Briefing for March 2, 2017

Your morning briefing

03.03.2017 Geoff Zochodne 0

Headlines

Premier **Kathleen Wynne** and Ontario's Liberal government have delivered their hydro-plan-to-end-all-plans. Or at least they hope so. The Liberals are proposing to slash electricity bills by an average of 25 per cent in a few different ways, some of which require a bit of imagination.

Here's a quick roundup of the reaction to the new hydro plan:

- Horse trainer Libby Keenan approves
- The Premier declared her chosen method of hydro bill reductions will cost "a bit more"
- Mike Crawley hears from a "senior Liberal official" who hopes the 17 per cent in new bill reductions will now focus voter attention on the other stuff the government is doing
- David Reevely uses the phrase "bag of turds"
- Adam Radwanski wonders if the Premier's plan will just make things worse
- Kevin Libin says the plan is "nothing more than a sleazy sleight of hand...In other words, it’s brilliant."
- Lorrie Goldstein's still unhappy about the province's green energy turn
- The *Toronto Star* applauds the Premier for taking action
- The *Toronto Sun* calls the plan "short term gain for long term pain"

Our other stories from Thursday:

- **Treasury Board president hopes Ontario’s auditor general doesn’t give up details of Ontario’s cyber security**

- **Seen: Education bargaining bill sped through to committee after brief procedural kerfuffle**

- **‘No doubt that investment will be required’: Howard Sapers to hand in segregation review any day now**

- **Here’s how Premier Wynne plans to reduce hydro bills by 25%**

- **Updated: Liberals, PCs kill NDP not-for-profit child care bill**
- **Wynne: Hydro plan will make Ontario’s budgets ‘a lot harder’ to balance**

And in other news...

The federal Liberal government doesn't seem to be in a hurry to discuss further changes to the Canada Pension Plan, *CP* reports.

The Bombardier-Metrolinx legal brouhaha continues to escalate. According to the *Toronto Star*, Metrolinx is even negotiating with another company to supply the provincial transit agency with streetcars.

Prime Minister **Justin Trudeau**'s comment that the Grassy Narrows mercury contamination is "very much" Ontario's problem did not go over well with some, *CP* reports.

The mayor of North Bay is bristling over rumours of Ontario Power Generation transferring jobs out of his town,the *Nugget* reports.

Events

10:00 a.m.

Premier Wynne to make calls to Ontarians about Ontario’s Fair Hydro Plan. Queen's Park.

Liberals reveal 25% relief package for electricity customers — including $25B in interest payments

02.03.2017 Geoff Zochodne 0

The Liberal government delivered its long-promised relief package for beleaguered electricity customers Thursday morning, boasting they will save consumers 25 per cent using an existing rebate, delaying costs and hitting up taxpayers to shoulder more of the load.

With voter outrage rising along with their hydro costs, Premier **Kathleen Wynne** wasn't overly optimistic about the reception awaiting the Liberals' plan, which the government says will require electricity customers to make $25 billion in interest payments over 30 years.

"I don't expect a celebration," Wynne told reporters shortly after the release of the plan, which comes 16 months ahead of next provincial election.

But the proposed changes, named "Ontario's Fair Hydro Plan" by the Liberals, aim to lower electricity bills by an average of 25 per cent by this summer, capping rate hikes at the rate of inflation over four years. After that, rates could rise at a greater clip.

The plan incorporates the government's existing 8-per-cent rebate, and will cost about $5.5 billion over three years, including the $1-billion annual cost of the refund. More expenses would come later, such as $25 billion in interest payments that electricity customers will make over 30 years.

"Over time, it will cost a bit more, that's true," Wynne said."The burden will now be shared more evenly and more appropriately."

Even with the new expenditures, the government says its new plan won't stop it from tabling a balanced budget this year. The Liberals claim the savings will come from deferring costs and by pumping tax dollars into new and existing assistance programs, rather than having hydro bills pay for them.

