transform our electricity market.
- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.
- It is projected that Market Renewal will save up to \$5.2 billion over 10 years.
- Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these

costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

- The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.
- As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group.
- The Market Renewal Working Group includes a diverse group of participants from consumers to generators.
- It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.
- The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.
- All Market Renewal sessions are fully transparent, and open to the public.
- Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.
- Through this process, our system operator is working to transform the province's electricity market.
- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.
- This transformation is expected to save up to \$5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses
- Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

- We are considering the potential need for additional legislative power to assist our system operator in performing its critical responsibilities, including its investigations.
- We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

- Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).
- We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

- This program makes sure our system operator can ensure on a daily basis that adequate electricity will be available to meet the expected electricity demand— an important factor in meeting North American reliability standards.
- The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.
- This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

- Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.
- These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.
- The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
- The program will result in up to \$5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.
- These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.
- As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.
- The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

- These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.
- Market Renewal is expected to save up to \$5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.
- Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.
- Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.
- In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.
- We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.
- We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.
 - Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

INDUSTRIAL CONSERVATION INITIATIVE (ICI) – Recommendation 4

Q. The AG Report states that the ICI program is “shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers”. Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

- The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.
- Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.
- Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.
- This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.
- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.
- This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers \$3.8 billion in costs for the electricity system.

More details on the peak reduction:

The peak demand reduction associated with ICI is equivalent to:

- The peak demand of a city roughly the size of Mississauga¹;
- Nearly 6 per cent of province-wide peak demand²;
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area³; or
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016⁴.

¹ According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. <http://www.ieso.ca/power-data/demand-overview/historical-demand>

² According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

³ Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. <https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf>

⁴ The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. <http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction>

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

- Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.
- Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.
- Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B⁵.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

- The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.
- Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.
- Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.
- It's a voluntary program and eligible consumers are able to opt in or out in June of each year.
- Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:
 - Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.
 - Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.
 - Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.
- In addition to the cost savings for participating businesses and organizations – a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.
- First, the Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.
- Second, it better aligns consumer costs with their contribution to those costs. For example, a large industrial facility with a flat load profile does not require investments in electricity peaking resources and adds less to the cost of running our electricity system, when compared to the load of residential electricity consumers.

⁵ <http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs>

- It also helps to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.
- We have partnered with the Ontario Chamber of Commerce to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative?

- The Ministry collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).
- Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B⁶.
- The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.
- Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW⁷. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.
- The Ministry continues to monitor the impact of ICI on an ongoing basis.

⁶ <http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs>

⁷ <http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en>

FR - ICI-cybersecurity-market practices - ENE_2.pdf

Déclarations de Glen Thibeault, ministre de l'Énergie, au sujet de la publication du rapport 2017 de la vérificatrice générale

6 décembre 2017

Glen Thibeault, ministre de l'Énergie, a fait les déclarations suivantes après la publication du rapport de la vérificatrice générale :

J'aimerais remercier le Bureau de la vérificatrice générale de son analyse. Notre gouvernement demeure déterminé à collaborer avec le Bureau de la vérificatrice générale et à examiner respectueusement les points de vue indépendants présentés à l'Assemblée législative.

Déclaration sur l'Initiative d'économies d'énergie en milieu industriel

Le programme Initiative d'économies d'énergie en milieu industriel a réussi à réduire la demande d'électricité en période de point, et a permis aux grands consommateurs de baisser leurs coûts d'électricité d'un tiers en moyenne, les aidant ainsi à demeurer compétitifs et à se concentrer sur la création d'emplois.

En effet, notre exploitant de réseau estime que ce programme a réduit la demande en période de pointe d'environ 1 300 mégawatts en 2016, ce qui équivaut à la demande d'électricité en période de pointe d'une ville grande à peu près comme Mississauga. Ce chiffre correspond environ à 6 pour cent de la demande d'électricité en période de pointe en Ontario.

Cette baisse signifie que ce programme a contribué à éviter le besoin de construire de nouvelles installations de production coûteuses sur le long terme, ce qui représente un avantage pour tous les contribuables de la province, aussi bien résidentiels que commerciaux.

En vertu du Plan ontarien pour des frais d'électricité équitables, le programme a été récemment élargi pour inclure beaucoup plus d'entreprises en Ontario, notamment celles des secteurs manufacturier et serricole dont la demande de pointe mensuelle moyenne dépasse 500 kilowatts.

Déclaration sur la cybersécurité

Protéger notre réseau d'électricité est une priorité absolue pour la Société indépendante d'exploitation du réseau d'électricité. La North American Electric Reliability Corporation (NERC) a récemment effectué une vérification de notre exploitant de réseau et a conclu que la SIERE est pleinement conforme aux normes d'exploitation à l'échelle du continent, y compris aux règles de protection en cas de cyberattaque récemment instaurées qui représentent un pas important pour atténuer les cybermenaces contre le réseau de production-transport. Notre exploitant de réseau accorde une grande importance à la cybersécurité, et a déjà amorcé le processus de recrutement d'un nouveau directeur de l'information (DI), en mettant l'accent sur la cybersécurité. Il envisage également de créer un poste de direction en cybersécurité dont le titulaire devra présenter des rapports aux membres de la direction et du conseil d'administration.

Notre exploitant de réseau a également entrepris de donner suite aux recommandations précédentes portant sur l'augmentation du nombre d'employés en cybersécurité, ce qui correspond aux recommandations de la vérificatrice générale.

Il est important de noter que notre exploitant de réseau se conforme à toutes les normes de Protection des infrastructures essentielles en vigueur de la NERC. Le secteur de l'électricité est unique, car il est le seul secteur d'infrastructures critiques devant respecter des normes en cybersécurité obligatoires et contraignantes.

Déclaration sur les programmes de commercialisation de la SIERE

Nous sommes convaincus que la Commission de l'énergie de l'Ontario et notre exploitant de réseau offriront un marché de l'électricité efficace, fiable et équitable à tous les contribuables de la province. Les programmes « Real-Time Generation Cost Guarantee » et « Congestion Management Settlement » jouent un rôle important dans notre réseau électrique afin de nous garantir un réseau sur lequel nous pouvons compter pour notre approvisionnement. Ces deux programmes sont conçus pour répondre aux besoins en électricité des familles et des entreprises ontariennes. S'ils sont supprimés, la fiabilité du réseau sera menacée.

En effet, les programmes ont évolué au fil des ans et les coûts ont été considérablement limités. Notre exploitant de réseau continue d'accorder la priorité à la fiabilité et d'optimiser les programmes au sein de la structure actuelle de notre réseau d'électricité.

Les abus dans le système sont totalement inacceptables. C'est la raison pour laquelle ils ont fait l'objet d'une enquête. Dans les cas où il y a eu abus, les coûts ont été recouvrés et remboursés aux contribuables. Nous collaborons également avec nos partenaires pour étudier la possibilité d'accroître les pouvoirs législatifs pour aider notre exploitant de réseau à assumer ses responsabilités essentielles.

Notre exploitant de réseau s'attache également à mettre en œuvre le renouvellement du marché, ce qui permettra de réformer les marchés de l'électricité en Ontario et ainsi d'améliorer la souplesse et l'efficacité. Le projet de renouvellement du marché devrait faire économiser jusqu'à 5,2 milliards sur dix ans.

Colin Nikolaichuk Bureau du ministre
Colin.Nikolaichuk@ontario.ca
416 325-2690

Disponible en ligne
Available in English

Natasha Demetriades Direction des communications
natasha.demetriades@ontario.ca
416 327-3855

EN - ICI-cybersecurity-market practices - ENE_2.pdf

Statements from Minister of Energy on the 2017 Auditor General's Report

December 6, 2017

Minister of Energy Glen Thibeault issued the following statements in response to the release of the Auditor General's report:

I would like to thank the Office of the Auditor General for its analysis. Our government remains committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

Statement on the ICI

The Industrial Conservation Initiative program has been successful at reducing peak electricity demand and helps large consumers lower electricity prices by one-third on average, helping them to remain competitive and focused on creating jobs.

In fact, our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 — the peak electricity demand of a city roughly the size of Mississauga. That's about 6 per cent of Ontario's peak electricity demand.

That means that this program helped avoid the need to build costly new generation in the longer term, which is a benefit to all ratepayers across the province, both residential and commercial.

Under Ontario's Fair Hydro Plan, the program was recently expanded to include many more Ontario businesses, including manufacturers and greenhouses with average monthly peak demand above 500 kilowatts.

Statement on Cybersecurity

Safeguarding the security of our electricity system is a top priority for the Independent Electricity System Operator. The North American Electric Reliability Corporation (NERC) recently audited our system operator and found the IESO fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. Our System Operator puts a strong emphasis on cybersecurity, and is already in the process of recruiting a new Chief Information Officer (CIO) with an enhanced focus on cybersecurity. They are also considering creating a senior-level position for cybersecurity with formal reporting to both executive leadership and the Board of Directors.

Our System Operator is also implementing previous recommendations to increase the number of cybersecurity staff, which is in line with the Auditor General's recommendation.

It's important to note that our System Operator complies with all applicable NERC Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable

cybersecurity standards.

Statement on IESO Market Programs

We are confident in the Ontario Energy Board and our System Operator to run an efficient, reliable and fair electricity market for ratepayers across the province. Both the Real-Time Generation Cost Guarantee Program and Congestion Management Settlement Credits play important roles in our electricity system, ensuring we have a system we can depend on to keep the lights on. These are programs that ensure that when Ontario families and businesses need electricity, it's there for them. If these programs were eliminated, reliability would be put at risk.

Both programs have evolved over the years, and costs have been constrained substantially. Our system operator continues to prioritize reliability and optimize programs within the existing electricity system framework.

Abuses within the system are completely unacceptable. That's why they have been investigated, and where wrongdoing was present, costs have been recovered and returned to ratepayers. We are also working together with our agency partners to review the potential for increasing legislative powers to assist our system operator in performing its critical responsibilities.

Our system operator is also in the process of implementing Market Renewal, which will reform Ontario's electricity markets, increasing both flexibility and efficiency. Market Renewal is projected to save up to \$5.2 billion over ten years.

Colin Nikolaichuk Minister's Office
Colin.Nikolaichuk@ontario.ca
416-325-2690

[Available Online](#)
[Disponible en Français](#)

Natasha Demetriades Communications Branch
natasha.demetriades@ontario.ca
416-327-3855

CMSC Backgrounder_Dec 4 v4 clean_2.pdf

Congestion Management Settlement Credits

Backgrounder

Key Facts

- Congestion Management Settlement Credits (CMSC) are needed to maintain the reliability of Ontario's electricity system
- They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss
- Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability
- CMSC is needed to meet North American power system reliability standards
- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go
- These are costs, about \$1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system
- The IESO has made more than a dozen market rule changes since market opening in 2002 to make the CMSC payments more efficient and transparent
- The IESO is now making fundamental changes to Ontario's electricity market through the Market Renewal Program, changes that would eliminate CMSC

"Many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

-- December 2016 Market Surveillance Panel Report

IESO has increased CMSC efficiency by taking actions to ensure:

- payments occur only in cases where offers of electricity to the market are reflective of actual operating costs
- payments are more closely aligned with the participant's abilities to actually deliver power
- accurate application of payments when generators have to deviate from IESO instructions for safety, environmental or legal reasons
- payments are reduced in situations where facilities do not come offline quickly

The Next Step: Eliminating CMSC

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market. These

changes are being made through the IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market. The Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) is supportive and is participating in this program.

The program will result in up to \$5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers. These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the IESO is changing the way it schedules resources so that costs associated with system constraints, such as transmission line limitations, are reflected in the market price, replacing the need for CMSC.

The IESO is currently working with a wide range of stakeholders on a high level design for Market Renewal initiatives and will begin the detailed design and implementation phase in 2019.

Background

The purchase and sale of electricity in Ontario is managed through the operation of a competitive wholesale market. Every hour, the IESO receives offers from a wide range of suppliers to provide electricity (as well as bids from large consumers to reduce electricity use on demand) and then schedules the lowest-cost offers needed to meet demand every five minutes.

However, price isn't the only factor when scheduling resources. The market must also respect physical limitations, such as transmission line limits. In this way, the IESO balances supply and demand to maintain the reliability of Ontario's electricity system.

Congestion Management Settlement Credits are paid when generators or consumers are instructed to consume or supply electricity when they would otherwise be doing so at an operating loss. This is an integral part of the current design of the market that incents market participants to follow the IESO's instructions and ensure reliability.

RT-GCG Backgrounder_Dec 5 v5 clean_2.pdf

Real-Time Generator Cost Guarantee Program

Background

Key Facts

- The Real Time-Generator Cost Guarantee (RT-GCG) program is a reliability measure that ensures sufficient generation is available to meet Ontario's demand for electricity
- The program is needed to adhere to North American power system reliability standards
- Eliminating this program would reduce the reliability of Ontario's electricity system
- Eight of nine North American system operators commit generators and compensate them for starting up
- Enhancements over the program's lifespan have resulted in pre-defined costs and stricter rules that increased transparency and efficiency
- The majority (up to 85 percent) of ineligible costs claimed under the previous design of the program have been recovered
- Two-thirds of the ineligible costs were submitted by one generator, who was fined an additional \$10 million
- The Market Renewal Program is making fundamental changes to Ontario's electricity market that will replace the RT-GCG program

Actions Taken to Improve the Program

- 2003** The RT-GCG program is created, then known as the Spare Generation Online Program
- 2009** More stringent eligibility requirements are introduced as new gas-fired generators come into service
- 2011** The Independent Electricity System Operator (IESO) commences comprehensive audit program of the RT-GCG program costs
- 2012** Revisions are made to eligibility and cost submissions
- 2013** The IESO completes onsite work for most audits and compiles preliminary findings
- 2014** The IESO commences settlement negotiations with a range of program participants and issues "Interpretation Bulletin" for generators to clarify eligible costs
- 2016** Total annual costs for the program are \$23 million, down significantly from \$61 million in 2014
- 2017** The IESO now pre-defines 14 of 15 eligible program costs, removing the potential for overpayments

The Next Step: Replacing the RT-GCG Program

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market. These

changes are being made through the IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market. The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.

The program will result in up to \$5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers. These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG Program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Background

The IESO-administered markets select and schedule enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having generators readily available allows the IESO to effectively meet demand, without reducing reliability.

Gas generators are often called on to meet Ontario's electricity demand but can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and be available that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, the IESO would be unable to ensure that generators are online to maintain reliability and would result in higher costs and negative impacts on reliability for Ontario and its neighbours.

The IESO's Market Assessment and Compliance Division monitors the operation of Ontario's electricity market, fostering compliance with the province's market rules and North American reliability standards. Their enforcement authorities also include the ability to audit certain market programs, and adjust payments from the program, similar to Canada Revenue Agency tax audits.

RE_ OFHP Matrix_business issues list for Thursd....pdf

From: [Schwab-Pflug, Emma \(ENERGY\)](#)
To: [Syed, Usman \(ENERGY\)](#)
Cc: [Qureshi, Musab \(ENERGY\)](#); [Di Tullio, Yvonne \(ENERGY\)](#); [Kolodziej, Monika \(ENERGY\)](#)
Subject: RE: OFHP Matrix/business issues list for Thursday morning Rate Mitigation Implementation Meeting
Date: January 9, 2018 5:05:12 PM
Attachments: [2017 OFHP Matrix and Outstanding Business Issues - Week of Dec 4 - EPE_CEEB_v2.docx](#)

Usman, please see updates attached. Thanks, E.

From: Syed, Usman (ENERGY)
Sent: January-09-18 4:49 PM
To: Schwab-Pflug, Emma (ENERGY)
Subject: FW: OFHP Matrix/business issues list for Thursday morning Rate Mitigation Implementation Meeting

How's this one going?

From: Edwards, Matthew (ENERGY)
Sent: January 9, 2018 9:20 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Krsikapa, Senka (ENERGY); Kolodziej, Monika (ENERGY)
Subject: FW: OFHP Matrix/business issues list for Thursday morning Rate Mitigation Implementation Meeting

Can you please update the attached?

Due to ADMO EOD today.

Thanks,

Matt

From: Cox, Hilary (ENERGY)
Sent: January 9, 2018 9:14 AM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Yordi, Samer (ENERGY) <Samer.Yordi@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>
Subject: FW: OFHP Matrix/business issues list for Thursday morning Rate Mitigation Implementation Meeting

Hi All –

Please use the latest (from first week of December) OFHP/Matrix to update for this Thursday's rate mitigation implementation group meeting on Thursday. SNAP, CRED, please send ADM approved input by Wednesday at 2 for ESPD to consolidate.

Also attached is action items list from December 7 meeting. Please incorporate to the extent that these items are still relevant.

HC

2017 OFHP Matrix and Outstanding Business Iss_3.pdf

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 - Amendment to Articles	- 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
		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
3) Providing a First Nations On-		

Item	Key Deliverables / Considerations	Timing / Next Steps
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 <u>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)</u> <u>As of December 14 – 1,448 applications sent to Hydro One or the over 40 active/pending participating distributors</u> <u>December 18- AFT and IESO meeting with ENERGY to discuss changes to HAP income-eligibility requirements and effect on Affordability Fund eligible population.</u> - Next Trustee meetings scheduled for ~~December 14, 2017~~<u>January 11, 2018</u> ~~The Trust-AFT~~ expects to enter into agreements with interested electricity distributors starting ~~mid-to-late December 2017~~<u>January 2018</u> (Hydro One will deliver the program in service areas of those distributors who do not apply)	<u>Early 2018:</u> <u>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.</u> - 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 <u>Fall 2017:</u> ~~The Trustees are considering the use of Ontario 211 services for the Affordability Fund~~ ENERGY has amended the TPA

Item	Key Deliverables / Considerations	Timing / Next Steps
	ENERGY has <u>shared draft TPA amendments with the AFT to require use of the Ontario logo in Fund marketing and communications</u>, and is waiting for the Trustees to sign.	~~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
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

RE_ Ontario's Fair Hydro Plan - Energy to Finan....pdf

From: [Ronald Kwan](#)
To: [Hume, Steen \(ENERGY\)](#)
Cc: [Cox, Hilary \(ENERGY\)](#)
Subject: RE: Ontario's Fair Hydro Plan - Energy to Finance Letter v14_markup2 EPE
Date: November 9, 2017 4:06:47 PM
Attachments: [Fair Hydro Plan Energy to Finance Letter_Nov 9 2017.docx](#)

Hi Steen,

Staff had one comment for your consideration.

