Financial Accountability Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2 | 416.644.0702 | fao-on.org | info@fao-on.org

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An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan Statement by the Financial Accountability Officer

Good morning and welcome.

Today, I provided to the Speaker, for tabling, a report that assesses the impact of Ontario's proposed Fair Hydro Plan on electricity ratepayers and Provincial finances.

The Fair Hydro Plan proposal consists of three initiatives.

The Plan provides a rebate on electricity bills of the provincial portion of the Harmonized Sales Tax, more commonly known as the HST.

The Plan moves the cost for electricity relief programs, such as the Ontario Electricity Support Program, from electricity ratepayers to the Province.

And the Plan defers a portion of electricity costs which, after 10 years, will be repaid by electricity ratepayers with interest.

Altogether, the Financial Accountability Office estimates that the proposed Fair Hydro Plan will cost the Province 45 billion dollars over 29 years while providing overall savings to electricity ratepayers of 24 billion dollars. This results in a net cost to the people of Ontario of 21 billion dollars.

The Financial Accountability Office projects that under the Fair Hydro Plan, electricity costs will be lower than the status quo until 2027. After 2027, electricity costs are projected to be higher under the Fair Hydro Plan than under the status quo.

Based on our review of the Plan, the Financial Accountability Office projects that electricity bills will decrease by 25 per cent by July 2017. This decrease will be followed by four years of growth at the rate of inflation, after which, starting in 2021, the Financial Accountability Office projects that electricity bills will increase by an average of 6.8 per cent annually until the end of 2027.

After 2027, electricity bills are expected to be higher by an average of 4% under the Fair Hydro Plan than if the Province maintained the status quo, even with the continuation of the rebate of the provincial portion of the HST.

For the "average" electricity ratepayer, this means that under the Fair Hydro Plan the monthly average electricity bill of 164 dollars will drop to 123 dollars. This is a monthly savings of 41 dollars. However, by 2028, the bill will increase to 213 dollars per month. Then, for the 18 years beyond 2028, a monthly charge of about 22 dollars will be added to the average bill in order to repay 18 billion dollars in deferred electricity costs plus 21 billion dollars in interest.

I will now turn to a few points of different elements of the plan and the impact to the Province and to electricity ratepayers.

First, on the cost to the Fair Hydro Plan. The Financial Accountability Office's estimate of the Provincial cost of the Fair Hydro Plan – 45 billion dollars – assumes that the Province is able to achieve and maintain a balanced budget for 29 consecutive years. If the Province is not able to achieve a budget surplus and is required to finance its share of the Fair Hydro Plan through debt, this could increase its costs under the Plan to as much as between 69 and 93 billion dollars.

Next, with respect to the interest payments which electricity ratepayers will bear due to the deferred electricity costs. Over the next 10 years, more than half of the savings to electricity ratepayers is achieved by deferring 18 billion dollars in electricity costs. In 2028, electricity ratepayers will begin repaying the 18 billion dollars plus an estimated 21 billion dollars in interest costs.

The amount of interest that will ultimately be owed by ratepayers depends on interest rates over the next 29 years. Under the Province's proposed financing structure, the Province and a new Trust created by Ontario Power Generation will borrow on behalf of ratepayers so that payments owed to electricity generators are not affected. The Financial Accountability Office assumes an average combined interest rate of 5% for borrowing by the Province and the Ontario Power Generation Trust. If that average interest rate were to rise to 6% that would increase interest costs to ratepayers by 9 billion dollars, from 21 to 30 billion dollars.

Part of the reason for the 5% interest rate assumption (which is higher than the current cost of borrowing for the Province) is that borrowing rates for Ontario Power Generation are higher than rates charged to the Province. If the Province were to conduct all of the borrowing instead of the borrowing partly being done by the Ontario Power Generation Trust, then the Province could save ratepayers approximately 4 billion dollars in interest payments.

Finally, the accounting structure in the Plan. The plan by the Province to defer electricity costs for ratepayers requires a complicated accounting structure which has been outlined in the report. By 2027-28, Provincial gross debt will increase by approximately 26 billion dollars but with no corresponding increase in the net debt of the Province. The Province proposes to neutralize the gross debt on its financial statements through the creation of a corresponding asset, essentially an obligation for ratepayers to pay back the deferred electricity costs with interest. If the Province does not create this asset, then the Province's surplus / deficit would deteriorate by a total of 26 billion dollars over the next 11 years, but improve by the same amount from 2028-29 to 2045-46.

Due to the unique nature of the proposed financing structure, I believe it is important to confirm that the creation of this asset meets with public sector accounting standards and will not impact the Province's surplus / deficit or net debt. I recommend that Members of Provincial Parliament confirm with the Auditor General that her office agrees with the Province's accounting treatment.

Thank you. I am happy to take questions.

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Media inquiries - Kismet Baun, Communications Coordinator
416-254-9232
kbaun@fao-on.org