FAO Report: FHP Fiscal Impact Assessment – QA
Event Date: May 24, 2017
Last reviewed by: DMO, MO

KEY MESSAGES

- **The Ministry of Energy values the work of the Financial Accountability Office.**
- **The FAO's analysis confirms that Ontarians would receive significant relief under Ontario's Fair Hydro Plan (OFHP).**
- **Ontario is committed to keeping our electricity system clean, reliable and affordable.**
- **We've been making important investments in a cleaner and more reliable energy system for today and tomorrow.**
- **The decision to invest in a clean, modern and reliable electricity system was the right one — but the costs of this decision should not be put on today's electricity bills alone.**
- **The majority of the province's electricity generators have 20-year contracts. Many of these generators are expected to have ongoing useful life and will benefit future ratepayers.**
- **We are moving forward with a plan that will ensure costs are shared more evenly.**
- **OFHP would bring in initiatives that would cut costs directly on your electricity bill.**
- **We are taking decisive action by proposing to lower electricity bills for households by 25 per cent on average — it would be the single-largest reduction in Ontario's history. These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.**
- **The proposed OFHP legislation and supporting regulations would enable implementation of the following key components of the plan:**

1. **Refinancing the Global Adjustment (GA) – The proposed legislation outlines how costs would be fairly allocated among eligible consumers over time.**
2. **Helping Vulnerable Electricity Consumers – The proposed legislation broadens the Rural or Remote Protection Program (RRRP), expands the Ontario Electricity Support Program (OESP) and established a new On-Reserve First Nation Delivery Credit. The legislation also allows for these programs to be funded through the tax base.**

QUESTIONS AND ANSWERS

Q1. The Financial Accountability Office (FAO) Estimates the Fair Hydro Plan (FHP) will cost the Province approximately $45 billion over 29 years, while providing overall savings to electricity ratepayers of $24 billion. With such a significant cost, how can the government possibly justify this plan?

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $50 billion has been invested to modernize the electricity system.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

We have heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we are moving forward with a plan that would ensure costs are shared more evenly over the years ahead.

Q2. The report states that: "the electricity cost refinancing initiative does not smooth out the cost of electricity." Does the Ministry have any comment on the FAO's assertion that starting in 2028; the pre-tax cost of electricity is projected to be on average 12% higher than It would have been under the status quo?

These figures were estimates made by the FAO based on a number of variables, including the cost of borrowing. The 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."

There is a good deal of uncertainty related to the costs and composition of the electricity sector. Over time, uncertainty grows as supply mix, commodity prices and demand levels become more difficult to forecast.

We have heard from Ontarians across the province that the costs of new investments have grown too quickly, which is why we are moving forward with a plan that would ensure costs are shared more evenly over the years ahead.

This is why Ontario has introduced legislation that would, if passed, lower electricity bills by 25 per cent on average for all residential customers. Many small businesses and farms would also benefit from the initiative. As part of this plan, rate increases for four years would be held to the rate of inflation.

Q3. Could the provincial cost of this plan really increase to between $69 and $93 billion?

These figures were estimates made by the FAO based on a number of variables, including the cost of borrowing. The 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.”

To relieve the current burden on consumers, two streams of initiatives are being undertaken.

In the early years, a portion of GA costs would be financed to reduce pressure on today’s electricity consumers. In later years, the cost of financing would be recovered from consumers.

Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

Second. The province is proposing to introduce rate relief programs and expand existing ones.

A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program would now be funded from provincial revenues instead of by electricity consumers. The province is also launching a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.

The government has been working hard to reduce electricity ratepayer costs and will continue to look for efficiencies in the system wherever possible without compromising the reliability of our system. We are developing the 2017 Long Term Energy Plan (LTEP) which will include a projection of future electricity costs.

Q4. What efficiencies are you referring to? If more can be done to reduce rates now, why haven’t you already acted?