Thanks,
Ron

From: Ronald Kwan
Sent: November-08-17 17:02
To: Steen Hume (CAB) <Steen.Hume@ontario.ca>
Cc: Hilary Cox (ENE) <Hilary.Cox@ontario.ca>
Subject: RE: Ontario's Fair Hydro Plan - Energy to Finance Letter v14_markup2 EPE

Thanks Steen.

We'll take a look and get back to you soon.

Ron

From: Hume, Steen (ENERGY) [<mailto:Steen.Hume@ontario.ca>]
Sent: November-08-17 16:17
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Hilary Cox (ENE) <Hilary.Cox@ontario.ca>
Subject: Ontario's Fair Hydro Plan - Energy to Finance Letter v14_markup2 EPE

Hi Ron: we has some additional edits to the draft letter. If you're good with these edits, we'll start moving this through approvals.

Hope you're having a good day. Thanks, Steen

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

Fair Hydro Plan Energy to Finance Letter_Nov _1.pdf

Working Draft

November xx, 2017

The Honourable Charles Sousa
Minister of Finance
7 Queens Park Crescent, 7th Floor
Toronto ON M7A 1Y7

Dear Minister Sousa:

I am writing to you in relation to Ontario's Fair Hydro Plan (OFHP). As you know, the government's intention under OFHP is to provide electricity price relief to specified eligible consumers, including through a more fair allocation over time of the costs of investments in generation that are providing reliable and clean electricity.

I am writing to confirm that the Global Adjustment (GA) refinancing under OFHP was not intended to have any impact on non-utility generators (NUGs) that have or had power purchase agreements (PPAs) with the Ontario Electricity Financial Corporation (OEFC), for which the rates are escalated based on changes to an index of electricity costs. This index would be affected by the timing of the deferral and recovery of GA costs from ratepayers.

OEFC is the legal continuation of Ontario Hydro and an agency of the Ministry of Finance.

I support the issuance of a direction by you to OEFC to have discussions with affected NUGs to seek agreements with them such that the rates payable under their contracts are unaffected by the refinancing of a portion of GA and the subsequent recovery of deferred costs through the Clean Energy Adjustment (CEA), if that is the outcome affected NUGs prefer.

PPAs that have rates escalated based on changes to an index of electricity system costs would be modestly affected by other components of the OFHP. This includes the shifting of certain costs (for the Rural or Remote Rate Protection program and the Ontario Electricity Support Program) from the electricity system to being government funded.

Commented [KJ1]: The way this is written, it seems that Energy would know this internally. Perhaps better to say something like "Energy staff recognise(s) that..."

Thank you for your attention to this matter.

Sincerely,

Glenn Thibeault
Minister of Energy

cc. Andrew Teliszewsky, Chief of Staff, Office of the Minister of Energy
Ali Ghiassi, Chief of Staff, Office of the Minister of Finance

Serge Imbrogno, Deputy Minister, Ministry of Energy
Scott Thompson, Deputy Minister, Ministry of Finance

RE_ Proposed CLB bullets for AG note(1).pdf

From: [Rehob, James \(ENERGY\)](#)
To: [Ryan, Padraic \(MAG\)](#)
Cc: [Thouin, Alena \(ENERGY\)](#)
Subject: RE: Proposed CLB bullets for AG note
Date: December 10, 2017 11:02:06 PM

Thanks, Paddy - we'll include this in the AG box, unless we hear otherwise.
Thanks for all of your help this weekend, Paddy .
Best,
James

Sent with BlackBerry Work
(www.blackberry.com)

From: Ryan, Padraic (MAG) <Padraic.Ryan@ontario.ca>
Date: Sunday, Dec 10, 2017, 9:47 PM
To: Rehob, James (ENERGY) <James.Rehob@ontario.ca>
Subject: FW: Proposed CLB bullets for AG note

Hi James, here is a shortened version of the draft bullets for use in the BN. Still waiting on MAG approval.

-
- CLB advises there is a **moderately high risk** that the proposed amendment to Ontario Regulation 196/17 would be found unconstitutional due to being an unjustified violation of freedom of expression. The *Charter* s. 2(b) right to freedom of expression includes the right to say nothing and the right not to say certain things. Therefore, when a law requires that persons communicate certain things, it is a violation of s. 2(b) which must be justified under s. 1 of the *Charter*.
 - In order for the law to be found to be a justifiable restriction on expression, Ontario would have to establish that the proposed amendment has the pressing and substantial purpose of informing electricity consumers of the effect of the Fair Hydro Plan legislation on how their invoice is calculated, and is not compelled political speech, which would engage the core of freedom of expression.
 - This objective could likely be achieved in a less

impairing manner by prescribing language which is more specific about the legislation in question and which uses more neutral language to describe the effects of the legislation.

--

Padraic Ryan
Counsel, Constitutional Law Branch
Ministry of the Attorney General
720 Bay Street, 4th Floor
Toronto, ON M7A 2S9

T: (416) 326-0131
F: (416) 326-4015

RE_ Proposed CLB bullets for AG note(2).pdf

From: [Rehob, James \(ENERGY\)](#)
To: [Ryan, Padraic \(MAG\)](#)
Subject: RE: Proposed CLB bullets for AG note
Date: December 10, 2017 5:49:34 PM

Hi, Paddy/- I've asked Alena to flip the draft she has on the go to the both of us. I have an initial version prepared by my, colleague, Amanda Letourneau on Friday, but Alena has likely advanced the draft since then.

I'll send you the version Amanda put together for reference in while we wait for Alena's version.

Best,
James

Sent with BlackBerry Work
(www.blackberry.com)

From: Ryan, Padraic (MAG) <Padraic.Ryan@ontario.ca>
Date: Sunday, Dec 10, 2017, 5:08 PM
To: Rehob, James (ENERGY) <James.Rehob@ontario.ca>
Subject: RE: Proposed CLB bullets for AG note

It's been a while since I did one of these, I may have been thinking of AG speaking notes. I'll try to shorten - do you have a draft note I can see so I know what background info can is being provided?

Sent with BlackBerry Work
(www.blackberry.com)

From: Rehob, James (ENERGY) <James.Rehob@ontario.ca>
Date: Friday, Dec 08, 2017, 6:41 PM
To: Ryan, Padraic (MAG) <Padraic.Ryan@ontario.ca>
Subject: RE: Proposed CLB bullets for AG note

Thanks, Paddy. This is fine as far as content goes, but seems a bit large to place in the MAG risk box. Do you imagine all of this would be included there?

Sent with BlackBerry Work
(www.blackberry.com)

From: Ryan, Padraic (MAG) <Padraic.Ryan@ontario.ca>
Date: Friday, Dec 08, 2017, 5:52 PM
To: Rehob, James (ENERGY) <James.Rehob@ontario.ca>
Subject: Proposed CLB bullets for AG note

Hi James, we suggest the following (pending DMO approval of the opinion) – happy to review the note as a complete package once you get to that stage.

- CLB advises there is a **moderately high risk** that the proposed amendment to Ontario

Regulation 196/17 would be found unconstitutional due to being an unjustified violation of freedom of expression. Moderately high risk means that although the outcome is difficult to predict because there are good arguments on both sides, a court would more likely than not find the law unconstitutional.

- The *Charter* s. 2(b) right to freedom of expression includes the right to say nothing and the right not to say certain things. Therefore, when a law requires that persons communicate certain things, it is a violation of s. 2(b) which must be justified under s. 1 of the *Charter*. To be justified under s. 1, a law which compels expression must have a pressing and substantial purpose, and cannot be overbroad by requiring expression which is not necessary to achieve that purpose. Courts have upheld laws which require companies to provide accurate and relevant information to consumers.
- In order for the law to be found to be a justifiable restriction on expression, Ontario would have to establish that the proposed amendment has the pressing and substantial purpose of informing electricity consumers of the effect of the Fair Hydro Plan legislation on how their invoice is calculated, and is not compelled political speech, which would engage the core of freedom of expression.
- This objective could likely be achieved in a less impairing manner by prescribing language which is more specific about the legislation in question and which uses more neutral language to describe the effects of the legislation. A consumer may not realize that “Ontario’s Fair Hydro Plan” refers to legislation instead of a political platform. The requirement that the invoice indicated that the Plan “saved” the consumer money could more neutrally be put as a “reduction” in the billed amount, given that the accuracy of the “savings” language involves subjective determination of which kinds of cost off-setting can legitimately be called “savings”.

--

Padraic Ryan
Counsel, Constitutional Law Branch
Ministry of the Attorney General
720 Bay Street, 4th Floor
Toronto, ON M7A 2S9

T: (416) 326-0131

F: (416) 326-4015

RE_ Proposed CLB bullets for AG note(3).pdf

From: [Ryan, Padraic \(MAG\)](#)
To: [Rehob, James \(ENERGY\)](#)
Subject: RE: Proposed CLB bullets for AG note
Date: December 10, 2017 5:08:18 PM

It's been a while since I did one of these, I may have been thinking of AG speaking notes. I'll try to shorten - do you have a draft note I can see so I know what background info can is being provided?

Sent with BlackBerry Work
(www.blackberry.com)

From: Rehob, James (ENERGY) <James.Rehob@ontario.ca>
Date: Friday, Dec 08, 2017, 6:41 PM
To: Ryan, Padraic (MAG) <Padraic.Ryan@ontario.ca>
Subject: RE: Proposed CLB bullets for AG note

Thanks, Paddy. This is fine as far as content goes, but seems a bit large to place in the MAG risk box. Do you imagine all of this would be included there?

Sent with BlackBerry Work
(www.blackberry.com)

From: Ryan, Padraic (MAG) <Padraic.Ryan@ontario.ca>
Date: Friday, Dec 08, 2017, 5:52 PM
To: Rehob, James (ENERGY) <James.Rehob@ontario.ca>
Subject: Proposed CLB bullets for AG note

Hi James, we suggest the following (pending DMO approval of the opinion) – happy to review the note as a complete package once you get to that stage.

- CLB advises there is a **moderately high risk** that the proposed amendment to Ontario Regulation 196/17 would be found unconstitutional due to being an unjustified violation of freedom of expression. Moderately high risk means that although the outcome is difficult to predict because there are good arguments on both sides, a court would more likely than not find the law unconstitutional.
- The *Charter* s. 2(b) right to freedom of expression includes the right to say nothing and the right not to say certain things. Therefore, when a law requires that persons communicate certain things, it is a violation of s. 2(b) which must be justified under s. 1 of the *Charter*. To be justified under s. 1, a law which compels expression must have a pressing and substantial purpose, and cannot be overbroad by requiring expression which is not necessary to achieve that purpose. Courts have upheld laws which require companies to provide accurate and relevant information to consumers.
- In order for the law to be found to be a justifiable restriction on expression, Ontario would have to establish that the proposed amendment has the pressing and substantial purpose of informing electricity consumers of the effect of the Fair Hydro Plan legislation on how their

invoice is calculated, and is not compelled political speech, which would engage the core of freedom of expression.

- This objective could likely be achieved in a less impairing manner by prescribing language which is more specific about the legislation in question and which uses more neutral language to describe the effects of the legislation. A consumer may not realize that “Ontario’s Fair Hydro Plan” refers to legislation instead of a political platform. The requirement that the invoice indicated that the Plan “saved” the consumer money could more neutrally be put as a “reduction” in the billed amount, given that the accuracy of the “savings” language involves subjective determination of which kinds of cost off-setting can legitimately be called “savings”.

--

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Toronto, ON M7A 2S9

T: (416) 326-0131
F: (416) 326-4015

RE_ Proposed CLB bullets for AG note(4).pdf

From: [Rehob, James \(ENERGY\)](#)
To: [Ryan, Padraic \(MAG\)](#)
Subject: RE: Proposed CLB bullets for AG note
Date: December 8, 2017 6:41:56 PM

Thanks, Paddy. This is fine as far as content goes, but seems a bit large to place in the MAG risk box. Do you imagine all of this would be included there?

Sent with BlackBerry Work
(www.blackberry.com)

From: Ryan, Padraic (MAG) <Padraic.Ryan@ontario.ca>
Date: Friday, Dec 08, 2017, 5:52 PM
To: Rehob, James (ENERGY) <James.Rehob@ontario.ca>
Subject: Proposed CLB bullets for AG note

Hi James, we suggest the following (pending DMO approval of the opinion) – happy to review the note as a complete package once you get to that stage.

- CLB advises there is a **moderately high risk** that the proposed amendment to Ontario Regulation 196/17 would be found unconstitutional due to being an unjustified violation of freedom of expression. Moderately high risk means that although the outcome is difficult to predict because there are good arguments on both sides, a court would more likely than not find the law unconstitutional.
- The *Charter* s. 2(b) right to freedom of expression includes the right to say nothing and the right not to say certain things. Therefore, when a law requires that persons communicate certain things, it is a violation of s. 2(b) which must be justified under s. 1 of the *Charter*. To be justified under s. 1, a law which compels expression must have a pressing and substantial purpose, and cannot be overbroad by requiring expression which is not necessary to achieve that purpose. Courts have upheld laws which require companies to provide accurate and relevant information to consumers.
- In order for the law to be found to be a justifiable restriction on expression, Ontario would have to establish that the proposed amendment has the pressing and substantial purpose of informing electricity consumers of the effect of the Fair Hydro Plan legislation on how their invoice is calculated, and is not compelled political speech, which would engage the core of freedom of expression.
- This objective could likely be achieved in a less impairing manner by prescribing language which is more specific about the legislation in question and which uses more neutral language to describe the effects of the legislation. A consumer may not realize that “Ontario’s Fair Hydro Plan” refers to legislation instead of a political platform. The requirement that the invoice indicated that the Plan “saved” the consumer money could more neutrally be put as a “reduction” in the billed amount, given that the accuracy of the “savings” language involves subjective determination of which kinds of cost off-setting can legitimately be called “savings”.

--

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RE_ Proposed CLB bullets for AG note.pdf

From: [Ryan, Padraic \(MAG\)](#)
To: [Rehob, James \(ENERGY\)](#)
Cc: [Thouin, Alena \(ENERGY\)](#)
Subject: RE: Proposed CLB bullets for AG note
Date: December 11, 2017 8:46:57 AM

I'm Checking in again with Cathy re: approvals - bullets are still conditional on getting that, of course.

Sent with BlackBerry Work
(www.blackberry.com)

From: Rehob, James (ENERGY) <James.Rehob@ontario.ca>
Date: Sunday, Dec 10, 2017, 11:02 PM
To: Ryan, Padraic (MAG) <Padraic.Ryan@ontario.ca>
Cc: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Proposed CLB bullets for AG note

Thanks, Paddy - we'll include this in the AG box, unless we hear otherwise.
Thanks for all of your help this weekend, Paddy .
Best,
James

Sent with BlackBerry Work
(www.blackberry.com)

From: Ryan, Padraic (MAG) <Padraic.Ryan@ontario.ca>
Date: Sunday, Dec 10, 2017, 9:47 PM
To: Rehob, James (ENERGY) <James.Rehob@ontario.ca>
Subject: FW: Proposed CLB bullets for AG note

Hi James, here is a shortened version of the draft bullets for use in the BN. Still waiting on MAG approval.

-
- CLB advises there is a **moderately high risk** that the proposed amendment to Ontario Regulation 196/17 would be found unconstitutional due to being an unjustified violation of freedom of expression. The *Charter* s. 2(b) right to freedom of expression includes the right to say nothing and the right not to say certain things. Therefore, when a law requires

that persons communicate certain things, it is a violation of s. 2(b) which must be justified under s. 1 of the *Charter*.

- In order for the law to be found to be a justifiable restriction on expression, Ontario would have to establish that the proposed amendment has the pressing and substantial purpose of informing electricity consumers of the effect of the Fair Hydro Plan legislation on how their invoice is calculated, and is not compelled political speech, which would engage the core of freedom of expression.
- This objective could likely be achieved in a less impairing manner by prescribing language which is more specific about the legislation in question and which uses more neutral language to describe the effects of the legislation.

--

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Counsel, Constitutional Law Branch
Ministry of the Attorney General
720 Bay Street, 4th Floor
Toronto, ON M7A 2S9

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F: (416) 326-4015

RE_ QA.pdf

From: [Thouin, Alena \(ENERGY\)](#)
To: [Cayley, Daniel \(ENERGY\)](#); [Rehob, James \(ENERGY\)](#)
Cc: [Christie, Tim \(ENERGY\)](#); [Lightbody, Ava \(ENERGY\)](#); [Shear, Dan \(ENERGY\)](#)
Subject: RE: QA
Date: October 17, 2017 2:43:47 PM

Thanks James and Daniel. Given the question my slight revision of James note below.

