Queen's Park Today — Committee Monitoring

2017-2018 Estimates for the Ministry of Energy

October 4, 2017

In attendance

Minister of Energy, **Glenn Thibeault**
Deputy Minister, **Serge Imbrogno**

Comittee chair, **Cheri DiNovo**
Committee clerk, **Eric Rennie**

- **(LIB) Mike Colle**
- **(LIB) Sophie Kiwala**
- **(LIB) Ann Hogarth**
- **(LIB) Nathalie des Rosiers**
- **(LIB) Bob Delaney**
- **(PC) Michael Harris** (Absent)
- **(PC) Todd Smith**
- **(NDP) Peter Tabuns**

Summary

Energy Minister **Glenn Thibeault** appeared before Estimates Committee for two hours Wednesday, opening up the meeting with an introduction of a dozen agency (OPG and IESO) and ministry staff in attendance. Rather than use his 30 minutes to make an opening statement, Thibeault passed his time to Liberal MPP **Bob Delaney** to question **Kim Marshall**, VP and CFO of the IESO, about changes the agency made to rate regulating accounting procedures in 2016. With his remaining time, the minister outlined in brief the public consultation opportunities the government oversaw in rolling out its next Long Term Energy Plan.

Opposition members from both parties were given their first shot at the minister. **Todd Smith** from the PCs used his 30 minutes to question Thibeault and Deputy Minister **Serge Imbrogno** about why the government scuttled rumours this summer about a plan to import eight terawatt hours of hydro-electricity from Quebec. Smith asked whether the ministry had employed outside consultants from Deloitte or KPMG to analyze the potential Quebec deal before questioning whether the "sole-sourced, backroom deal" with Hydro Quebec would weaken the province's capacity auction for more electricity generation.

Peter Tabuns from the New Democratic Party, meanwhile, used his first 30 minutes to grill the minister and Imbrogno over statements made by the Financial Accountability Officer this spring suggesting the government was undertaking “financial engineering” that could violate public sector accounting standards in moving $18 billion in debt off the government’s books and onto OPG’s leger. Tabuns also pressured the minister to explain why the government had opted to use OPG as a borrowing agent for the Fair Hydro Act when the FAO suggested this process could be $4 billion more expensive than traditional government borrowing. Tabuns asked “Are you telling me the province doesn’t have the intellectual or administrative capacity to borrow large sums of money?”

Quotation of the Day

“The Financial Accountability Officer said you picked a very expensive way to borrow this money. Even if it was less than $4 billion, minister, why would you pick a more expensive financing option and thus impact the people of this province?”

> *NDP MPP Peter Tabuns asks Energy Minister Glenn Thibeault why the government opted to use Ontario Power Generation as a borrower to finance the Fair Hydro Act, intended to cut electricity rates by upwards of 25 percent.*

Committee Meeting Highlights

Bob Delaney and **Kim Marshall** had an interested exchange at the beginning of committee in which Marshall outlined how and why the Independent Electricity System Operator changed the way it reports regulated assets and liabilities on its balance sheets. When the IESO invested $300 million into the province’s smart metres, it anticipated charging consumers over time to recoup the expense.

But how to list this line item in their budget? Using KPMG, the IESO contacted comparable organizations throughout North America to better understand how they deal with large financial outlays that are repaid over time by consumers. “There was no change or impact on ratepayers through smart metres or otherwise,” Marshall said. “Nothing changes, just the presentation of our financial statements.”

Minister Thibeault spent a few minutes outlining the priorities listed in his mandate letter from Premier **Kathleen Wynne**, including:

- reducing greenhouse gas emission;
- transitioning to a low-carbon economy;
- placing a greater emphasis on energy conservation; and
- Engaging more fully with communities and Indigenous groups.

PC Questioning

Tory MPP **Todd Smith** was the lone speaker for the Progressive Conservatives. He focused his time with the minister exclusively on the proposed deal with Hydro Quebec from June 2017 that Thibeault killed by suggesting at the time (and again in committee) that the deal would not have reduced the province's reliance on natural gas or saved ratepayers money.