"For too long, governments – my own included – have made mistakes in the way we've structured Ontario's electricity system," said Wynne. "That has resulted in rates that are unfairly high. It's time to fix those mistakes. In ways that work for today – and for the future."

As part of its plan, the government is proposing to "refinance" investments made in the electricity grid, kicking some expenses down the road, but shaving about $2.5 billion in annual costs for consumers right now. It will do so by delaying a portion of the global adjustment charge all electricity customers currently pay, which will require the interest payments to be made about 10 years from now.

The Liberals, likening the move to refinancing one's mortgage, are looking to have the changes to the global adjustment charge take effect this summer.

But the opposition parties were immediately in attack mode following the announcement. PC Leader **PatrickBrown**, who called the plan a "shell game," pegged the interest payments at $42 billion, charging during question period that "the Premier just signed off on $42 billion in interest payments alone to pay for this government's mistakes."

"I don't know where the member got $42 billion," responded Wynne. "It's $25 billion over 30 years so that people across those 30 years will share the costs of those investments that had to be made."

Brown, whose party hadn't been planning on publishing a hydro plan until after the Tories' policy convention in November, said that was no longer the case. "We do plan to roll out more details on some of the fixes that we see," he told reporters.

Deputy NDP Leader **Jagmeet Singh** doubted the Liberals would keep their word.

"She promised to lower auto insurance rates by 15 per cent before an election," he said during question period. "But after she got re-elected, guess what? That turned out to be a stretch goal."

The Grits may have been feeling some added pressure this week, as the NDP unveiled an electricity assistance package on Monday that proposed repurchasing Hydro One shares and capping profits for private power producers. The NDP say their plan could be worth as much as 30 per cent in savings for customers, but the Liberals immediately attacked it, alleging a Hydro One share buy-back wouldn't reduce electricity costs.

Both the NDP and PCs have slammed the Liberals for not renegotiating or scrapping costly contracts with private power producers. Wynne said the Liberals had looked at this, but said it could have created a "chill" in the business climate. Energy Minister **Glenn Thibeault** said Wednesday that the cost of doing so would have been steep

"Our plan provides fast, substantial, widespread and long-lasting relief," Thibeault said during question period. "I know the PCs are struggling to agree with one another on their own schemes. On their biggest idea, of ripping up those energy contracts, let me be clear: This will lead to increased rates, lawsuits and penalties."

The government says $50 billion has been spent on the electricity system between 2005 and 2015, $35 billion of which was on the generation side of the business, including 20-year contracts with certain power plant owners. These generation costs are paid for in part by the global adjustment fee, which cost approximately $10 billion in 2015, about half the total annual cost to the system and ratepayers. The fee is paid by all electricity customers, and covers the cost of power that's above the market price (and much of it is), as well as funding conservation programs.

Noting that some electricity infrastructure can be used for longer than initially anticipated, the government intends to spread out the global adjustment in a way that would reduce the expense by an average of about $2.5 billion annually over the first 10 years, with the refinancing expected to last about 30 years. Interest payments on those deferred costs are to be held at no more than

$1.4 billion a year, over the 30 years, to be managed by Ontario Power Generation in a new holding company of sorts. The interest payments will be covered by electricity customers, with the government expecting the interest rate to be somewhere in the area of 5 per cent, and will start having to be made in about 10 years.

“That 30-year time period makes much more sense," said Wynne. “Remortgaging the system in effect and spreading those costs over 30 years is a much fairer way of approaching this.”

The other plank of the government’s plan is shifting a slate of assistance programs off the backs of ratepayers and on to the more numerous backs of taxpayers. The cost will be $2.5 billion over the next three years, or about $830 million annually. This would be funded through the government's revenues.

The province’s Rural or Remote Rate Protection program, which subsidizes bills in those areas, would be one of those programs now being funded by tax dollars. Rather than just being offered to Hydro One's customers, the program would be extended to seven other local utilities that have high distribution charges. As a result, the RRRP would serve about 800,000 customers, up from its current level of 350,000. Savings for individual consumers could reach as high as $75 a month.