Sent with BlackBerry Work
(www.blackberry.com)

From: Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>
Date: Tuesday, Oct 17, 2017, 2:39 PM
To: Rehob, James (ENERGY) <James.Rehob@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>, Lightbody, Ava (ENERGY) <Ava.Lightbody@ontario.ca>, Shear, Dan (ENERGY) <Dan.Shear@ontario.ca>, Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: Re: QA

Thanks James. Alena, anything further to add?

Thanks,

Daniel

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Rehob, James (ENERGY)
Sent: Tuesday, October 17, 2017 2:32 PM
To: Cayley, Daniel (ENERGY)
Cc: Christie, Tim (ENERGY); Lightbody, Ava (ENERGY); Shear, Dan (ENERGY); Thouin, Alena (ENERGY)
Subject: RE: QA

This was very well done, Daniel. Thanks for the opportunity to comment. I've provided a further sentence (see yellow highlighting below).

Best,
James

From: Cayley, Daniel (ENERGY)
Sent: Tuesday, October 17, 2017 2:26 PM
To: Rehob, James (ENERGY)
Cc: Christie, Tim (ENERGY); Lightbody, Ava (ENERGY); Shear, Dan (ENERGY); Thouin, Alena (ENERGY)
Subject: RE: QA
Importance: High

James – coming out of the technical briefing, there is a request for a QA to be prepared asap on the need for the OFHP legislation. The question and my proposed

answer, which I very briefly discussed with Dan, is below. Can you take a quick look?

Q. Why did the government need to introduce legislation to enact OFHP?

A. The Fair Hydro Act, 2017 was required to achieve the following:

- Enabling the setting of lower electricity rates for specified consumers leading to a deferral of a portion of clean energy costs
- Providing a statutory right for the recovery of those costs from future specified consumers
- Allowing for the sale of the right of recovery of future costs
- Implementing enhanced existing and new electricity social programs
- Shifting funding for certain electricity social programs to the tax base

The OFHPA provided Minister with the authority to drive the intergenerational reallocation process through the determination of the fair allocation amounts.

The legislation also sets out the overall framework for determining the fair allocation of clean energy costs over time, [establishing](#) Ontario Power Generation as the Financial Services Manager (FSM) and requires the FSM to develop Financing Plans to be submitted to the Minister of Energy.

From: Christie, Tim (ENERGY)
Sent: October 17, 2017 1:56 PM
To: Cayley, Daniel (ENERGY)
Subject: QA

Daniel, a few QAs needed out of the technical briefing

Q What is the difference between how the AG characterizes the debt and how the government characterizes the debt?

A AG uses 3 phases and expresses principal and interest separately, ministry looks at peak debt including principal and interest

Q Why did the government need to introduce legislation to enact OFHP?

A Needed authority to move social program funding, give OEB guidance on rates, etc. Run this one by LSB.

RE_ RUSH REVIEW - Backgrounder - Summary of Gov....pdf

From: [Christie, Tim \(ENERGY\)](#)
To: [Cox, Hilary \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Cc: [Thiru, Dhil \(ENERGY\)](#); [Lightbody, Ava \(ENERGY\)](#); [Ho, Larissa \(ENERGY\)](#)
Subject: RE: RUSH REVIEW - Backgrounder - Summary of Government Response, AG Annual Report Ch 2 - Public Accounts
Date: December 5, 2017 3:23:11 PM
Attachments: [Public Accounts Management Response - Backgrounder - Dec 5 2017 v2_CLEAN.docx](#)

One very minor edit.

From: Cox, Hilary (ENERGY)
Sent: December-05-17 3:04 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Cc: Thiru, Dhil (ENERGY)
Subject: Fw: RUSH REVIEW - Backgrounder - Summary of Government Response, AG Annual Report Ch 2 - Public Accounts
Importance: High

Hey Guys -
Need this fact checked super rush urgent.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hendy, Adam (ENERGY) <Adam.Hendy@ontario.ca>
Sent: Tuesday, December 5, 2017 3:02 PM
To: Thiru, Dhil (ENERGY); Ridd, Carl (ENERGY)
Cc: Cox, Hilary (ENERGY); @ENERGY-COMM-Issues_and_MediaRelations; Berg, Denna (ENERGY); Lyon, Sam (ENERGY); Yordi, Samer (ENERGY)
Subject: FW: RUSH REVIEW - Backgrounder - Summary of Government Response, AG Annual Report Ch 2 - Public Accounts

Hi Dhil and Carl,

TBS has been asked to prepare a backgrounder providing a summary of the government's response to the Auditor General's 2017 Annual Report chapter on Public Accounts. They drafted the Energy materials of the backgrounder using the fact check, briefing deck, and Minister's remarks from the AG's Special Report on the OFHP.

TBS has not confirmed the full intent and distribution of the backgrounder, though it may be a document handed to the QP gallery tomorrow (rather than posted online).

TBS has asked to have this back by 4:30 today, so can staff please fact-check and have this back to us ASAP?

Thanks,
Adam

From: Tharani, Alisha (TBS)
Sent: December-05-17 2:54 PM

To: @FIN-L-O-CSB-ISSUES; @ENERGY-COMM-Issues_and_MediaRelations

Cc: DiMuzio, Sofie (TBS); Vrancart, Kate (TBS); Sullivan, Bryant (TBS); Miller, Amanda (TBS)

Subject: RUSH REVIEW - Backgrounder - Summary of Government Response, AG Annual Report Ch 2 - Public Accounts

Importance: High

Hi MOF and MOE,

In a new development, we have been asked to prepare a backgrounder providing a summary of the government's response to the Auditor General's 2017 Annual Report chapter on Public Accounts.

See attached for the backgrounder – please note that this is in draft form and has been reviewed by our program area (OPCD and Legal) but **not** DMO and MO at this time.

The backgrounder includes information that has been previously reviewed by MOF/OFA and MOE, but we wanted to ensure we share this document for your review, as it will have a different purpose. The details still need to be landed– we have not confirmed the full intent and distribution of the backgrounder, though it may be a document handed to the QP gallery tomorrow (rather than posted online).

If you could please review the backgrounder, with an understanding of the considerations above, **by 4:30pm today**, it would be very much appreciated, as we work towards CO deadlines.

MOF – if you could please also share this with OFA for their review.

Thanks very much in advance, and please do not hesitate to contact us if you have any questions at all.

Alisha

Alisha Tharani

Corporate Issues Management Analyst | Treasury Board Secretariat

416-327-3803 | Alisha.Tharani@ontario.ca

Public Accounts Management Response - Backgro_2.pdf

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly. The government's position on these differences of opinion has not changed. Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. 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 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.

The government continues to apply the accounting treatment of pension assets that the province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end.

This change was supported by the IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the province's annual deficit, net debt or accumulated deficit.

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 accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the 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 section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

The 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.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), 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.

The proposed accounting for ~~the~~ OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the 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 section PS1150.07 from the Public Sector Accounting Handbook.

The professional staff has appropriately applied this guidance in assessing the accounting for the OFHP.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The province is committed to providing 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 certain net pension assets in order to allow Treasury Board Secretariat and the 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.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. 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 legislation, would have been collected from specified ratepayers as the costs were incurred.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS.

RE_ Rate Mitigation Implementation Group(1).pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#); [Feather, Adam \(ENERGY\)](#); [Edwards, Matthew \(ENERGY\)](#); [Montgomery, Kaitlin \(MOF\)](#); [Katona, Keley \(MOF\)](#); [Thouin, Alena \(ENERGY\)](#)
Subject: RE: Rate Mitigation Implementation Group
Date: October 11, 2017 2:46:35 PM

Hi All –

Apologies, but is there any chance I can get these earlier? Like, any time now?

HC

From: Cox, Hilary (ENERGY)
Sent: October 10, 2017 6:15 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

Hi All –

Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Hoping to have this in hand for tomorrow at 4 pm.

HC

RE_ Rate Mitigation Implementation Group.pdf

From: [Schwab-Pflug, Emma \(ENERGY\)](#)
To: [Syed, Usman \(ENERGY\)](#)
Subject: RE: Rate Mitigation Implementation Group
Date: October 11, 2017 3:08:44 PM

Thank you

From: Syed, Usman (ENERGY)
Sent: October-11-17 3:00 PM
To: Edwards, Matthew (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: RE: Rate Mitigation Implementation Group

[Here you go...](#)

From: Edwards, Matthew (ENERGY)
Sent: October 11, 2017 8:46 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: Rate Mitigation Implementation Group

Is there anything to update in the OFHP Matrix? We would need this back for Kaili around 3pm.

From: Cox, Hilary (ENERGY)
Sent: October 10, 2017 6:15 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

Hi All –

Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Hoping to have this in hand for tomorrow at 4 pm.

HC

RE_ Rate Mitigation Implementation Meeting - De....pdf

From: [Schlaepfer, Martin \(ENERGY\)](#)
To: [Hume, Steen \(ENERGY\)](#); [Sermat-Harding, Kaili \(ENERGY\)](#); [Calwell, Carolyn \(ENERGY\)](#); [""jeffrey.lyash@opg.com" \(jeffrey.lyash@opg.com\)";](#) ["HARTWICK Ken -FINANCE \(ken.hartwick@opg.com\)";](#) ["Kim Marshall \(Kim.Marshall@ieso.ca\)";](#) [Thompson, Scott \(MOF\)](#); [Angus, Helen \(TBS\)](#); [Davidson, Steven \(CAB\)](#); ["CROZZOLI Carlo -CBUSDEV&STRT";](#) [Mayman, Gadi \(OFA\)](#); ["LEE John -TREASURY";](#) [Hughes, Karen \(TBS\)](#); [Veinot, Cindy \(TBS\)](#); [Michael Boll](#); ["peter.gregg@ieso.ca";](#) ["ROWE Jennifer -CORPAFFAIRS"](#)
Cc: [Imbrogno, Serge \(ENERGY\)](#); [Teliszewsky, Andrew \(ENERGY\)](#); [Whittington, Matt \(ENERGY\)](#); [Baker, Carys \(ENERGY\)](#); [McLean, David \(MOF\)](#); [Foster, Robert \(CAB\)](#); ["jordan.penic@ieso.ca";](#) ["catriona.king@opg.com";](#) [Bungaro-Yemec, Francesca \(ENERGY\)](#); [Yordi, Samer \(ENERGY\)](#); [Cox, Hilary \(ENERGY\)](#); [Edwards, Matthew \(ENERGY\)](#); [Laughton, Patrick \(TBS\)](#); [David Barrett](#); [HAHN PARKER Janet -TREASURY](#); [Christie, Tim \(ENERGY\)](#); [Thouin, Alena \(ENERGY\)](#); [Murray, Maud \(ENERGY/MEDG/MRIS/MOI\)](#)
Subject: RE: Rate Mitigation Implementation Meeting - December 7, 2017
Date: December 7, 2017 6:41:32 PM
Attachments: [Action Items_Dec 7_final.docx](#)

Hi everyone,

Attached are the action items from this morning's meeting.

Thanks,
Martin

From: Schlaepfer, Martin (ENERGY)
Sent: December 6, 2017 8:13 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; 'jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com) <jeffrey.lyash@opg.com>; 'HARTWICK Ken - FINANCE (ken.hartwick@opg.com)' <ken.hartwick@opg.com>; Kim Marshall (Kim.Marshall@ieso.ca) <Kim.Marshall@ieso.ca>; Thompson, Scott (MOF) <Scott.Thompson@ontario.ca>; Angus, Helen (TBS) <Helen.Angus@ontario.ca>; Davidson, Steven (CAB) <Steven.Davidson@ontario.ca>; 'CROZZOLI Carlo -CBUSDEV&STRT' <carlo.crozzoli@opg.com>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; 'LEE John -TREASURY' <john.s.lee@opg.com>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Michael Boll <Michael.Boll@ieso.ca>; 'peter.gregg@ieso.ca' <peter.gregg@ieso.ca>; 'ROWE Jennifer -CORPAFFAIRS' <jennifer.rowe@opg.com>
Cc: Imbrogno, Serge (ENERGY) <Serge.Imbrogno@ontario.ca>; Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Whittington, Matt (ENERGY) <Matt.Whittington@ontario.ca>; Baker, Carys (ENERGY) <Carys.Baker@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>; Foster, Robert (CAB) <Robert.Foster@ontario.ca>; 'jordan.penic@ieso.ca' <jordan.penic@ieso.ca>; 'catriona.king@opg.com' <catriona.king@opg.com>; Bungaro-Yemec, Francesca (ENERGY) <Francesca.Bungaro-Yemec@ontario.ca>; Yordi, Samer (ENERGY) <Samer.Yordi@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; David Barrett <david.barrett@ieso.ca>; HAHN PARKER Janet -TREASURY <j.hahnparker@opg.com>; Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Murray, Maud (ENERGY/MEDG/MRIS/MOI) <Maud.Murray3@ontario.ca>
Subject: Re: Rate Mitigation Implementation Meeting - December 7, 2017

Hi everyone,

Attached is a timeline from OPG for tomorrow's briefing.

Thanks,
Martin

From: Schlaepfer, Martin (ENERGY)
Sent: Wednesday, December 6, 2017 5:27 PM
To: Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Calwell, Carolyn (ENERGY); 'jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com); 'HARTWICK Ken -FINANCE' (ken.hartwick@opg.com); 'Kim Marshall' (Kim.Marshall@ieso.ca); Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); 'CROZZOLI Carlo -CBUSDEV&STRT'; Mayman, Gadi (OFA); 'LEE John -TREASURY'; Hughes, Karen (TBS); Veinot, Cindy (TBS); Michael Boll; 'peter.gregg@ieso.ca'; 'ROWE Jennifer -CORPAFFAIRS'
Cc: Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); McLean, David (MOF); Foster, Robert (CAB); 'jordan.penic@ieso.ca'; 'catriona.king@opg.com'; Bungaro-Yemec, Francesca (ENERGY); Yordi, Samer (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Laughton, Patrick (TBS); David Barrett; HAHN PARKER Janet - TREASURY; Christie, Tim (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI)
Subject: Rate Mitigation Implementation Meeting - December 7, 2017

Hi everyone,

Please find attached the material for discussion tomorrow.

Thanks,
Martin

Action Items_Dec 7_final.pdf

Action Items

December 7, 2017

Agenda

1) GA Refinancing

- o Provincial Support Agreements (OFA / OPG / ENERGY)
 - To be ready to be signed early next week (Monday or Tuesday) – required for OPG to obtain final credit rating of warehouse
- o General Business Update (OPG / IESO / ENERGY)
 - OPG working to finalize the offering memorandum and investor presentation by end of next week
 - Sometime next week EY to provide updated accounting memo to OPG
 - OPG to share with TBS documentation provided to EY for review
 - OPG financing plan – to be presented by OPG at Minister's briefing on December 14th
 - PILs exemption – MOF drafting Minister's regulation
 - Commercial agreements between IESO and OPG finalized – IESO to prepare one pager for Minister's briefing on December 14th

2) OPG's Market Activities – Rollout (All)

- OPG to prepare a presentation that outlines key details with respect to its Market Activities
- OPG anticipates going to market 3 to 4 times in 2018

3) Other OFHP Initiatives

- o RRRP, OESP and FN (SNAP)
 - Look at options around deferring the transfer of the OESP to province
- o Affordability Fund (CRED)
 - Implementation agreement near finalized – about 45 LDCs have signaled intent to deliver the program and an additional 5 are interested
 - Trustees are concerned about implications of HAP program changes on the Affordability Fund
 - Affordability Fund briefing for ENERGY DM and CoS to be scheduled for the week of December 18th, including IESO

RE_ Rate Mitigation Implementation Meeting - No...(1).pdf

From: [Schlaepfer, Martin \(ENERGY\)](#)
To: [Hume, Steen \(ENERGY\)](#); [Sermat-Harding, Kaili \(ENERGY\)](#); [Calwell, Carolyn \(ENERGY\)](#); [Colalillo, Sam \(ENERGY\)](#); ["jeffrey.lyash@opg.com" \(jeffrey.lyash@opg.com\)](#); ["HARTWICK Ken -FINANCE \(ken.hartwick@opg.com\)"](#); ["Kim Marshall \(Kim.Marshall@ieso.ca\)"](#); [Thompson, Scott \(MOF\)](#); [Angus, Helen \(TBS\)](#); [Davidson, Steven \(CAB\)](#); ["CROZZOLI Carlo -CBUSDEV&STRT"](#); [Mayman, Gadi \(OFA\)](#); ["LEE John -TREASURY"](#); [Hughes, Karen \(TBS\)](#); [Veinot, Cindy \(TBS\)](#); [Michael Boll](#); ["peter.gregg@ieso.ca"](#)
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Subject: RE: Rate Mitigation Implementation Meeting - November 23, 2017
Date: November 23, 2017 8:34:12 PM
Attachments: [Action Items_Nov 23_Final.docx](#)

Hi everyone,

Attached are the action items from today's meeting.

