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628. Mr. Fedeli — Enquiry of the Ministry — Would the Minister of Finance state, as the government agrees there would be higher interest costs under their financing scheme which co-opted Ontario Power Generation (OPG) yet denies it will add $4 billion, what their number is, and what the actual spread between the amount the Ontario Financing Authority will borrow and what OPG will pay to borrow the same funds will be. (Tabled November 01, 2017)

Response:

The policy objective of the Global Adjustment (GA) deferral part of Ontario's Fair Hydro Plan is to more fairly allocate the cost to ratepayers over the longer life cycle, not the contractual term, of investments in electricity generating assets and conservation recovered through the GA. Therefore, it was a primary policy objective to ensure that the costs of the GA and refinancing are borne by the beneficiaries of the electricity system – the ratepayers – not the tax-base. This design aligns the costs and benefits over time among the current and future electricity consumers in a more equitable way.

Electricity financing should stay within the electricity system, therefore it is fair for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the 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.

With respect to the $4 billion 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. 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."

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.

Due to a number of initiatives the government in implemented—including Ontario's Fair Hydro, the Independent Electricity System Operator's market renewal initiative, and other efficiency and productivity improvements to the system—Ontario's 2017 Long-Term Energy Plan (LTEP) projects lower monthly bills for residential consumers than previously forecasted.

Further details are provided in the 2017 Long-Term Energy Plan, which was released on October 26, 2017.

Sincerely,

Charles Sousa
Minister of Finance