Also being expanded is the Ontario Electricity Support Program, which gives low-income customers a monthly credit on their bills. In addition to putting the cost of the OESP on tax bills, not hydro bills, the government is also going to increase the monthly credits by 50 per cent, for a maximum savings of $113 a month. The Liberals also say they will try to increase uptake in the program to as near as total as possible.

Furthermore, the government is also creating a special rate for on-reserve First Nations electricity customers, who would have their delivery charge eliminated entirely. This would save qualifying customers about $85 a month. It would also be picked up by the taxpayer,

A new “affordability fund” would be created as well, for customers who can’t qualify for other low-income conservation programs. This would come from provincial revenues too.

All of this will be shown on a customer's bill, unlike the cost of the province's cap-and-trade plan. A mock-up of a hydro bill provided to reporters show there will be a line trumpeting how much the Ontario government had reduced the cost.

Other tricks up the Liberals' sleeves include increasing eligibility for an industrial conservation program and encouraging the Independent Electricity System Operator to continue its work in reforming Ontario's electricity market.

Electricity prices have become the preeminent issue in Ontario politics, and the Liberals have been especially vocal about providing consumers with more assistance since the Grits’ loss in last summer’s Scarborough-Rouge River byelection.

Wynne was actually asked Thursday if she would still lead the Liberals into the next election. She said she would.

Wynne: Hydro plan will make Ontario's budgets 'a lot harder' to balance

02.03.2017 Jessica Smith Cross 0

When Premier **Kathleen Wynne** announced her government's hydro relief plan Thursday morning, she made the frank admission that it will make it much harder for the government to balance its budgets in the coming years.

"And frankly, if we're going to bring our budget into balance, what better place to direct better, newfound financial strength than giving households a break in the high price they pay for electricity," said Wynne. "It is absolutely worth it."

The cost to the treasury in the next three years is approximately $5.5 billion, with $2.5 billion of that coming from moving the cost of the newly beefed-up social programs the province maintains for those struggling to pay their hydro bills off of the province's collective hydro bills onto the general tax base. In addition, it will cost $1 billion in each of those three years to provide the 8 per cent rebate the government announced last year.

That, of course, does not count the $25 billion in long-term interest costs associated with the refinancing power contracts at the heart of the plan — that cost will remain on the rate base.

Wynne maintained the province can afford that $5.5 billion and keep its balanced budget promise — but not easily. The full impact of the new fiscal pressure of the hydro rate relief costs will be outlined in the spring budget.

"Now, thanks to a provincial economy that's leading all of Canada in growth, we can make this change and stay on track for a balanced budget this year and the years to follow, but it's going to be a lot harder and we'll remain a lot closer to the line," she said. "But let me just say this: it is worth it. It's worth it for a true structural fix that will be long-lasting. Not just another short-term stopgap, but something that's sound and sustainable. And that's exactly what we've done."

There are other needs and Wynne's government has made no secret of the growing expense demand on the health-care system, even as it maintained fiscal restraint in health spending for years. She recently said that weighing the priorities of hydro relief and health-care spending went to the heart of the challenge of her job.

But Health Minister **Eric Hoskins** said he saw the hydro announcement as "great news" for Ontarians and he's confident that the coming budget will also include significant investment in health care.

"For me, it's not an either, or," he said. "But it's important to respond to what is obvious to all of us, that electricity prices have become a burden for many, many Ontarians, particularly those who are struggling at the lower socio-economic end of things. This relief is especially important to them."

The Progressive Conservatives have slammed the plan as a "shell game" and warned the plan will be taxpayers' expense in the end. In the words of **Patrick Brown**, it is "simply robbing Peter to pay Paul, but in this case, both Peter and Paul are taxpayers."

But Brown wouldn't weigh-in on whether those $5.5 billion tax dollars could be better spent, saying that he does think there needs to be hydro relief. The PCs are yet to release their hydro plan.

NDP Deputy Leader **Jagmeet Singh** also didn't have an answer on whether the government should dig into the tax base to provide hydro rate relief programs as it has proposed, but said it shouldn't have sold-off Hydro One (the proceeds of which are going to fund transit) and should have used the extra revenue it would have generated over time to fund education and health care.