Thanks,
Martin

From: Schlaepfer, Martin (ENERGY)
Sent: November 22, 2017 7:10 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Colalillo, Sam (ENERGY) <Sam.Colalillo@ontario.ca>; "jeffrey.lyash@opg.com" (jeffrey.lyash@opg.com) <jeffrey.lyash@opg.com>; "HARTWICK Ken -FINANCE (ken.hartwick@opg.com)" <ken.hartwick@opg.com>; Kim Marshall (Kim.Marshall@ieso.ca) <Kim.Marshall@ieso.ca>; Thompson, Scott (MOF) <Scott.Thompson@ontario.ca>; Angus, Helen (TBS) <Helen.Angus@ontario.ca>; Davidson, Steven (CAB) <Steven.Davidson@ontario.ca>; "CROZZOLI Carlo -CBUSDEV&STRT" <carlo.crozzoli@opg.com>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; "LEE John -TREASURY" <john.s.lee@opg.com>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Michael Boll <Michael.Boll@ieso.ca>; "peter.gregg@ieso.ca" <peter.gregg@ieso.ca>
Cc: Imbrogno, Serge (ENERGY) <Serge.Imbrogno@ontario.ca>; Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Whittington, Matt (ENERGY) <Matt.Whittington@ontario.ca>; Baker, Carys (ENERGY) <Carys.Baker@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>; Foster, Robert (CAB) <Robert.Foster@ontario.ca>; "jordan.penic@ieso.ca" <jordan.penic@ieso.ca>; "catriona.king@opg.com" <catriona.king@opg.com>; Bungaro-Yemec, Francesca (ENERGY) <Francesca.Bungaro-Yemec@ontario.ca>; Yordi, Samer (ENERGY) <Samer.Yordi@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; David Barrett <david.barrett@ieso.ca>; HAHN PARKER Janet -TREASURY <j.hahnparker@opg.com>; Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Ue, Allison (TBS) <Allison.Ue@ontario.ca>
Subject: Rate Mitigation Implementation Meeting - November 23, 2017

Hi everyone,

Please find attached the material for discussion tomorrow.

Thanks,
Martin

Action Items_Nov 23_Final.pdf

Action Items

November 23, 2017

1) GA Refinancing

- o General Business Update (OPG / IESO / ENERGY)
 - OPG to provide shareholder resolution for Minister of Energy's signature with respect to the OPG Equity Injection
 - OPG to share with ENERGY the debt loan agreement with respect to the Subordinated Debt
 - IESO to provide an update to its Board on November 29th. Note: IESO Board approved delegation of approval for OPG / IESO Commercial Agreements, which are expected to be finalized by end of next week (i.e., week of November 27th).
 - MOF to draft comfort letter and possible regulation (either LGIC or Minister's Reg) with respect to PILs Exemption
- o Provincial Support Agreement (OFA / OPG / ENERGY)
 - Ongoing work to finalize agreement wording between legal counsels
 - Briefing of Ministers' of Finance, Energy and President of TB – next week or early the following week. Note: MO will aim for November 30th or December 4th. Briefing would also provide an update from OPG on its approach to engaging the market
 - OPG to determine with legal counsel who would need to sign the agreement on behalf of the OPG /Trust. Note: Ministers' of Finance and Energy would sign on behalf of the province
- o OPG's Financing Plan / Market Activities (OPG)
 - OPG Chair to send a letter to Minister of Energy with respect to OPG's proposed Financing Plan. Note: ENERGY had provided preliminary feedback
 - With respect to market engagement, OPG is considering two options:
 - 1) Approach the market in early December. Note: Work would need to be finalized before December 15th; or
 - 2) Warehouse the funds on a revolving line of credit in December then go to market in New Year – possibly 2nd week of January. Following feedback from the rating agencies a decision on which option to proceed with can be made. Note: The matter will be raised at the joint Ministers' briefing next week

2) Technical Briefing (All)

- o Technical Briefing in December will be determined based on whether or not OPG goes to market in December (per the points raised above)

- o Technical Briefing presentation needs to be put in plain language and needs to be higher level, including a few context slides up front
- o Overall, the objective of the presentation is to providing a conclusion to the process (i.e., bookending the process)

3) Other OFHP Initiatives

- o RRRP, OESP and FN (SNAP)
- o Affordability Fund (CRED)

RE_ Rate Mitigation Implementation Meeting - No....pdf

From: [Edwards, Matthew \(ENERGY\)](#)
To: [Cox, Hilary \(ENERGY\)](#); [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#); [Yordi, Samer \(ENERGY\)](#)
Cc: [Thouin, Alena \(ENERGY\)](#)
Subject: RE: Rate Mitigation Implementation Meeting - November 23, 2017
Date: December 5, 2017 4:37:22 PM
Attachments: [2017-12-05 OFHP Matrix and Outstanding Business Issues - Week of Nov 20....docx](#)

CRED edits attached.

Thanks,

Matt

From: Cox, Hilary (ENERGY)
Sent: December 4, 2017 10:11 AM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Yordi, Samer (ENERGY) <Samer.Yordi@ontario.ca>
Cc: Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting - November 23, 2017

Hi All –

Please use attached action items list from last rate mitigation implementation group to update the OFHP matrix and outstanding business issues.

Will need this back by Wednesday at noon please since we'll need to turn it before STAR awards.

HC

From: Schlaepfer, Martin (ENERGY)
Sent: November 23, 2017 8:34 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Colalillo, Sam (ENERGY) <Sam.Colalillo@ontario.ca>; 'jeffrey.lyash@opg.com' (<jeffrey.lyash@opg.com>) <jeffrey.lyash@opg.com>; 'HARTWICK Ken -FINANCE' (<ken.hartwick@opg.com>) <ken.hartwick@opg.com>; 'Kim Marshall' (<Kim.Marshall@ieso.ca>) <Kim.Marshall@ieso.ca>; Thompson, Scott (MOF) <Scott.Thompson@ontario.ca>; Angus, Helen (TBS) <Helen.Angus@ontario.ca>; Davidson, Steven (CAB) <Steven.Davidson@ontario.ca>; 'CROZZOLI Carlo -CBUSDEV&STRT' <carlo.crozzoli@opg.com>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; 'LEE John -TREASURY' <john.s.lee@opg.com>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Michael Boll <Michael.Boll@ieso.ca>; 'peter.gregg@ieso.ca' <peter.gregg@ieso.ca>
Cc: Imbrogno, Serge (ENERGY) <Serge.Imbrogno@ontario.ca>; Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Whittington, Matt (ENERGY) <Matt.Whittington@ontario.ca>;

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Subject: RE: Rate Mitigation Implementation Meeting - November 23, 2017

Hi everyone,

Attached are the action items from today's meeting.

Thanks,
Martin

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Sent: November 22, 2017 7:10 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Colalillo, Sam (ENERGY) <Sam.Colalillo@ontario.ca>; 'jeffrey.lyash@opg.com' <jeffrey.lyash@opg.com>; 'HARTWICK Ken -FINANCE' <ken.hartwick@opg.com>; 'Kim Marshall' <Kim.Marshall@ieso.ca>; 'Thompson, Scott (MOF)' <Scott.Thompson@ontario.ca>; Angus, Helen (TBS) <Helen.Angus@ontario.ca>; Davidson, Steven (CAB) <Steven.Davidson@ontario.ca>; 'CROZZOLI Carlo -CBUSDEV&STRT' <carlo.crozzoli@opg.com>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; 'LEE John -TREASURY' <john.s.lee@opg.com>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Michael Boll <Michael.Boll@ieso.ca>; 'peter.gregg@ieso.ca' <peter.gregg@ieso.ca>
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Subject: Rate Mitigation Implementation Meeting - November 23, 2017

Hi everyone,

Please find attached the material for discussion tomorrow.

Thanks,
Martin

2017-12-05 OFHP Matrix and Outstanding Busine.pdf

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
Subordinated Debt Loan Agreement	OPG will lend the equity injection from the Province to the Trust by	- Draft Term Sheet - Debt Loan	- OFA to provide comments - OPG to draft Debt Loan Arrangement

Issue	Overview	Supporting Documentation	Timing / Next Steps
	way of subordinated debt	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

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
3) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
ENERGY and LSB	<u>Recent Action Items</u>	Receiving regular updates from

Item	Key Deliverables / Considerations	Timing / Next Steps
	• 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	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 Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions • As of Nov. 16 Oct. 23 – 1,634 intake forms submitted; over 1,000 AFT applications sent to Hydro One or the 41 active/pending participating distributors 66 applications from 6 LDCs processed through the AFT program • 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-year TB submission based on performance and need. Trust term can be extended with

Item	Key Deliverables / Considerations	Timing / Next Steps
		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

RE_ Rate Mitigation Implementation Meeting - Oc....pdf

From: [Schlaepfer, Martin \(ENERGY\)](#)
To: [Hume, Steen \(ENERGY\)](#); [Sermat-Harding, Kaili \(ENERGY\)](#); [Calwell, Carolyn \(ENERGY\)](#); [Chander, Sunita \(ENERGY\)](#); [Nelms, Scott \(MOF\)](#); ["jeffrey.lyash@opg.com" \(jeffrey.lyash@opg.com\)](#); ["HARTWICK Ken -FINANCE \(ken.hartwick@opg.com\)"](#); ["Kim Marshall \(Kim.Marshall@ieso.ca\)"](#); [Thompson, Scott \(MOF\)](#); [Angus, Helen \(TBS\)](#); [Davidson, Steven \(CAB\)](#); ["CROZZOLI Carlo -CBUSDEV&STRT"](#); [Mayman, Gadi \(OFA\)](#); ["LEE John -TREASURY"](#); [Hughes, Karen \(TBS\)](#); [Veinot, Cindy \(TBS\)](#); [Michael Boll](#)
Cc: [Imbrogno, Serge \(ENERGY\)](#); [Teliszewsky, Andrew \(ENERGY\)](#); [Whittington, Matt \(ENERGY\)](#); [Baker, Carys \(ENERGY\)](#); [MacIntyre, Kyle \(TBS\)](#); [McLean, David \(MOF\)](#); [Foster, Robert \(CAB\)](#); ["jordan.penic@ieso.ca"](#); ["Turnevicius, Lorraine"](#); ["catriona.king@opg.com"](#); [Bungaro-Yemec, Francesca \(ENERGY\)](#); [Feather, Adam \(ENERGY\)](#); [Cox, Hilary \(ENERGY\)](#); [Edwards, Matthew \(ENERGY\)](#); [Laughton, Patrick \(TBS\)](#); [David Barrett](#); [Katona, Keley \(MOF\)](#)
Subject: RE: Rate Mitigation Implementation Meeting - October 12, 2017
Date: October 12, 2017 6:42:10 PM
Attachments: [Action Items_Oct12.docx](#)

Hi everyone,

Attached are the action items from today's meeting.

Thanks,
Martin

From: Schlaepfer, Martin (ENERGY)
Sent: October 11, 2017 8:24 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Chander, Sunita (ENERGY) <Sunita.Chander@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; 'jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com) <jeffrey.lyash@opg.com>; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)' <ken.hartwick@opg.com>; 'Kim Marshall (Kim.Marshall@ieso.ca)' <Kim.Marshall@ieso.ca>; Thompson, Scott (MOF) <Scott.Thompson@ontario.ca>; Angus, Helen (TBS) <Helen.Angus@ontario.ca>; Davidson, Steven (CAB) <Steven.Davidson@ontario.ca>; 'CROZZOLI Carlo -CBUSDEV&STRT' <carlo.crozzoli@opg.com>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; 'LEE John -TREASURY' <john.s.lee@opg.com>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Michael Boll <Michael.Boll@ieso.ca>
Cc: Imbrogno, Serge (ENERGY) <Serge.Imbrogno@ontario.ca>; Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Whittington, Matt (ENERGY) <Matt.Whittington@ontario.ca>; Baker, Carys (ENERGY) <Carys.Baker@ontario.ca>; MacIntyre, Kyle (TBS) <Kyle.MacIntyre@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>; Foster, Robert (CAB) <Robert.Foster@ontario.ca>; 'jordan.penic@ieso.ca' <jordan.penic@ieso.ca>; 'Turnevicius, Lorraine' <lorraine.turnevicius@ieso.ca>; 'catriona.king@opg.com' <catriona.king@opg.com>; Bungaro-Yemec, Francesca (ENERGY) <Francesca.Bungaro-Yemec@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; David Barrett <david.barrett@ieso.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: Rate Mitigation Implementation Meeting - October 12, 2017

Hi everyone,

Please find attached the material for discussion tomorrow.

Thanks,
Martin

Action Items_Oct12_1_1.pdf

Action Items

October 12, 2017

1) GA Refinancing

- o General Business Update (OPG / IESO / IGS)
 - OPG started rating agency process last week with DBRS and Moody's
 - OPG/IESO continue to work through commercial agreement
- o Provincial Protection and Assurances Agreement (OFA/OPG)
 - OFA/OPG continue to refine agreement – quantum/term etc.
- o Fees and Interest Payments (ENERGY)
 - Interest payments during moratorium can be dealt with through variance account and minor amendments to the General Reg for LRC on the 16th
 - Consolidation analysis to be shared with TBS
 - Fees reg would include 7.5 basis points for the base fee for 2017/2018 and OEB would do a review of comparables for future years. Internal OPG costs will become a pass through.
 - CO to explore direct to Cabinet on 18th
- o Letter of Credit (ENERGY / IESO / OPG)
 - Ministry will work on GA regulatory amendment for LRC on Oct 16 to allow these cost to be recovered
 - CO to explore direct to Cabinet on 18th
 - Ministry/OPG/IESO/OFA to determine primacy of payment between Crown, Generators Underwriters during four year moratorium – (could require regulatory amendment)

2) Other OFHP Initiatives

- o RRRP, OESP and FN (SNAP)
 - Need to go to LRC to proclaim section to allow it to move to tax base (tentatively Dec 7 LRC)
 - CRA has accepted online sign up
 - FNDC update from Hydro One on Oct 2 went well
- o Affordability Fund (CRED)
 - Plan is to announce Fund on Oct 24 in Hamilton
 - Soft launch is planned for today (1-800 number and microsite)

RE_ Rate Mitigation Implementation Meeting Mate...(1).pdf

From: [Schlaepfer, Martin \(ENERGY\)](#)
To: [Sermat-Harding, Kaili \(ENERGY\)](#)
Cc: [Pagel, Alexa \(ENERGY\)](#); [Edwards, Matthew \(ENERGY\)](#)
Subject: RE: Rate Mitigation Implementation Meeting Materials
Date: September 20, 2017 2:33:00 PM

Hi Kaili,

Sorry for the delay in responding. Let us follow up with the MO and get back to you with any additional details.

Thanks,
Martin

From: Sermat-Harding, Kaili (ENERGY)
Sent: September 20, 2017 12:31 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Pagel, Alexa (ENERGY) <Alexa.Pagel@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Hi Martin,

As I mentioned below, there is another Trustees' call tomorrow. Are there any updates that I can share with the group regarding the potential announcement at that time?

Thanks,

Kaili

From: Sermat-Harding, Kaili (ENERGY)
Sent: September-15-17 4:02 PM
To: Schlaepfer, Martin (ENERGY)
Cc: Pagel, Alexa (ENERGY); Edwards, Matthew (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Hi Martin,

Further to discussion with the Trustees earlier today, I can confirm that an announcement by the Minister on October 5th could include/highlight what I outlined below.

The Trustees are pleased at the prospect of the Minister making an announcement and were keen to know more details, e.g. is it an event/announcement that focusses on the Affordability Fund, or is the announcement about the Fund part of a broader event, etc. I advised that I had no details to share at this time, and that I had been asked at this stage to advise on feasibility of an announcement regarding the Fund in

the week of October 2nd.

If you have any questions, please let me know. And, if you are able to learn more about what the MO may be planning, I'd appreciate if you could let me know. The Trustees are scheduled to have another call on September 21st so I anticipate that they will be looking for an update from me at that time.

Kaili

From: Sermat-Harding, Kaili (ENERGY)
Sent: September-13-17 3:30 PM
To: Schlaepfer, Martin (ENERGY)
Cc: Pagel, Alexa (ENERGY); Edwards, Matthew (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

I've now had an opportunity to receive some preliminary feedback from the Co-chair about what could be announced on October 5th.

By October 5th, it is expected that there will be a microsite and 1-800 number (with call centre support) available to provide information and answer questions. Also by that time, LDCs should be well informed of final program design and should also be, over the course of October, able to start applying for initial funding to help get them started with marketing and outreach. These actions would essentially represent a soft launch.

Content for a Minister's announcement could include the above as well as messages to emphasize that LDCs, working with partners in the community sector, are well positioned to deliver the Affordability Fund program to their customers, and to strongly encourage LDCs to get involved and participate in delivering the program in order to help customers in need.

Note that the Trustees will be meeting again on September 15th; the meeting will include further discussion on program roll out. I will follow up to confirm the above and provide any additional details following the meeting.

Let me know if you have any questions.

Kaili

From: Schlaepfer, Martin (ENERGY)
Sent: September-11-17 12:36 PM
To: Sermat-Harding, Kaili (ENERGY); Armstrong, Hillary (ENERGY)
Cc: Pagel, Alexa (ENERGY); Edwards, Matthew (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Ok, thanks Kaili.

Martin

From: Sermat-Harding, Kaili (ENERGY)
Sent: September 11, 2017 11:53 AM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>; Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Cc: Pagel, Alexa (ENERGY) <Alexa.Pagel@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

I will follow up with the trustees (chair/co-chair) and administrator to ascertain what would be feasible/possible for that week.

From: Schlaepfer, Martin (ENERGY)
Sent: September-11-17 11:27 AM
To: Sermat-Harding, Kaili (ENERGY); Armstrong, Hillary (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Hi Kaili,

At this morning's meeting Andrew suggested that he wanted to aim for an announcement for the Minister for the week of Oct 5th while he is in Ottawa.

How feasible do you think that would be?

Thanks,
Martin

From: Sermat-Harding, Kaili (ENERGY)
Sent: September 11, 2017 8:13 AM
To: Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Good morning,

I won't be at this morning's meeting (attending, on DM's behalf, the meeting with OREA and Secretary of Cabinet).