Smith asked the following questions and made the following arguments in discussions with Thibeault and Imbrogno:

- Smith initially seemed fixated on whether a "term sheet" for the proposed deal between Ontario and Hydro Quebec had been formulated and whether that document could be made public.
- He then asked repeatedly whether outside consultants had been retained by the ministry to analyze the proposal before the government decided to scuttle it. He then raised two figures ranging from $75,000 to $145,000 that he claimed were paid to Deloitte and KPMG for their services on this file.
    - Imbrogno explained that Deloitte was brought on to provide advice but not to analyze the deal. That, he suggested, had been done by the IESO and by Infrastructure Ontario. IO was included in this deal because of the potential upgrading of transmission lines in the Ottawa region necessary to import Quebec power.

- Smith asked if former Energy Ministry DM **Saad Rafi** had been involved on this file on behalf of Deloitte.
    - Yes, Imbrogno said, Deloitte had thought him the best person to provide expertise on the file.
- *Smith: "Why is the government asking in the first place [for a deal on Quebec power] if there's an understanding it wouldn't reduce natural gas but only baseload power, which is already virtually emissions free?"*
    - This evolved into a discussion of whether the power from Quebec could come back into play when the Pickering nuclear plant comes offline in 2024 and the province needs to replace that power.

- Smith also said the government should not have signed onto a power arrangement with Quebec without going through a competitive procurement process, suggesting Ontario power generators were ready and willing to boost their capacity, rather than paying generators out of province.

- Smith then questioned whether the government was weakening its own capacity auction by signing onto power deals with Quebec for seven year terms, especially when some of the earliest Green Energy Act contracts were for 20 year terms.
    - Imbrogno suggested the existing Quebec deal would have no impact on the capacity auction and the kilowatt hours expected to come online.

NDP Questioning

MPP **Peter Tabuns** focused most of his time on the FAO report about how the government is borrowing money and what ulterior motives it may have had in using Ontario Power Generation as a borrower in place of the government directly borrowing that money themselves.

Tabuns asked the following questions and made the follow arguments in discussions with Thibeault and Imbrogno:

- Tabuns picked up where Smith had left off with a discussion of the potential of Quebec power to offset what capacity is lost when Pickering nuclear goes offline.
    - Imbrogno suggested the $20 million upgrade to the transmission infrastructure in the Ottawa area could increase capacity by 1,000 megawatts or more, but said Quebec power is simply one option among many to replace Pickering's energy when it's gone.

- Tabuns questioned whether the government was aware of the risk they were incurring in having OPG borrow $18 billion as part of the "so-called" Fair Hydro Plan to reduce consumer bills in advance of an election.
    - He quoted from the Spring 2017 FAO report, suggesting the government was risking the province's credit rating by having OPG borrow the money instead of the province so it doesn't appear on the government's books.
    - He suggested it was fanciful to think that the government wouldn't back up OPG should it wind up in financial trouble.

- After squabbling with Imbrogno over whether $5 billion the government had raised in IPO's for Hydro One had actually been spent on reducing the debt or paying for infrastructure, Tabuns turned his attention to the expense of borrowing money.
    - Tabuns asked why the government chose to have OPG raise the money when the FAO suggested this method was $4 billion more expensive than traditional borrowing practices?
    - It led to a lengthy back-and-forth between Imbrogno and Tabuns over why the OPG-led practice was worthwhile as part of a long-term borrowing strategy. **John Lee**, VP, Treasurer for OPG was called to testify and provided two minutes of arcane explanation before Tabuns' 30 minutes were up.

- *Tabuns: "I don't see where I get $4 billion worth of value having OPG borrow that money instead of the government of Ontario borrowing that money. You [Imbrogno] also haven't told me the FAO was wrong or overstated the potential for savings."*

The meeting concluded with a 30-minute reply from the minister, who largely used the opportunity to tout the government's phase out of coal-fired generation and the praise they received from climate advocate and former US vice president **Al Gore** for doing so. Thibeault also spoke about the need to transition to a low carbon economy and the urgency in reducing GHGs.

Thibeault concluded with a fascinating statement that's worth repeating in full:

"Technological innovation and customer demands for better services will drive a remarkable pace of change, and our governance structures need to evolve as well to keep up with the changing market place. We need to be less restrictive and allow people to enter Ontario's energy market without a heavy-handed regulatory regime in place. Ontario needs to step back from picking specific technologies, the future winners and losers, and allow for a more outcome-based approach." **[Paraphrased]**

The committee then adjourned until 9:00 am on October 17, 2017.