Q&A Response: Ontario's Fair Hydro Plan (OFHP) Estimated Costs

Question:

The Office of the Auditor General (OAG) has requested updated information on the estimated debt and interest amounts related to Ontario's Fair Hydro Plan (OFHP). In particular, OAG has asked what are the factors that resulted in the changes in estimates from March 1 to August 31?

The Ministry of Energy's estimates of "peak debt" for OFHP decreased between March 1, 2017 and August 31, 2017 from $27.7 billion to $18.5 billion. The Ministry estimates of "interest" also decreased from $25.1 billion to $18.3 billion. See attached updated data table.

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, 2017 period; and

- Based on expert third-party advice the interest rate assumptions for OFHP were updated (i.e., from 5% to 4.5%).

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

The province has never calculated a differential between the Province and the Financing Entity's borrowing costs, because the objective is to borrow at the lowest possible cost, while achieving the primary policy objective of ensuring the costs are borne by the beneficiaries of the electricity system - the rate payers - not the tax-base. Furthermore, interest rates are not yet known.