Regarding the Affordability Fund, the trustees had a lengthy meeting on September 7th and, working with Hydro One as administrator, continue to develop program details, including marketing and outreach approaches.

Kaili

From: Armstrong, Hillary (ENERGY)
Sent: September-08-17 7:48 PM

To: Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Nelms, Scott (MOF); Calwell, Carolyn (ENERGY); Thouin, Alena (ENERGY)
Cc: Cox, Hilary (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Schlaepfer, Martin (ENERGY)
Subject: Rate Mitigation Implementation Meeting Materials

Hi there,

Attached are the materials for Monday's Rate Mitigation Implementation meeting.

Thanks,
Hillary

RE_ Rate Mitigation Implementation Meeting Mate....pdf

From: [Syed, Usman \(ENERGY\)](#)
To: [Schwab-Pflug, Emma \(ENERGY\)](#)
Cc: [Qureshi, Musab \(ENERGY\)](#); [Di Tullio, Yvonne \(ENERGY\)](#)
Subject: RE: Rate Mitigation Implementation Meeting Materials
Date: September 27, 2017 10:05:00 AM

Thanks, I think we should add that we are planning to amend the TPA to ensure use of Ontario logo so that DM is aware that we will be looking for his signature soon...

- Usman

From: Schwab-Pflug, Emma (ENERGY)
Sent: September 27, 2017 9:54 AM
To: Syed, Usman (ENERGY)
Cc: Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Usman, please see attached and below. We considered adding use of the logo, but thought we would wait for the BN to go up first. Can add if preferred. Thanks, Emma

From: Qureshi, Musab (ENERGY)
Sent: September-27-17 9:50 AM
To: Schwab-Pflug, Emma (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Emma,

See attached for Afund updates to the OFHP matrix. Nothing for us in the Outstanding Business Issues note

Musab

From: Schwab-Pflug, Emma (ENERGY)
Sent: September-26-17 5:34 PM
To: Qureshi, Musab (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Musab, could you take a quick look tomorrow morning for any updates? I don't think we need to mention use of the logo yet, we'll send up the BN on this first.

Thanks,
Emma

From: Edwards, Matthew (ENERGY)
Sent: September-26-17 3:52 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Do we have any updates to the A-Fund content?

From: Cox, Hilary (ENERGY)

Sent: September 26, 2017 3:44 PM

To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>

Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –

Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

RE_ Recent Correspondence with the Auditor General.pdf

From: [Jordan Penic](#)
To: [Schlaepfer, Martin \(ENERGY\)](#)
Cc: [David Barrett](#); [Nucciarone, Michael \(ENERGY\)](#); [Armstrong, Hillary \(ENERGY\)](#); [Whytock, John \(ENERGY\)](#)
Subject: RE: Recent Correspondence with the Auditor General
Date: March 21, 2018 4:55:34 PM

Hi Martin,

Yes we will. We only received that report last night ourselves, so we're developing responses accordingly. In the meantime, we've developed some holding messages in regards to the AGs comments today in committee. See below.

Cheers,

Jordan

The AG claims the IESO was uncooperative with the OAGO's attest audit. The IESO refuses to sign the AG's management representation letters and audit planning report and have not provided written responses to the standard fraud questions.

Response:

Audit cooperation

- The IESO has made every effort to be forthright and fully responsive to the OAGO's requests for information.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO and cooperated fully with the OAGO in the completion of the special audit undertaken.
- In recognition of the OAGO's work, the IESO instructed its auditor, KPMG to deliver their audit report to the AG and make available their working papers in respect of the AG's audit. The IESO also provided copies of any materials provided to KPMG in respect of their audit and offered OAGO staff free access to all books, accounts, financial records, reports, files and all other papers, things or property belonging to or used by the IESO – including a copy of the management representation letter provided to KPMG.

- The IESO likewise instructed its audit partner to cooperate and share relevant information with the OAGO's staff
- The IESO cooperated 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.
- Throughout the OAGO's audit:
 - o Accommodations were made to extend the duration of OAGO staff on IESO premises from the initial two weeks requested, to seven weeks.
 - o During this time, the IESO received and responded to over 200 information requests from OAGO staff.
 - o IESO accommodated every meeting request; about 40 meetings took place between IESO and OAGO staff.
 - o We accommodated the AG's requests to meet with our Board and Audit Committee.
 - o Throughout their audit, OAGO staff were located on IESO premises and had direct access to IESO staff.

Management representation letter and audit planning report

- Referring the Auditor General's Act, it says that [IESO] has to provide the AG with the requested information – which we have – it does not compel IESO to provide or accept a management representation letter and/or planning report.
- As communicated to the AG, at the time of her request, the IESO had already retained KPMG as its auditor – and therefore declined to sign a second management representation letter.
- As the IESO did not formally engage the AG to conduct its audit for the year-ending December 2017, therefore, our Board was not in a position to sign the AG's audit planning report.

Note: One key component of planning report is that the IESO agrees to rectify any identified audit concerns; which will not be true for the regulatory issue as it concerns AG.

Standard fraud questions

- Fraud questions were responded to verbally on February 2, 2018 by the IESO's Board Audit Committee Chair.

From: Schlaepfer, Martin (ENERGY) [mailto:Martin.Schlaepfer@ontario.ca]
Sent: March 21, 2018 3:24 PM
To: Jordan Penic
Cc: David Barrett; Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY); Whytock, John (ENERGY)
Subject: RE: Recent Correspondence with the Auditor General

Hi Jordan,

Can you please share your KMs/Qs&As on the status report that was tabled at SCOPA this morning by the AG when you have them ready?

Thanks,
Martin

From: Schlaepfer, Martin (ENERGY)
Sent: March 21, 2018 12:50 PM
To: 'Jordan Penic' <jordan.penic@ieso.ca>
Cc: David Barrett <david.barrett@ieso.ca>; Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Subject: RE: Recent Correspondence with the Auditor General

Thanks, Jordan. Attached is the transcript from today's committee meeting. We should stay connected on the proposed approach for responding.

From: Jordan Penic [mailto:jordan.penic@ieso.ca]
Sent: March 21, 2018 12:48 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: David Barrett <david.barrett@ieso.ca>
Subject: RE: Recent Correspondence with the Auditor General

Martin,

As a follow on to the email below, please find attached the most recent set of correspondence with the AG. I understand some recent comments came up at committee today, and refer to some of the information found in these letters.

I would note that the attachment in the most recent email from the AG (yesterday evening) includes the latest draft of her audit report. We are preparing our response.

Please let me know if you'd like to discuss.

Regards,

Jordan

Jordan Penic | Senior Manager, Communications & Government Affairs

Independent Electricity System Operator (IESO) | T: (416) 506-2815

120 Adelaide Street West, Suite 1600, Toronto, ON M5H 1T1

Web: www.ieso.ca | Twitter: [IESO_Tweets](#) | LinkedIn: [IESO](#)

Conservation: www.saveONenergy.ca | Twitter: [saveONenergyOnt](#) | LinkedIn: [saveONenergy](#)

From: Jordan Penic
Sent: February 07, 2018 5:07 PM
To: 'martin.schlaepfer@ontario.ca'
Cc: David Barrett
Subject: Recent Correspondence with the Auditor General

Martin,

I understand that Peter mentioned the recent exchange to the DM at the conference last week.

See attached for recent correspondence. Timeline below. I've excluded the AG's letter from February 2 that outlines the materials for today's AC call.

- January 23, 2018: T. O'Neill to AG
- February 1, 2018: T. O'Neill to AG
- February 1, 2018: AG to K. Marshall (letter + signed audit planning report)
- February 2, 2018: Letter that outlines the materials for February 8 Audit Committee call
- February 3, 2018: T. O'Neill to AG
- February 7, 2018: AG to K. Marshall

Regards,

Jordan

Jordan Penic | Senior Manager, Communications & Government Affairs

Independent Electricity System Operator (IESO) | T: (416) 506-2815

120 Adelaide Street West, Suite 1600, Toronto, ON M5H 1T1

Web: www.ieso.ca | Twitter: [IESO_Tweets](#) | LinkedIn: [IESO](#)

Conservation: www.saveONenergy.ca | Twitter: [saveONenergyOnt](#) | LinkedIn: [saveONenergy](#)

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RE_ TBD media inquiry - Re_ SCOPA & FHP.pdf

From: [Lightbody, Ava \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#)
Cc: [Cayley, Daniel \(ENERGY\)](#)
Subject: RE: TBD media inquiry - Re: SCOPA & FHP
Date: March 5, 2018 3:28:45 PM

Hi Tim,

Some suggested edits, although these are a bit finicky so not sure whether we want to put them forward.

Question: "Who were the senior decision-makers at Treasury Board responsible for the accounting/financial structure with the Fair Hydro Plan? And what were their roles in establishing the accounting/financial structure?"

Response: The Treasury Board Secretariat (TBS) was not responsible for developing the financial structure for the ~~Ontario's~~ Fair Hydro Plan (OFHP). Senior TBS officials and their staff worked with officials from the Ministries of Finance and Energy, Ontario Power Generation, Independent Electricity System Operator and Ontario Financing Authority, as well as their external advisors, to understand the structure of ~~the Ontario Fair Hydro Plan (the "OFHP")~~ proposed by the Ministry of Energy and assess the accounting treatment of the OFHP in the consolidated financial statements of the Province. The consolidated financial statements of the Province are prepared in accordance with Public Sector Accounting Standards.

In developing Ontario's Fair Hydro Plan, 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. The OFHP operates under a financial and accounting framework that is appropriate for the intended purpose.

In order to meet the needs ~~s of users, including the legislature and the public,~~ for accountability in government reporting and decision making, ~~for the legislature and the public,~~ it is essential that public sector financial statements reflect the economic substance of the government's activities, and the accounting is in accordance with Public Sector Accounting Standards.

From: Christie, Tim (ENERGY)
Sent: March-05-18 3:17 PM
To: Lightbody, Ava (ENERGY)
Cc: Cayley, Daniel (ENERGY)
Subject: FW: TBD media inquiry - Re: SCOPA & FHP
Importance: High

Ava please take a quick look.

From: Cox, Hilary (ENERGY)

Sent: March-05-18 3:08 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Cc: Thiru, Dhil (ENERGY)
Subject: FW: TBD media inquiry - Re: SCOPA & FHP
Importance: High

Hi Guys –

Apologies if you've already received this from Dhil. Please fact check the TBS response to the Globe and Mail question below.

TBS is hoping to get this back ASAP.

HC

From: Demetriades, Natasha (ENERGY)
Sent: March 5, 2018 3:01 PM
To: Ridd, Carl (ENERGY); Thiru, Dhil (ENERGY)
Cc: Yordi, Samer (ENERGY); Cox, Hilary (ENERGY)
Subject: TBD media inquiry - Re: SCOPA & FHP
Importance: High

Hi Carl, Dhil:

Can staff please flag any concerns with the highlighted response below?

TBS will be using this as a response to a Globe and Mail inquiry.

Hoping you can get back to us as soon as possible.

With thanks,
Natasha

From: Tharani, Alisha (TBS)
Sent: March-02-18 3:18 PM
To: Shewaramani, Deepika (MOF); Demetriades, Natasha (ENERGY)
Cc: @TBS-L-Issues and Media; @FIN-L-O-CSB-ISSUES
Subject: RE: Media Inquiry - Re: SCOPA & FHP

Hi Natasha & Deepika,

Please see below for TBS's proposed response to the reporter.

If you could please let us know if this is ok with your ministry or advise of any issues/concerns ASAP, it would be very much appreciated.

Thanks,

Question: *"Who were the senior decision-makers at Treasury Board responsible for the accounting/financial structure with the Fair Hydro Plan? And what were their roles in establishing the accounting/financial structure?"*

Response: The Treasury Board Secretariat (TBS) was not responsible for developing the financial structure for the Fair Hydro Plan. Senior TBS officials and their staff worked with officials from the Ministries of Finance and Energy, Ontario Power Generation, Independent Electricity System Operator and Ontario Financing Authority, as well as their external advisors, to understand the structure of the Ontario Fair Hydro Plan (the "OFHP") proposed by the Ministry of Energy and assess the accounting treatment of the OFHP in the consolidated financial statements of the Province. The consolidated financial statements of the Province are prepared in accordance with Public Sector Accounting Standards.

In developing Ontario's Fair Hydro Plan, 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. The OFHP operates under a financial and accounting framework that is appropriate for the intended purpose.

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities, and the accounting is in accordance with Public Sector Accounting Standards.

From: Tharani, Alisha (TBS)

Sent: March-01-18 4:03 PM

To: @FIN-L-O-CSB-ISSUES; @ENERGY-COMM-Issues_and_MediaRelations

Cc: @TBS-L-Issues and Media

Subject: Media Inquiry - Re: SCOPA & FHP

Hi Finance & Energy colleagues,

Following yesterday afternoon's SCOPA meeting, we have received a few questions from a reporter, Matthew MacClearn, at the Globe & Mail:

Part 1: *"Who were the senior decision-makers at Treasury Board responsible for the accounting/financial structure with the Fair Hydro Plan? And what were their roles in establishing the accounting/financial structure?"*

Part 2: *"The Hansard of the proceedings of the Standing Committee on Estimates on Oct. 24, 2017 indicates Ms. Sophie Kiwala said the following:*

Our plan has been approved by the peers of the Auditor General at some of Canada's top accounting firms, including Ernst and Young, KPMG and Deloitte. In the development of the fair hydro plan, we also consulted with numerous third-party advisers in the application of accounting standards. IESO's management, IESO's audit committee, IESO's board of directors, IESO's external auditor and the Office of the Provincial Controller all support this accounting treatment.

(Emphasis added.)

Who at the Office of the Provincial Controller signed off on the financial/accounting structure of the Fair Hydro Plan? What form did that approval take?"

Have either of your offices received any questions from this reporter? If you could keep us updated, that would be very much appreciated.

Thanks,

Alisha

Alisha Tharani

Senior Corporate Issues Management Analyst | Treasury Board Secretariat

416-327-3803 | Alisha.Tharani@ontario.ca

RMI Action Items.pdf

From: [Schlaepfer, Martin \(ENERGY\)](#)
To: [Imbrogno, Serge \(ENERGY\)](#)
Subject: RMI Action Items
Date: November 23, 2017 7:20:00 PM
Attachments: [Action Items_Nov 23_Final.docx](#)

Hi Deputy,

Now that I have shared OPG's financing plan let me know if you are comfortable with distributing today's action items to the broader group.

Thanks,
Martin

Martin Schlaepfer

Director of Operations
Deputy Minister's Office
Ministry of Energy
T: 416-326-7688
M: 647-980-4634
E: martin.schlaepfer@ontario.ca

Action Items_Nov 23_Final_1.pdf

Action Items

November 23, 2017

1) GA Refinancing

- o General Business Update (OPG / IESO / ENERGY)
 - OPG to provide shareholder resolution for Minister of Energy's signature with respect to the OPG Equity Injection
 - OPG to share with ENERGY the debt loan agreement with respect to the Subordinated Debt
 - IESO to provide an update to its Board on November 29th. Note: IESO Board approved delegation of approval for OPG / IESO Commercial Agreements, which are expected to be finalized by end of next week (i.e., week of November 27th).
 - MOF to draft comfort letter and possible regulation (either LGIC or Minister's Reg) with respect to PILs Exemption
- o Provincial Support Agreement (OFA / OPG / ENERGY)
 - Ongoing work to finalize agreement wording between legal counsels
 - Briefing of Ministers' of Finance, Energy and President of TB – next week or early the following week. Note: MO will aim for November 30th or December 4th. Briefing would also provide an update from OPG on its approach to engaging the market
 - OPG to determine with legal counsel who would need to sign the agreement on behalf of the OPG /Trust. Note: Ministers' of Finance and Energy would sign on behalf of the province
- o OPG's Financing Plan / Market Activities (OPG)
 - OPG Chair to send a letter to Minister of Energy with respect to OPG's proposed Financing Plan. Note: ENERGY had provided preliminary feedback
 - With respect to market engagement, OPG is considering two options:
 - 1) Approach the market in early December. Note: Work would need to be finalized before December 15th; or
 - 2) Warehouse the funds on a revolving line of credit in December then go to market in New Year – possibly 2nd week of January. Following feedback from the rating agencies a decision on which option to proceed with can be made. Note: The matter will be raised at the joint Ministers' briefing next week

2) Technical Briefing (All)

- o Technical Briefing in December will be determined based on whether or not OPG goes to market in December (per the points raised above)

- o Technical Briefing presentation needs to be put in plain language and needs to be higher level, including a few context slides up front
- o Overall, the objective of the presentation is to providing a conclusion to the process (i.e., bookending the process)

3) Other OFHP Initiatives

- o RRRP, OESP and FN (SNAP)
- o Affordability Fund (CRED)

Rate Mitigation Implementation Meeting - Decemb....pdf

From: [Schlaepfer, Martin \(ENERGY\)](#)
To: [Hume, Steen \(ENERGY\)](#); [Sermat-Harding, Kaili \(ENERGY\)](#); [Calwell, Carolyn \(ENERGY\)](#); [""jeffrey.lyash@opg.com" \(jeffrey.lyash@opg.com\)";](#) ["HARTWICK Ken -FINANCE \(ken.hartwick@opg.com\)";](#) ["Kim Marshall \(Kim.Marshall@ieso.ca\)";](#) [Thompson, Scott \(MOF\)](#); [Angus, Helen \(TBS\)](#); [Davidson, Steven \(CAB\)](#); ["CROZZOLI Carlo -CBUSDEV&STRT";](#) [Mayman, Gadi \(OFA\)](#); ["LEE John -TREASURY";](#) [Hughes, Karen \(TBS\)](#); [Veinot, Cindy \(TBS\)](#); [Michael Boll](#); ["peter.gregg@ieso.ca";](#) ["ROWE Jennifer -CORPAFFAIRS"](#)
Cc: [Imbrogno, Serge \(ENERGY\)](#); [Teliszewsky, Andrew \(ENERGY\)](#); [Whittington, Matt \(ENERGY\)](#); [Baker, Carys \(ENERGY\)](#); [McLean, David \(MOF\)](#); [Foster, Robert \(CAB\)](#); ["jordan.penic@ieso.ca";](#) ["catriona.king@opg.com";](#) [Bungaro-Yemec, Francesca \(ENERGY\)](#); [Yordi, Samer \(ENERGY\)](#); [Cox, Hilary \(ENERGY\)](#); [Edwards, Matthew \(ENERGY\)](#); [Laughton, Patrick \(TBS\)](#); [David Barrett](#); [HAHN PARKER Janet -TREASURY](#); [Christie, Tim \(ENERGY\)](#); [Thouin, Alena \(ENERGY\)](#); [Murray, Maud \(ENERGY/MEDG/MRIS/MOI\)](#)
Subject: Rate Mitigation Implementation Meeting - December 7, 2017
Date: December 6, 2017 5:27:24 PM
Attachments: [Agenda Weekly Rate Mitig Implmentation Group Dec 7.docx](#)
[2017 OFHP Matrix and Outstanding Business Issues - Week of Dec 4 - EPE docx](#)

Hi everyone,

Please find attached the material for discussion tomorrow.