Here's how Premier Wynne plans to reduce hydro bills by 25%

02.03.2017 Geoff Zochodne 0

Ontario's Liberal government has said it will reduce electricity bills by an average of 25 per cent starting this summer.

How the Grits propose to do so is an adventure in accounting. What follows is *QP Briefing*'s best explanation of how that savings-sausage gets made, drawn from Thursday morning's technical briefing and a scrum with Energy Minister **Glenn Thibeault**.

First, there's the 8-per-cent rebate the Liberals announced last September, which actually started being refunded to consumers in January. This rebate is costing the provincial treasury about $1 billion annually.

More savings will come from the Liberals' move to shift the cost of electricity assistance programs off hydro bills and onto tax bills. Those programs will also be increased, providing more savings for people. Over three years, this is expected to cost the government $2.5 billion. This will be paid for, again, by tax dollars.

But the backbone of the 25-per-cent plan is the Liberal government's move to "refinance" the global adjustment charge, which cost consumers about $10 billion in 2015.

All hydro customers pay the charge, which is the difference between Ontario's hourly electricity price and the one guaranteed to electricity generators. So if a company's contract says it is to be paid $100 for some electricity, and the market price is $75, hydro customers are forking over the missing $25 (this applies to contracts for all sorts of power: nuclear, gas, solar, wind). The fee also covers the cost of conservation programs.

With this in mind, the Liberals are going to reduce the global adjustment costs by about $2.5 billion per year over the first 10 years of a 30-year refinancing period. This is anticipated to begin as early as this summer.

The government's thinking is that the province has signed 20-year contracts with some generators, but the power plants will keep producing electricity past the end date of their contracts. Therefore, the government says, not so much of the cost needs to be up front. The Liberals like comparing this idea to remortgaging one's home.

But how does one make $2.5 billion disappear from hydro bills?

The government's answer is, essentially, to just collect less money from consumers. At the same time, the province will keep paying electricity generators the same amount they're always paid, creating immediate savings for electricity customers, but a gap as well.

Enter the whipping boy.

In short, the difference between the now-lower consumer payments and the standard generator payments will be plugged using debt. A single entity will be responsible for this burden.

First, the Independent Electricity System Operator, which runs Ontario's power grid and market, will define and create an "asset" that represents the gap between the reduced amount customers are paying and what the electricity generators are owed. The gap, the debt needed to fill the gap, and the debt repayments make up the "asset." Ontario Power Generation, the provincially owned power company, would then acquire the asset from the IESO and create a company to carry the load.

The company really only exists to accrue and service the debt, which, remember, is being used to shore up the gap between the reduced customer payments and the same-as-usual generator payments.

So the whole scheme means hydro customers will pay less money to their local electricity company, which will pay an average of about $2.5 billion less annually to the IESO as a result. OPG and the holding company will then send $2.5 billion to the IESO, which OPG and the company borrowed from banks. The IESO then pays electricity generators exactly what they're owed.

Got that?

Oh, but while the holding company will take on the debt needed to reduce the global adjustment charge, interest on that debt will also build up over time (thus completing the "asset").

Electricity customers will be responsible for starting to pay interest on that debt in about 10 or so years. And over 30 years, the Liberal government expects ratepayers will cough up $25 billion in interest payments in order to "refinance" the global adjustment charge.

The government says these payments shouldn't be higher than $1.4 billion in any given year over the next 30 years, which is based off a projected interest rate of 5 per cent. But those interest payments will flow from the customers, to the utilities, to the IESO, to OPG's holding company, which is servicing the "asset."

And, lest we forget, fluctuating interest rates and electricity prices could render all of the numbers above entirely incorrect. Fun!

Anyway, to pull all this off, the government is going to need to pass some legislation. But since the Liberals still have a majority in the legislature, it shouldn't be a problem.

As Minister Thibeault told reporters Thursday: "If there would have been an easier way to do this, we would have done it."