FAO report - Fair Hydro Plan

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Attachments:	Fair Hydro Plan.pdf (498.53 kB)

Good morning,
Attaching a copy of the report, which was just posted to the FAO's site. The news release follows, along with the Essential Points section from the report.

Fair Hydro Plan Provides Temporary Electricity Bill Relief but Higher Bills by 2028
May 24, 2017
Posted in: **Media Releases**

FOR IMMEDIATE RELEASE:

(TORONTO) May 24, 2017 – The Financial Accountability Officer of Ontario, Stephen LeClair, has just released **An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan**, a report that reviews how Ontario's Fair Hydro Plan (FHP) will impact electricity ratepayers and Provincial finances.

The FAO estimates that the FHP will cost the Province $45 billion over 29 years while providing overall savings to electricity ratepayers of $24 billion. This results in a net cost to Ontarians of $21 billion.

Under the FHP, average electricity bills are projected to decrease by 25% in 2017, followed by four years of growth at the rate of inflation. Starting in 2021, electricity bills are projected to increase by an average of 6.8% annually until the end of 2027. After 2027, electricity bills are projected to be an average of 4% higher under the FHP than the status quo.

The estimated $45 billion cost to the Province assumes that the Province is able to achieve and maintain a balanced budget over 29 years. If the Province is required to fund the FHP through debt, then the cost to the Province could increase to between $69 billion and $93 billion.

"Temporary savings are achieved for electricity ratepayers by moving costs to the Province and by deferring $18.4 billion in electricity costs for 10 years," says Mr. LeClair. "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately $21.0 billion in interest which will result in higher electricity bills than under the status quo."

Read the FAO's report here .

About the FAO
Under the *Financial Accountability Officer Act, 2013*, the Officer provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario. Visit our website at http://www.fao-on.org/en/ and follow us on Twitter at https://twitter.com/InfoFAO.

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1. Essential Points

- The Financial Accountability Office (FAO) estimates that the proposed Fair Hydro Plan (FHP), consisting of the provincial HST rebate, electricity cost refinancing, and changes to electricity relief programs, will cost the Province $45 billion over 29 years while providing overall savings to eligible electricity ratepayers of $24 billion. [1] This results in a net cost to Ontarians of $21 billion.

- Under the FHP, electricity costs are projected to be lower than the status quo from 2017 to 2027. After 2027, electricity costs are projected to be higher under the FHP than under the status quo.
  - Average electricity bills are projected to decrease by 25% in 2017, followed by four years of growth at the rate of inflation.
  - Starting in 2021, electricity bills are projected to increase by an average of 6.8% annually until the end of 2027.
  - After 2027, electricity bills are projected to be an average of 4% higher under the FHP than the status quo, even with the continuation of the HST rebate. [2]

- The estimated $45 billion cost to the Province assumes that the Province is able to achieve and maintain a balanced budget over 29 years. If the Province is required to fund its FHP programs (i.e. the HST rebate and electricity relief programs) through debt, then the cost to the Province could increase to between $69 billion and $93 billion.

- The FAO estimates that over half of the projected savings to eligible electricity ratepayers from 2017 to 2027 is achieved through the electricity cost refinancing component of the FHP.
  - Electricity cost refinancing achieves savings for ratepayers from 2017 to 2027 by deferring $18.4 billion in electricity costs. Starting in 2028, ratepayers will be required to repay the $18.4 billion in deferred electricity costs plus approximately $21.0 billion in interest costs.

- The electricity cost refinancing initiative involves a complicated accounting structure that will increase gross debt by approximately $26 billion by 2027-28, but does not impact the Province's net debt due to the creation of a regulatory / investment asset. If the creation of the regulatory / investment asset does not meet with public sector accounting standards, then the Province's annual surplus / deficit would deteriorate by a total of $26 billion over the next 11 years but improve by the same amount over the following 18 years. The FAO recommends that Members of Provincial Parliament (MPPs) obtain assurance from the Office of the Auditor General of Ontario (OAGO) that the Province’s proposed accounting treatment will not impact the Province’s annual surplus / deficit and net debt.