Thanks,
Martin

Agenda_Weekly Rate Mitig Implmentation Group_.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP

December 7, 2017

Agenda

- 1) GA Refinancing
 - o Provincial Support Agreements (OFA / OPG / ENERGY)
 - o General Business Update (OPG / IESO / ENERGY)
- 2) OPG's Market Activities – Rollout (All)
- 3) Other OFHP Initiatives
 - o RRRP, OESP and FN (SNAP)
 - o Affordability Fund (CRED)

Notes:

2017 OFHP Matrix and Outstanding Business Iss_4.pdf

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

Rate Mitigation Materials.pdf

From: [Schlaepfer, Martin \(ENERGY\)](#)
To: [Teliszewsky, Andrew \(ENERGY\)](#)
Cc: [Imbrogno, Serge \(ENERGY\)](#); [Whittington, Matt \(ENERGY\)](#); [Baker, Carys \(ENERGY\)](#)
Subject: Rate Mitigation Materials
Date: December 6, 2017 5:27:07 PM
Attachments: [Agenda Weekly Rate Mitig Implementation Group Dec 7.docx](#)
[2017 OFHP Matrix and Outstanding Business Issues - Week of Dec 4 - EPE docx](#)

Hi Andrew,

Attached are the materials for tomorrow morning's meeting.

Thanks,
Martin

Martin Schlaepfer
Director of Operations
Deputy Minister's Office
Ministry of Energy
T: 416-326-7688
M: 647-980-4634
E: martin.schlaepfer@ontario.ca

Agenda_Weekly Rate Mitig Implmentation Group__1.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP

December 7, 2017

Agenda

- 1) GA Refinancing
 - o Provincial Support Agreements (OFA / OPG / ENERGY)
 - o General Business Update (OPG / IESO / ENERGY)
- 2) OPG's Market Activities – Rollout (All)
- 3) Other OFHP Initiatives
 - o RRRP, OESP and FN (SNAP)
 - o Affordability Fund (CRED)

Notes:

2017 OFHP Matrix and Outstanding Business Iss_5.pdf

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)
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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
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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
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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-

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ENERGY, LSB, OEB and IESO	<u>Recent Actions Items</u> Work with agencies ongoing	Continue this work as part of 2017 LTEP implementation

Rate Mitigation Meeting Materials.pdf

From: [Hume, Steen \(ENERGY\)](#)
To: [Schlaepfer, Martin \(ENERGY\)](#)
Cc: [Cox, Hilary \(ENERGY\)](#)
Subject: Rate Mitigation Meeting Materials
Date: December 6, 2017 5:19:49 PM
Attachments: [2017 OFHP Matrix and Outstanding Business Issues - Week of Dec 4 - EPE docx](#)
[Agenda_Weekly Rate Mitig Implimentation Group_Dec 7.docx](#)

Hi Martin. Attached is the agenda and updated OFHP tracking documents for tomorrow's rate mitigation meeting.

Still waiting for "OPG's Market Activities – Rollout" note (agenda item #2). When I spoke to OPG this morning, Jen R thought she'd get me something by end of day. However, nothing has come in yet. So, it'll likely be a walk in.

If you have any questions, give me a call.

Steen

2017 OFHP Matrix and Outstanding Business Iss_6.pdf

Implementation of Ontario's Fair Hydro Plan

Week of December 4, 2017

Global Adjustment (GA) Refinancing – Business Issues / Implementation

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

Item	Key Deliverables / Considerations	Timing / Next Steps
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Item	Key Deliverables / Considerations	Timing / Next Steps
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ENERGY, LSB, OEB and IESO	<u>Recent Actions Items</u> Work with agencies ongoing	Continue this work as part of 2017 LTEP implementation

Agenda_Weekly Rate Mitig Implmentation Group__2.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP

December 7, 2017

Agenda

- 1) GA Refinancing
 - o Provincial Support Agreements (OFA / OPG / ENERGY)
 - o General Business Update (OPG / IESO / ENERGY)
- 2) OPG's Market Activities – Rollout (All)
- 3) Other OFHP Initiatives
 - o RRRP, OESP and FN (SNAP)
 - o Affordability Fund (CRED)

Notes:

Re_ If Pressed ...(1).pdf

From: [Christie, Tim \(ENERGY\)](#)
To: [Hume, Steen \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Cc: [Cox, Hilary \(ENERGY\)](#)
Subject: Re: If Pressed ...
Date: October 16, 2017 1:14:26 PM

Yes, that works.

From: Hume, Steen (ENERGY) <steen.hume@ontario.ca>
Sent: Monday, October 16, 2017 1:13 PM
Subject: If Pressed ...
To: Christie, Tim (ENERGY) <tim.christie@ontario.ca>, Cayley, Daniel (ENERGY) <daniel.cayley@ontario.ca>
Cc: Cox, Hilary (ENERGY) <hilary.cox@ontario.ca>

Hi. DM wanted an if pressed answer re the detailed #s of the revised peak debt numbers.

Below is what I propose we use. Does this work?

Thanks, Steen

+++++

If pressed on the details of the revised peak debt numbers:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion ^[1] to less than \$18.5 billion ^[2]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Re_ If Pressed pdf

From: [Hume, Steen \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#)
Cc: [Cox, Hilary \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Subject: Re: If Pressed ...
Date: October 16, 2017 2:04:40 PM

Good catch. Makes sense. Thank you.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Christie, Tim (ENERGY)
Sent: Monday, October 16, 2017 1:16 PM
To: Hume, Steen (ENERGY); Cayley, Daniel (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: Re: If Pressed ...

Sorry, small edits

Peak debt for OFHP has been revised down substantially from March 2017, from \$27.7 billion[1] to \$18.5 billion[2]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

From: Christie, Tim (ENERGY) <tim.christie@ontario.ca>
Sent: Monday, October 16, 2017 1:14 PM
Subject: Re: If Pressed ...
To: Hume, Steen (ENERGY) <steen.hume@ontario.ca>, Cayley, Daniel (ENERGY) <daniel.cayley@ontario.ca>
Cc: Cox, Hilary (ENERGY) <hilary.cox@ontario.ca>

Yes, that works.

From: Hume, Steen (ENERGY) <steen.hume@ontario.ca>
Sent: Monday, October 16, 2017 1:13 PM
Subject: If Pressed ...
To: Christie, Tim (ENERGY) <tim.christie@ontario.ca>, Cayley, Daniel (ENERGY) <daniel.cayley@ontario.ca>
Cc: Cox, Hilary (ENERGY) <hilary.cox@ontario.ca>

Hi. DM wanted an if pressed answer re the detailed #s of the revised peak debt numbers.

Below is what I propose we use. Does this work?

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+++++

If pressed on the details of the revised peak debt numbers:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion^[1] to less than \$18.5 billion^[2]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Re_ RUSH - Auditor General 2017 Annual Report -....pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Subject: Re: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)
Date: February 28, 2018 11:01:26 AM

Hi -

Steen will need these in the next 5 minutes.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY)
Sent: Wednesday, February 28, 2018 10:18 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Tim and Daniel -

As below, please add a QA on the changes to ICI when OFHP was introduced and add the basis point spread to the interest rate QA. As soon as possible please since it's another piece for this afternoon.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Sent: Wednesday, February 28, 2018 10:12 AM
To: Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Hilary,

The Deputy has asked if a QA on ICI could be added that details the changes to the ICI program that occurred when the OFHP was implemented.
Also, regarding the interest rate question comparing the Ministry of Energy's Fair Allocation Amount (FAA) assumption against the 3.357% rate secured, can the basis point spread be added to the answer.

Thanks,
Mike

Re_ RUSH REVIEW - Backgrounder - Summary of Gov..._1.pdf

From: [Cox, Hilary \(ENERGY\)](#)
To: [Christie, Tim \(ENERGY\)](#); [Cayley, Daniel \(ENERGY\)](#)
Cc: [Thiru, Dhil \(ENERGY\)](#); [Lightbody, Ava \(ENERGY\)](#); [Ho, Larissa \(ENERGY\)](#)
Subject: Re: RUSH REVIEW - Backgrounder - Summary of Government Response, AG Annual Report Ch 2 - Public Accounts
Date: December 5, 2017 3:30:29 PM

Thx

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Christie, Tim (ENERGY)
Sent: Tuesday, December 5, 2017 3:23 PM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc: Thiru, Dhil (ENERGY); Lightbody, Ava (ENERGY); Ho, Larissa (ENERGY)
Subject: RE: RUSH REVIEW - Backgrounder - Summary of Government Response, AG Annual Report Ch 2 - Public Accounts

One very minor edit.

From: Cox, Hilary (ENERGY)
Sent: December-05-17 3:04 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Cc: Thiru, Dhil (ENERGY)
Subject: Fw: RUSH REVIEW - Backgrounder - Summary of Government Response, AG Annual Report Ch 2 - Public Accounts
Importance: High

Hey Guys -

Need this fact checked super rush urgent.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hendy, Adam (ENERGY) <Adam.Hendy@ontario.ca>
Sent: Tuesday, December 5, 2017 3:02 PM
To: Thiru, Dhil (ENERGY); Ridd, Carl (ENERGY)
Cc: Cox, Hilary (ENERGY); @ENERGY-COMM-Issues_and_MediaRelations; Berg, Denna (ENERGY); Lyon, Sam (ENERGY); Yordi, Samer (ENERGY)
Subject: FW: RUSH REVIEW - Backgrounder - Summary of Government Response, AG Annual Report Ch 2 - Public Accounts

Hi Dhil and Carl,

TBS has been asked to prepare a backgrounder providing a summary of the government's response to the Auditor General's 2017 Annual Report chapter on Public Accounts. They drafted the Energy materials of the backgrounder using the fact check, briefing deck, and Minister's remarks from the AG's Special Report on the OFHP.

TBS has not confirmed the full intent and distribution of the backgrounder, though it may be a document handed to the QP gallery tomorrow (rather than posted online).

TBS has asked to have this back by 4:30 today, so can staff please fact-check and have this back to us ASAP?

Thanks,
Adam

From: Tharani, Alisha (TBS)
Sent: December-05-17 2:54 PM
To: @FIN-L-O-CSB-ISSUES; @ENERGY-COMM-Issues_and_MediaRelations
Cc: DiMuzio, Sofie (TBS); Vrancart, Kate (TBS); Sullivan, Bryant (TBS); Miller, Amanda (TBS)
Subject: RUSH REVIEW - Backgrounder - Summary of Government Response, AG Annual Report Ch 2 - Public Accounts
Importance: High

Hi MOF and MOE,

In a new development, we have been asked to prepare a backgrounder providing a summary of the government's response to the Auditor General's 2017 Annual Report chapter on Public Accounts.

See attached for the backgrounder – please note that this is in draft form and has been reviewed by our program area (OPCD and Legal) but **not** DMO and MO at this time.

The backgrounder includes information that has been previously reviewed by MOF/OFA and MOE, but we wanted to ensure we share this document for your review, as it will have a different purpose. The details still need to be landed– we have not confirmed the full intent and distribution of the backgrounder, though it may be a document handed to the QP gallery tomorrow (rather than posted online).

If you could please review the backgrounder, with an understanding of the considerations above, **by 4:30pm today**, it would be very much appreciated, as we work towards CO deadlines.

MOF – if you could please also share this with OFA for their review.

Thanks very much in advance, and please do not hesitate to contact us if you have any questions at all.

Alisha

Alisha Tharani

Corporate Issues Management Analyst | Treasury Board Secretariat
416-327-3803 | Alisha.Tharani@ontario.ca

Re_Rate Mitigation Implementation Meeting - De..._1.pdf

From: [Schlaepfer, Martin \(ENERGY\)](#)
To: [Hume, Steen \(ENERGY\)](#); [Sermat-Harding, Kaili \(ENERGY\)](#); [Calwell, Carolyn \(ENERGY\)](#); [""jeffrey.lyash@opg.com" \(jeffrey.lyash@opg.com\)";](#) ["HARTWICK Ken -FINANCE \(ken.hartwick@opg.com\)";](#) ["Kim Marshall \(Kim.Marshall@ieso.ca\)";](#) [Thompson, Scott \(MOF\)](#); [Angus, Helen \(TBS\)](#); [Davidson, Steven \(CAB\)](#); ["CROZZOLI Carlo -CBUSDEV&STRT";](#) [Mayman, Gadi \(OFA\)](#); ["LEE John -TREASURY";](#) [Hughes, Karen \(TBS\)](#); [Veinot, Cindy \(TBS\)](#); [Michael Boll](#); ["peter.gregg@ieso.ca";](#) ["ROWE Jennifer -CORPAFFAIRS"](#)
Cc: [Imbrogno, Serge \(ENERGY\)](#); [Teliszewsky, Andrew \(ENERGY\)](#); [Whittington, Matt \(ENERGY\)](#); [Baker, Carys \(ENERGY\)](#); [McLean, David \(MOF\)](#); [Foster, Robert \(CAB\)](#); ["jordan.penic@ieso.ca";](#) ["catriona.king@opg.com";](#) [Bungaro-Yemec, Francesca \(ENERGY\)](#); [Yordi, Samer \(ENERGY\)](#); [Cox, Hilary \(ENERGY\)](#); [Edwards, Matthew \(ENERGY\)](#); [Laughton, Patrick \(TBS\)](#); [David Barrett](#); [HAHN PARKER Janet -TREASURY](#); [Christie, Tim \(ENERGY\)](#); [Thouin, Alena \(ENERGY\)](#); [Murray, Maud \(ENERGY/MEDG/MRIS/MOI\)](#)
Subject: Re: Rate Mitigation Implementation Meeting - December 7, 2017
Date: December 6, 2017 8:13:06 PM
Attachments: [Fair Hydro Plan Summary Timeline R3.docx](#)

Hi everyone,

Attached is a timeline from OPG for tomorrow's briefing.

Thanks,
Martin

From: Schlaepfer, Martin (ENERGY)
Sent: Wednesday, December 6, 2017 5:27 PM
To: Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Calwell, Carolyn (ENERGY); [""jeffrey.lyash@opg.com" \(jeffrey.lyash@opg.com\)";](#) ["HARTWICK Ken -FINANCE \(ken.hartwick@opg.com\)";](#) ["Kim Marshall \(Kim.Marshall@ieso.ca\)";](#) Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); ["CROZZOLI Carlo -CBUSDEV&STRT";](#) Mayman, Gadi (OFA); ["LEE John -TREASURY";](#) Hughes, Karen (TBS); Veinot, Cindy (TBS); Michael Boll; ["peter.gregg@ieso.ca";](#) ["ROWE Jennifer -CORPAFFAIRS"](#)
Cc: Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); McLean, David (MOF); Foster, Robert (CAB); ["jordan.penic@ieso.ca";](#) ["catriona.king@opg.com";](#) Bungaro-Yemec, Francesca (ENERGY); Yordi, Samer (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Laughton, Patrick (TBS); David Barrett; HAHN PARKER Janet - TREASURY; Christie, Tim (ENERGY); Thouin, Alena (ENERGY); Murray, Maud (ENERGY/MEDG/MRIS/MOI)
Subject: Rate Mitigation Implementation Meeting - December 7, 2017

Hi everyone,

Please find attached the material for discussion tomorrow.

Thanks,
Martin

Fair Hydro Plan Summary Timeline R3.pdf

Fair Hydro Plan Trust Summary Timeline

Activity	Timing	Confidentiality	Comments
Trust established	Week of Dec. 11	Confidential	Legal documents are filed to establish the trust.
Warehouse credit rating	Week of Dec. 18	Confidential	Credit rating shared with banks to finance debt for FHP Trust to purchase asset from the IESO.
Purchase of asset/warehousing	Week of Dec. 18	Confidential	FHP Trust will issue short-term debt from warehouse and purchase asset from the IESO (\$1.2 Billion).
Announce transaction and provide marketing material	Week of Jan. 22	Publicly Available	This is a key time. Dealers formally announce the FHP Trust plans to issue debt. Documents (i.e. Credit ratings, Offering memo, Investor presentations etc.) will be distributed by email to potential investors.
Marketing Road show	Week of Jan. 29	Publicly Available	Deliver presentations and respond to questions from potential investors.
Deal closes	Week of Feb. 12	Confidential	Warehouse is replaced with long-term debt. Agreements are signed and funds are transferred.
Technical briefing	Within 2-3 days after deal closes (week of Feb. 12 or 19)	Publicly Disclosed	Update the media and stakeholders on the results of the first debt offering.
OPG Issues 2017 financial report	Week of March 5	Publicly Disclosed	The Trust will be reported in OPG's Q4 financial report. OPG issues a press release and financial information is filed with the Ontario Securities Commission.
Second tranche of debt issued and asset purchased from IESO	March 2018	Confidential	Plans are a second public issue will be done prior to the Province's fiscal year end of March 31.

