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

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 $44 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?

Commented [HA(1]: Answer currently in approvals, will share once available.

Q3. Could the provincial cost of this plan really increase to between $68 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. In the 2017 LTEP, we will focus on taking additional costs out of our electricity system, and address affordability beyond the short and medium term for all Ontario ratepayers.

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. 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 accounting 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. Eligible consumers will receive additional funding through assistance and conservation programs including:

- Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and struggle to pay their electricity bill.
- Broadening Rural or Remote Electricity Rate Protection (RRRP) to provide Delivery Charge Relief for the customers of the local distribution companies (LDC's) with the highest delivery charges.
- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Removing the delivery charge from the bills of on-reserve First Nations customers.

Q7. 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.