We have already taken several steps to mitigate system costs, including:

- Renegotiating the Green Energy Investment Agreement (GEIA) in 2013, to reduce contract costs by $3.7 billion.
- Reducing Feed-in Tariff (FIT) and microFIT prices through annual price reviews, saving ratepayers at least $1.9 billion.
- Introducing a competitive Large Renewable Procurement (LRP) process to drive down costs approximately $1.5 billion lower than the 2013 LTEP forecast.
- Suspending the second round of the LRP process and the Energy-from-Waste Standard Offer Program, which is expected to save up to $3.8 billion in costs.

- Deferring the construction of two new nuclear reactors at Darlington. This was in response to the supply and demand expectations of the 2013 LTEP, avoiding an estimated $15 billion in new construction costs.

- Maximizing the value of our existing nuclear fleet by starting Bruce refurbishments in 2020, instead of 2016, thus helping to achieve $1.7 billion in savings relative to the 2013 LTEP forecast and by continuing to operate Pickering up to 2024, pending regulatory approvals, which could save ratepayers as much as $600 million.

We look forward to working closely with the OEB, OPG and IESO to find even more savings for ratepayers.

Q5. The FAO estimates that the ratepayer will repay $39.4 billion from 2028 to 2045, $21 billion of which is interest alone. So every dollar saved will in effect be paid back twice. Can you confirm these numbers?

These figures were part of an estimate by the FAO that include a number of variables. The 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."

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $50 billion has been invested to modernize the electricity system.

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

We have heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we are moving forward with a plan that would ensure costs are shared more evenly over the years ahead

Q6. Why is the FAO saying that "the RRRP may revert back to ratepayers, as described under schedule 2, section 1 of the proposed Bill 132, the Fair Hydro Act, 2017."

This is an erroneous assumption made by the FAO, not any reflection of government plans or policy.

The existing RRRP program provides support to Hydro One R2 customers, as well as customers in Algoma Power and remote communities. The Fair Hydro Plan announced that the Ministry intends, through legislation and regulation, to move RRRP costs for Hydro One R2 consumers from the ratebase to the taxbase. This represents roughly 80% of current RRRP costs. Costs associated with providing support to Algoma Power and Hydro One Remote Communities are unaffected by this proposal, in order to not disrupt complex regulatory constructs governing this funding.

To allow the Ministry to implement this intent, the legislation allows for current RRRP costs to be funded through both the taxbase and the ratebase (with this division to be articulated in regulation). The regulations will specify that Hydro One R2 costs will be paid for by the taxbase, and there is no intention to return Hydro One R2 costs to the ratebase at any point.

Costs associated with the broadened RRRP program (referred to in the legislation as Distribution Rate Protection under Schedule 2 Section 4) can only be placed on the taxbase. Therefore the Ministry disagrees with the FAO assessment that there is potential for the program to revert back to the ratebase in the future.

Q7. The FAO report assumes that in 2020-2021 electricity relief programs will no longer be funded by the province. Why was this not outlined in the Fair Hydro Act? Has the government been hiding this from us all along?

This is an erroneous assumption made by the FAO, not any reflection of government plans or policy. Our government is proud of the program enhancements it will be providing Ontarians through the FHP.

As a government, we have been focused on ensuring that our electricity system has been fairer for families living in rural areas or with low incomes.

Programs designed to support customers that are most vulnerable to increasing electricity costs will shift from the hydro bill to government funding, recognizing they are for the common good. This includes the Ontario Electricity Support Program (OESP) and Rural and Remote Rate Protection (RRRP).

The new Affordability Fund and the On-Reserve First Nation delivery rate will also be government-funded. This ensures that initiatives designed to provide a social good will be better aligned with the government's poverty reduction goals.

Q8. The FAO questioned whether the Province's proposed accounting treatment meets public sector accounting standards. Is the government collaborating with the Auditor General of Ontario (OAGO) to clarify this issue?

The government worked hard to assess all fiscal impacts and worked closely with both internal government and external accounting experts. Our government welcomes any input from the Auditor General to ensure all of the public sector accounting standards are met.

In crafting the proposed Fair Hydro Act, 2017 the government has consulted broadly, including with:

- Ontario's Energy Agencies

- Experts across government
- External accounting experts
- External legal advisors
- Financial advisors
- Local Distribution Companies

The proposed legislation would deliver on the Government's commitment to fairness, and electricity rates would come down and make life more affordable for families and businesses across the province.