Review_Input Required_ OPG OFHP Tech Briefing Q...(1).pdf

From: [Lem, Stefanie \(ENERGY\)](#)
To: [Lightbody, Ava \(ENERGY\)](#); [Pinheiro, Alex \(ENERGY\)](#)
Cc: [Christie, Tim \(ENERGY\)](#); [Cavley, Daniel \(ENERGY\)](#); [DeSouza, Avril \(ENERGY\)](#)
Subject: Review/Input Required: OPG OFHP Tech Briefing QA & KMs | Due: Tues., Jan. 24 EOD
Date: January 22, 2018 12:28:50 PM
Attachments: [QA - OPG OFHP Debt FinancingTech Briefing - AH - 20180117.docx](#)

Hi Ava and Alex,

(This request is added to the previous request to review the attached: QA - OPG OFHP Debt Financing Tech Briefing)

Adam has asked that you “pull top-line answers from the QAs to generate the Key Messages” and place them before the QAs .

Deadline to Dhil/Me: Tuesday, January 24th EOD

Thanks,
Stef

From: Hendy, Adam (ENERGY)
Sent: January-22-18 11:57 AM
To: Thiru, Dhil (ENERGY); Lem, Stefanie (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Cox, Hilary (ENERGY)
Subject: FW: For Review - OPG OFHP Tech Briefing QA

Hi Stef,

We have been asked to add KMs to the front end of this. Not sure where this is in your approval process; would it be easier for us or ESP staff to add them in?

Let me know, I am more than happy to make the additions if it doesn't complicate things.

Thanks,
Adam

From: Hendy, Adam (ENERGY)
Sent: January-17-18 11:04 AM
To: Thiru, Dhil (ENERGY)
Cc: Cox, Hilary (ENERGY); @ENERGY-COMM-Issues_and_MediaRelations; Berg, Denna (ENERGY); Lyon, Sam (ENERGY)
Subject: For Review - OPG OFHP Tech Briefing QA

Hey Dhil,

Attached for review is a QA we have put together for the Minister's use at the upcoming OPG OFHP Technical Briefing. This is simply a refresh/updated version of the QA we used for the October tech briefing on the OAG's special report on the OFHP.

In the doc you will notice tracked X's as placeholders, these are in place of dollar figures that are

likely to change when we know OPG's interest rate. Please feel free to change any numbers in the doc where appropriate.

Hoping we can get this back by Jan 25 at noon, or whenever the numbers become available to you.

Thanks,

Adam

QA - OPG OFHP Debt FinancingTech Briefing - A_1.pdf

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Jan 17, 2017

Q&As – OFHP Debt Financing

Q. Why did the government introduce the Ontario 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. Since 2003, nearly \$70 billion¹ has been invested in the electricity system, 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 has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers 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.

In developing the policy to refinance the Global Adjustment (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.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

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. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

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.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan 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. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

¹ Ministry of Energy, 2017 Long-Term Energy Plan

² Ministry of Energy, 2017 Long-Term Energy Plan

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With respect to the \$4 billion³ figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20-X billion⁴. The preliminary estimate from March 2017 was about \$28 billion⁵.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7X billion⁶ to \$18.5X billion⁷. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25-X billion⁸ to \$18-X billion⁹.

Q. Have the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? I understand that the Office of the Auditor General (OAG) has asked what are the factors that resulted in the changes in estimates from March 1 to August 31?

With respect to the \$4 billion¹⁰ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt

Commented [HA(1): For Policy: Xs are placeholders on figures that we believe could change when we know the interest rate, if the numbers are unchanged please feel free to reject the tracked changes. Please do not hesitate to change any other numbers as you see fit.

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, submission to Financial Accountability Officer

⁶ Ministry of Energy

⁷ Ministry of Energy

⁸ Ministry of Energy

⁹ Ministry of Energy

¹⁰ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

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over the thirty year life of OFHP will be below ~~\$20-X~~ billion¹¹. The preliminary estimate from March 2017 was about \$28 billion¹².

The revised estimates are the result of the following factors:

- The Independent Electricity System Operator (IESO) updated its long-term cost projections for the electricity system and residential bills;
- The Ontario Energy Board (OEB) provided "actual data" with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
- Based on expert third-party advice the interest rate assumptions for OFHP were updated (i.e., from 5%¹³ down to 4.5%¹⁴).

In addition, for the August 31, 2017 estimate, the Ministry of Energy converted debt and interest amounts from calendar year to Regulated Price Plan (RPP) periods.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion¹⁵ to ~~\$18.5X~~ billion¹⁶. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from ~~\$25-X~~ billion¹⁷ to ~~\$18-X~~ billion¹⁸.

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 is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

¹¹ Ministry of Energy

¹² Ministry of Energy, submission to Financial Accountability Officer

¹³ Ministry of Energy

¹⁴ Navigant Consulting, *Assessment of the Alignment of the Costs and Benefits of Clean Energy Assets*

¹⁵ Ministry of Energy

¹⁶ Ministry of Energy

¹⁷ Ministry of Energy

¹⁸ Ministry of Energy

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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. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Act? Would 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).

OPG currently manages approximately \$20 billion¹⁹ 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 program 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.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors²⁰, 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 billion²¹ and two commercial paper programs.

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

Q. What does this mean for the Financial Accountability Office's (FAO) suggestion from May 2017 that using Ontario Power Generation as the borrowing agent will cost \$4 billion more?

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

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak

¹⁹ Ontario Financing Authority

²⁰ Ontario Power Generation

²¹ Ontario Power Generation

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debt over the thirty year life of OFHP will be below \$~~20~~^X billion²². The preliminary estimate from March 2017 was about \$28 billion²³.

The FAO report itself concludes by saying "the FAO's estimates are subject to many assumptions and uncertainties (...) Fiscal impact may differ significantly from the FAO's estimates."

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion²⁴ to \$~~19.5~~^X billion²⁵. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion²⁶ to \$~~18~~^X billion²⁷.

Q. Do you disagree with the FAO on financial costs?

With respect to the \$4 billion²⁸ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$~~20~~^X billion²⁹. The preliminary estimate from March 2017 was about \$28 billion³⁰.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

²² Ministry of Energy

²³ Ministry of Energy, submission to Financial Accountability Officer

²⁴ Ministry of Energy

²⁵ Ministry of Energy

²⁶ Ministry of Energy

²⁷ Ministry of Energy

²⁸ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

²⁹ Ministry of Energy

³⁰ Ministry of Energy, submission to Financial Accountability Officer

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Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion³¹ to \$18.5X billion³². The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The Ministry estimates of total interest cost also decreased from \$25 billion³³ to \$18-X billion³⁴.

Q. The OAG's report claims that consumers will pay an additional \$4 billion in interest costs over the life of OFHP since OPG and its Financing Entity will pay a higher rate of interest compared to the Province. Why not have the Province borrow for the OFHP?

The policy objective of OFHP 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 – not the tax-base.

We believe 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. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since the early 2000s³⁵.

The \$4 billion³⁶ figure in the Office of the Auditor General's report was sourced from the FAO's May 2017 report and is important to note, that the FAO's calculation was based on preliminary estimates of the program when peak debt estimates for the thirty year program were substantially higher and interest costs were forecast to be higher than current projections.

Q. What is the Global Adjustment (GA)?

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. The 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 accounts for 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 reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's 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 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.

³¹ Ministry of Energy

³² Ministry of Energy

³³ Ministry of Energy

³⁴ Ministry of Energy

³⁵ Ministry of Finance

³⁶ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

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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.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've 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.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to \$5.2 billion³⁷ over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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).

³⁷ Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal* (Brattle Group)

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In development and implementation of Global Adjustment (GA) refinancing, 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.

Document Search

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

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

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

The Ministry does not intend to spend more than \$60,000 on this request. Although the retainer agreement includes a cap of up to \$500,000, as of September 21, 2017, only \$41,775.75 has actually been spent.

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 has 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 has been regularly providing AG batches of responsive documents.

Reasoning for Accounting Approach

Q. How do you respond to the Auditor General's claim that the government ignored warnings regarding a potential adverse audit opinion of Ontario's public accounts?

The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

In regards to rate-regulated accounting, PSAS are silent on the use of regulated accounting:

- PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
- US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference.

Many entities in Canada, including OPG and Hydro One use rate-regulated accounting:

- The OAG can refer to the CPA Canada research study that was shared.
- Rate-regulated accounting is well understood in the electricity sector.

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- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America, including AESO, ISO New England, NYISO, MISO, PJM and ERCOT.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

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TBS's Detailed QAs re Ontario's Fair Hydro Plan

Q. The Auditor General says that the accounting structure for Ontario's Fair Hydro Plan is not transparent, has poor value for money, and is not in accordance with Public Sector Accounting Standards. How do you respond?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The Ministry of Energy would welcome further questions about OFHP and the government's investments in a reliable energy system.

Q. The Auditor General makes two recommendations in her report – to record the true financial impact of Ontario's Fair Hydro Plan; and to use a financing structure that is the least costly for Ontarians. Will you adopt these recommendations?

The government does not agree with the assertions and conclusions expressed in the report.

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In developing OFHP, 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.

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

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below ~~\$20-X~~ billion³⁸. The preliminary estimate from March 2017 was about \$28 billion³⁹.

The Province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

³⁸ Ministry of Energy

³⁹ Ministry of Energy, submission to Financial Accountability Officer

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Q. Both the Auditor General and the Financial Accountability Officer (FAO) have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history.

In developing OFHP, 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.

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

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

Q. The Auditor General says that you are “obfuscating” the true financial impact of Ontario's Fair Hydro Plan through a “needlessly complex” accounting structure. How do you respond?

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. How can you justify the \$4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the Province, instead of the Province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20-X billion⁴⁰. The preliminary estimate from March 2017 was about \$28 billion⁴¹.

Q. The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of 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 CEA.

⁴⁰ Ministry of Energy

⁴¹ Ministry of Energy, submission to Financial Accountability Officer

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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. What will happen if interest rates rise? The Financial Accountability Officer (FAO) estimates that if interest rates were to rise, the true cost of Ontario's Fair Hydro Plan could be between \$69 and \$93 billion. How can you justify shifting this heavy burden onto future generations?

The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs of OFHP, and while total borrowing costs will not be known until the program is complete, accumulated interest is expected to be considerably less than the estimates cited in the May 2017 report of the FAO.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report, and borrowing costs are now forecast to be substantially lower than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$29-X billion⁴². The preliminary estimate from March 2017 was about \$28 billion⁴³.

Government Officials

Q. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

⁴² Ministry of Energy

⁴³ Ministry of Energy, submission to Financial Accountability Officer

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In developing Ontario's Fair Hydro Plan (OFHP), 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.

Multiple options were considered in creating the OFHP framework – such as to have local distribution companies finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution companies to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

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

Audit Opinion

The government just received another qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end. This change was supported by IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the Province's annual deficit, net debt or accumulated deficit.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Q. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The Province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you concerned that the Auditor General will issue an adverse opinion on the Province's Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the Province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministry of Energy, Finance and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and third-party accounting, financing and energy experts to ensure due diligence.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

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The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all independent auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, 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.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?

There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), 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.

The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Independent Electricity System Operator (IESO)

The Auditor General was critical of the Independent Electricity System Operator's accounting changes, which formed part of her basis for a qualified opinion in the 2016-17 Public Accounts. Are these accounting changes inappropriate?

On recognizing market accounts' assets:

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen 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.

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

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General (OAG) at that time.

This change has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

On rate-regulated accounting:

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Rate-regulated Accounting

Q. Why use rate-regulated accounting? What is its benefit?

In certain circumstances, an organization may be required to incur a large expenditure that will be recovered from ratepayers in the future.

For example, damage caused by an ice storm that results in extraordinary costs to restore a disruption of electricity services for customers. Such costs are subject to application and approval for recovery by the regulator over a specific time period.

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What rate-regulated accounting does is it allows organizations to recognize those costs, which can be significant within a year but will generate benefits over time, to be matched over the same period that the amounts are recovered from ratepayers.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

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*"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator **or by its own governing board empowered by statute or contract to establish rates that bind customers**" [ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

Legislated Accounting

Q. The Auditor General says that you are essentially making up your own accounting rules. How are Ontarians supposed to believe things like a "balanced budget" when you keep changing the rules?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

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

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The recording of any asset resulting from transactions of OFHP will be assessed for recognition and measurement based on PSAS, and where appropriate, other accounting guidance where PSAS is silent on the issue.

Q. Why did the IESO change its accounting practices?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in their financial results.

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This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's 2016 annual report, which was published online in March 2017.

The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements.

Additionally this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

This change has no impact to the province's annual deficit, net debt, accumulated deficit or on the ratepayers of Ontario.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. Why did the government not use the Canadian Public Sector Accounting Standards (PSAS)? How was Ontario's Fair Hydro Plan (OFHP) financing structure determined?

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18 as well as in the following years. Presenting its financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS is, however, silent on the recognition, measurement, presentation or 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. In this case, the Independent Electricity System Operator (IESO) consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.

This financing structure is similar to several jurisdictions in the U.S., and uses a form of securitization that is commonly used in the financial markets. It ensures the impact of the plan will be transparent. Under this system, credit rating agencies, securities regulators and the public at large get full information and full reporting of the impacts of the OFHP that are visible and specific.

Q. The Auditor General says that the Province legislated accounting through the Ontario Fair Hydro Plan Act, which is not allowed according to Public Sector Accounting Standards (PSAS). Is this true?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

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As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

The role of the Ontario Energy Board (OEB) and its mandate is provided in legislation. It is not uncommon for government policy, through regulations, to provide the ground rules over which the OEB is to preside.

This is the case with Ontario's Fair Hydro Plan (OFHP) itself, as the Act and the various regulations provide the direction and processes over which the OEB is to exercise oversight, review, and make conclusion on submissions brought forward.

Relationship with the Office of the Auditor General

Q. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

The government is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

If pressed:

The Auditor General was informed throughout the course of this process.

If asked about the Ministry of Energy emails:

The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General. For questions related to the Ministry of Energy, please contact them directly.

Future Governments

Q. The Auditor General says that you are essentially handcuffing future governments with your financing structure. Why should future governments have to pay for your decisions?

By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.

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With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade government policies have supported rebuilding the electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than \$70 billion⁴⁴ has been invested to modernize the system.

The government heard from people across the Province that the price of electricity had risen too quickly, which is why Ontario's Fair Hydro Plan (OFHP) will ensure costs are shared more fairly over the years ahead.

The Ontario electricity sector invested in renewing the provincial electricity system, including many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. 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.

In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and ensures the goals underlying the program are achieved in a cost-effective manner.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

For further questions related to Ontario's Fair Hydro Plan, please contact the Ministry of Energy.

Asset Sales

Q. Will you buy back Hydro One so that it is back under public control?

Maximizing the value of designated assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

⁴⁴ Ministry of Energy, 2017 Long-Term Energy Plan

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The Trillium Trust Act, 2014, provides for the dedication to the Trillium Trust of net revenue gains associated with the sale of designated assets to support investments in transit, transportation and other priority infrastructure across the province.

The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the Ontario Electricity Financial Corporation (OEFC), which manages and pays down the debt and other liabilities of the former Ontario Hydro.

The government is on track to generate, over time, \$4 billion⁴⁵ in net revenue gains to be invested in transit and infrastructure, along with \$5 billion⁴⁶ to reduce debt, from broadening Hydro One's ownership.

The government will remain, by law, the largest single shareholder in Hydro One, restricting the Province from selling down to less than 40%⁴⁷ of the voting securities in Hydro One – and no other single shareholder or group of shareholders working in concert will be permitted to hold more than 10%⁴⁸ of the company's shares.

⁴⁵ Ontario Financing Authority

⁴⁶ Ontario Financing Authority

⁴⁷ Ontario Financing Authority

⁴⁸ Ontario Financing Authority

Review_Input Required_ OPG OFHP Tech Briefing Q....pdf

From: [Lem, Stefanie \(ENERGY\)](#)
To: [Lightbody, Ava \(ENERGY\)](#); [Pinheiro, Alex \(ENERGY\)](#)
Cc: [Christie, Tim \(ENERGY\)](#); [Cavley, Daniel \(ENERGY\)](#); [DeSouza, Avril \(ENERGY\)](#); [Thiru, Dhil \(ENERGY\)](#)
Subject: Review/Input Required: OPG OFHP Tech Briefing QA & KMs | Due: Tues., Jan. 24 EOD
Date: January 22, 2018 6:13:29 PM
Attachments: [QA - OPG OFHP Debt FinancingTech Briefing - AH - 20180122 KMs added.docx](#)

Hi Ava and Alex,

Please have EPE review the attached QA – OPG OFHP Debt Financing Tech Briefing, with KMs added.

Deadline to Dhil: Tuesday, January 23rd EOD

Thanks,
Stef

From: Hendy, Adam (ENERGY)
Sent: January-22-18 3:20 PM
To: Lem, Stefanie (ENERGY); Thiru, Dhil (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Cox, Hilary (ENERGY)
Subject: RE: For Review - OPG OFHP Tech Briefing QA

Hi Stef,

Please see the updated QA with KMs added to the front-end.

Thanks,
Adam

From: Lem, Stefanie (ENERGY)
Sent: January-22-18 12:42 PM
To: Hendy, Adam (ENERGY); Thiru, Dhil (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Cox, Hilary (ENERGY)
Subject: RE: For Review - OPG OFHP Tech Briefing QA

Hi Adam,

Change in plans: We're hoping that Comms can pull the KMs from the QAs.

Please let me know if that is fine.

My apologies for switching things around on you!
Stef

From: Lem, Stefanie (ENERGY)
Sent: January-22-18 12:13 PM
To: Hendy, Adam (ENERGY); Thiru, Dhil (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Cox, Hilary (ENERGY)
Subject: RE: For Review - OPG OFHP Tech Briefing QA

Hi Adam,

The QAs for the OPG OFHP Tech Briefing are still undergoing review. Therefore, ESP will add in the KMs.

Thanks,
Stef

From: Hendy, Adam (ENERGY)
Sent: January-22-18 11:57 AM
To: Thiru, Dhil (ENERGY); Lem, Stefanie (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Cox, Hilary (ENERGY)
Subject: FW: For Review - OPG OFHP Tech Briefing QA

Hi Stef,

We have been asked to add KMs to the front end of this. Not sure where this is in your approval process; would it be easier for us or ESP staff to add them in?

Let me know, I am more than happy to make the additions if it doesn't complicate things.

Thanks,
Adam

From: Hendy, Adam (ENERGY)
Sent: January-17-18 11:04 AM
To: Thiru, Dhil (ENERGY)
Cc: Cox, Hilary (ENERGY); @ENERGY-COMM-Issues_and_MediaRelations; Berg, Denna (ENERGY); Lyon, Sam (ENERGY)
Subject: For Review - OPG OFHP Tech Briefing QA

Hey Dhil,

Attached for review is a QA we have put together for the Minister's use at the upcoming OPG OFHP Technical Briefing. This is simply a refresh/updated version of the QA we used for the October tech briefing on the OAG's special report on the OFHP.

In the doc you will notice tracked X's as placeholders, these are in place of dollar figures that are likely to change when we know OPG's interest rate. Please feel free to change any numbers in the doc where appropriate.

Hoping we can get this back by Jan 25 at noon, or whenever the numbers become available to you.

Thanks,
Adam

QA - OPG OFHP Debt FinancingTech Briefing - A_2.pdf

Jan 22, 2017

KEY MESSAGES

- Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history.
- OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers 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.
- Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).
- OPG currently manages approximately \$20 billion¹ 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 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.
- Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates.
- 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.

¹ Ontario Financing Authority

Q&As – OFHP Debt Financing

Q. Why did the government introduce the Ontario 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. Since 2003, nearly \$70 billion² has been invested in the electricity system, including more than \$37³ 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 has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers 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.

In developing the policy to refinance the Global Adjustment (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.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

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. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

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.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan 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. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

² Ministry of Energy, 2017 Long-Term Energy Plan

³ Ministry of Energy, 2017 Long-Term Energy Plan

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With respect to the \$4 billion⁴ figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20-X billion⁵. The preliminary estimate from March 2017 was about \$28 billion⁶.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7X billion⁷ to \$18.5X billion⁸. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25-X billion⁹ to \$18-X billion¹⁰.

Q. Have the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? I understand that the Office of the Auditor General (OAG) has asked what are the factors that resulted in the changes in estimates from March 1 to August 31?

With respect to the \$4 billion¹¹ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt

Commented [HA(1): For Policy: Xs are placeholders on figures that we believe could change when we know the interest rate, if the numbers are unchanged please feel free to reject the tracked changes. Please do not hesitate to change any other numbers as you see fit.

⁴ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

⁵ Ministry of Energy

⁶ Ministry of Energy, submission to Financial Accountability Officer

⁷ Ministry of Energy

⁸ Ministry of Energy

⁹ Ministry of Energy

¹⁰ Ministry of Energy

¹¹ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

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over the thirty year life of OFHP will be below \$~~20-X~~ billion¹². The preliminary estimate from March 2017 was about \$28 billion¹³.

The revised estimates are the result of the following factors:

- The Independent Electricity System Operator (IESO) updated its long-term cost projections for the electricity system and residential bills;
- The Ontario Energy Board (OEB) provided "actual data" with respect to residential bills for the May 1, 2017 to April 30, 2018 period; and
- Based on expert third-party advice the interest rate assumptions for OFHP were updated (i.e., from 5%¹⁴ down to 4.5%¹⁵).

In addition, for the August 31, 2017 estimate, the Ministry of Energy converted debt and interest amounts from calendar year to Regulated Price Plan (RPP) periods.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion¹⁶ to \$~~18.5X~~ billion¹⁷. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$~~25-X~~ billion¹⁸ to \$~~18-X~~ billion¹⁹.

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 is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

¹² Ministry of Energy

¹³ Ministry of Energy, submission to Financial Accountability Officer

¹⁴ Ministry of Energy

¹⁵ Navigant Consulting, *Assessment of the Alignment of the Costs and Benefits of Clean Energy Assets*

¹⁶ Ministry of Energy

¹⁷ Ministry of Energy

¹⁸ Ministry of Energy

¹⁹ Ministry of Energy

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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. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Act? Would 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).

OPG currently manages approximately \$20 billion²⁰ 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 program 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.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors²¹, 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 billion²² and two commercial paper programs.

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

Q. What does this mean for the Financial Accountability Office's (FAO) suggestion from May 2017 that using Ontario Power Generation as the borrowing agent will cost \$4 billion more?

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

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak

²⁰ Ontario Financing Authority

²¹ Ontario Power Generation

²² Ontario Power Generation

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debt over the thirty year life of OFHP will be below \$~~20~~^X billion²³. The preliminary estimate from March 2017 was about \$28 billion²⁴.

The FAO report itself concludes by saying "the FAO's estimates are subject to many assumptions and uncertainties (...) Fiscal impact may differ significantly from the FAO's estimates."

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion²⁵ to \$~~19.5~~^X billion²⁶. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The government estimates of total interest cost also decreased from \$25 billion²⁷ to \$~~18~~^X billion²⁸.

Q. Do you disagree with the FAO on financial costs?

With respect to the \$4 billion²⁹ figure referenced by the Financial Accountability Office (FAO) in its May 2017, it should be noted that 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, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$~~20~~^X billion³⁰. The preliminary estimate from March 2017 was about \$28 billion³¹.

A number of variables, 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 total estimated cost of the program has already been revised downwards substantially to reflect revised inputs.

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. Further details will be released in the 2017 Long-Term Energy Plan (2017 LTEP), which will be released on October 26, 2017.

If pressed on the details of the revised peak debt number:

²³ Ministry of Energy

²⁴ Ministry of Energy, submission to Financial Accountability Officer

²⁵ Ministry of Energy

²⁶ Ministry of Energy

²⁷ Ministry of Energy

²⁸ Ministry of Energy

²⁹ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

³⁰ Ministry of Energy

³¹ Ministry of Energy, submission to Financial Accountability Officer

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Peak debt for OFHP has been revised down substantially from March 2017, from about \$27.7 billion³² to \$18.5X billion³³. The higher March 2017 estimate was used by the FAO in its May 2017 report.

If pressed on interest costs:

The Ministry estimates of total interest cost also decreased from \$25 billion³⁴ to \$18-X billion³⁵.

Q. The OAG's report claims that consumers will pay an additional \$4 billion in interest costs over the life of OFHP since OPG and its Financing Entity will pay a higher rate of interest compared to the Province. Why not have the Province borrow for the OFHP?

The policy objective of OFHP 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 – not the tax-base.

We believe 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. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since the early 2000s³⁶.

The \$4 billion³⁷ figure in the Office of the Auditor General's report was sourced from the FAO's May 2017 report and is important to note, that the FAO's calculation was based on preliminary estimates of the program when peak debt estimates for the thirty year program were substantially higher and interest costs were forecast to be higher than current projections.

Q. What is the Global Adjustment (GA)?

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. The 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 accounts for 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 reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's 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 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.

³² Ministry of Energy

³³ Ministry of Energy

³⁴ Ministry of Energy

³⁵ Ministry of Energy

³⁶ Ministry of Finance

³⁷ Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

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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.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've 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.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to \$5.2 billion³⁸ over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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).

³⁸ Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal* (Brattle Group)

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In development and implementation of Global Adjustment (GA) refinancing, 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.

Document Search

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

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

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

The Ministry does not intend to spend more than \$60,000 on this request. Although the retainer agreement includes a cap of up to \$500,000, as of September 21, 2017, only \$41,775.75 has actually been spent.

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 has 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 has been regularly providing AG batches of responsive documents.

Reasoning for Accounting Approach

Q. How do you respond to the Auditor General's claim that the government ignored warnings regarding a potential adverse audit opinion of Ontario's public accounts?

The government's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS), and will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

In regards to rate-regulated accounting, PSAS are silent on the use of regulated accounting:

- PSAS acknowledges that it does not provide guidance on all possible transactions and notes that it is necessary to refer to other sources of guidance that are consistent with the PSAS framework; and
- US GAAP, with the most developed guidance on rate-regulated accounting, is the appropriate guidance to reference.

Many entities in Canada, including OPG and Hydro One use rate-regulated accounting:

- The OAG can refer to the CPA Canada research study that was shared.
- Rate-regulated accounting is well understood in the electricity sector.

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- The recognition of regulatory assets brings IESO in line with 6 other independent system operators in North America, including AESO, ISO New England, NYISO, MISO, PJM and ERCOT.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

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TBS's Detailed QAs re Ontario's Fair Hydro Plan

Q. The Auditor General says that the accounting structure for Ontario's Fair Hydro Plan is not transparent, has poor value for money, and is not in accordance with Public Sector Accounting Standards. How do you respond?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The Ministry of Energy would welcome further questions about OFHP and the government's investments in a reliable energy system.

Q. The Auditor General makes two recommendations in her report – to record the true financial impact of Ontario's Fair Hydro Plan; and to use a financing structure that is the least costly for Ontarians. Will you adopt these recommendations?

The government does not agree with the assertions and conclusions expressed in the report.

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In developing OFHP, 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.

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

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the Province's finances fairly, accurately and in accordance with PSAS.

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below ~~\$20-X~~ billion³⁹. The preliminary estimate from March 2017 was about \$28 billion⁴⁰.

The Province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

³⁹ Ministry of Energy

⁴⁰ Ministry of Energy, submission to Financial Accountability Officer

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Q. Both the Auditor General and the Financial Accountability Officer (FAO) have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The government has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history.

In developing OFHP, 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.

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

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

Q. The Auditor General says that you are “obfuscating” the true financial impact of Ontario's Fair Hydro Plan through a “needlessly complex” accounting structure. How do you respond?

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

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

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. How can you justify the \$4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the Province, instead of the Province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (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 considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$20-X billion⁴¹. The preliminary estimate from March 2017 was about \$28 billion⁴².

Q. The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of 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 CEA.

⁴¹ Ministry of Energy

⁴² Ministry of Energy, submission to Financial Accountability Officer

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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. What will happen if interest rates rise? The Financial Accountability Officer (FAO) estimates that if interest rates were to rise, the true cost of Ontario’s Fair Hydro Plan could be between \$69 and \$93 billion. How can you justify shifting this heavy burden onto future generations?

The implementation of Ontario’s Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs of OFHP, and while total borrowing costs will not be known until the program is complete, accumulated interest is expected to be considerably less than the estimates cited in the May 2017 report of the FAO.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report, and borrowing costs are now forecast to be substantially lower than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below \$29-X billion⁴³. The preliminary estimate from March 2017 was about \$28 billion⁴⁴.

Government Officials

Q. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario’s Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

⁴³ Ministry of Energy

⁴⁴ Ministry of Energy, submission to Financial Accountability Officer

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In developing Ontario's Fair Hydro Plan (OFHP), 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.

Multiple options were considered in creating the OFHP framework – such as to have local distribution companies finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution companies to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

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

Audit Opinion

The government just received another qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end. This change was supported by IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the Province's annual deficit, net debt or accumulated deficit.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Q. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The Province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you concerned that the Auditor General will issue an adverse opinion on the Province's Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the Province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministry of Energy, Finance and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and third-party accounting, financing and energy experts to ensure due diligence.

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

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The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Q. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all independent auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, 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.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Q. Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?

There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), 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.

The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Independent Electricity System Operator (IESO)

The Auditor General was critical of the Independent Electricity System Operator's accounting changes, which formed part of her basis for a qualified opinion in the 2016-17 Public Accounts. Are these accounting changes inappropriate?

On recognizing market accounts' assets:

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO has chosen 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.

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

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General (OAG) at that time.

This change has no impact to the Province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

On rate-regulated accounting:

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Rate-regulated Accounting

Q. Why use rate-regulated accounting? What is its benefit?

In certain circumstances, an organization may be required to incur a large expenditure that will be recovered from ratepayers in the future.

For example, damage caused by an ice storm that results in extraordinary costs to restore a disruption of electricity services for customers. Such costs are subject to application and approval for recovery by the regulator over a specific time period.

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What rate-regulated accounting does is it allows organizations to recognize those costs, which can be significant within a year but will generate benefits over time, to be matched over the same period that the amounts are recovered from ratepayers.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The 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.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016. This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

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*"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator **or by its own governing board empowered by statute or contract to establish rates that bind customers**" [ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

Legislated Accounting

Q. The Auditor General says that you are essentially making up your own accounting rules. How are Ontarians supposed to believe things like a "balanced budget" when you keep changing the rules?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

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

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The recording of any asset resulting from transactions of OFHP will be assessed for recognition and measurement based on PSAS, and where appropriate, other accounting guidance where PSAS is silent on the issue.

Q. Why did the IESO change its accounting practices?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in their financial results.

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This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's 2016 annual report, which was published online in March 2017.

The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements.

Additionally this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

This change has no impact to the province's annual deficit, net debt, accumulated deficit or on the ratepayers of Ontario.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. Why did the government not use the Canadian Public Sector Accounting Standards (PSAS)? How was Ontario's Fair Hydro Plan (OFHP) financing structure determined?

The Province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18 as well as in the following years. Presenting its financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS is, however, silent on the recognition, measurement, presentation or 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. In this case, the Independent Electricity System Operator (IESO) consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.

This financing structure is similar to several jurisdictions in the U.S., and uses a form of securitization that is commonly used in the financial markets. It ensures the impact of the plan will be transparent. Under this system, credit rating agencies, securities regulators and the public at large get full information and full reporting of the impacts of the OFHP that are visible and specific.

Q. The Auditor General says that the Province legislated accounting through the Ontario Fair Hydro Plan Act, which is not allowed according to Public Sector Accounting Standards (PSAS). Is this true?

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report.

The Province, as always, will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

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As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

The role of the Ontario Energy Board (OEB) and its mandate is provided in legislation. It is not uncommon for government policy, through regulations, to provide the ground rules over which the OEB is to preside.

This is the case with Ontario's Fair Hydro Plan (OFHP) itself, as the Act and the various regulations provide the direction and processes over which the OEB is to exercise oversight, review, and make conclusion on submissions brought forward.

Relationship with the Office of the Auditor General

Q. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

The government is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

If pressed:

The Auditor General was informed throughout the course of this process.

If asked about the Ministry of Energy emails:

The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General. For questions related to the Ministry of Energy, please contact them directly.

Future Governments

Q. The Auditor General says that you are essentially handcuffing future governments with your financing structure. Why should future governments have to pay for your decisions?

By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.

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With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade government policies have supported rebuilding the electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than \$70 billion⁴⁵ has been invested to modernize the system.

The government heard from people across the Province that the price of electricity had risen too quickly, which is why Ontario's Fair Hydro Plan (OFHP) will ensure costs are shared more fairly over the years ahead.

The Ontario electricity sector invested in renewing the provincial electricity system, including many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. 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.

In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

OFHP is delivering the single-largest reduction in electricity rates in the Province's history. In developing OFHP, 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.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and ensures the goals underlying the program are achieved in a cost-effective manner.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

For further questions related to Ontario's Fair Hydro Plan, please contact the Ministry of Energy.

Asset Sales

Q. Will you buy back Hydro One so that it is back under public control?

Maximizing the value of designated assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

⁴⁵ Ministry of Energy, 2017 Long-Term Energy Plan

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The Trillium Trust Act, 2014, provides for the dedication to the Trillium Trust of net revenue gains associated with the sale of designated assets to support investments in transit, transportation and other priority infrastructure across the province.

The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the Ontario Electricity Financial Corporation (OEFC), which manages and pays down the debt and other liabilities of the former Ontario Hydro.

The government is on track to generate, over time, \$4 billion⁴⁶ in net revenue gains to be invested in transit and infrastructure, along with \$5 billion⁴⁷ to reduce debt, from broadening Hydro One's ownership.

The government will remain, by law, the largest single shareholder in Hydro One, restricting the Province from selling down to less than 40%⁴⁸ of the voting securities in Hydro One – and no other single shareholder or group of shareholders working in concert will be permitted to hold more than 10%⁴⁹ of the company's shares.

⁴⁶ Ontario Financing Authority

⁴⁷ Ontario Financing Authority

⁴⁸ Ontario Financing Authority

⁴⁹ Ontario Financing Authority