Financial Accountability Office of Ontario

Comment Tracking Form

Deliverable under review	Draft Final Report
Reviewing entity	Ministries of Energy and Finance
Date	May 12, 2017
Project Name	An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan
FAO Reference	FA1710

General Comments	
Comment made by (person)	**Comment**
Tim Christie	Suggest changing "Electricity Cost Refinancing" to "Global Adjustment Refinancing" throughout the document so that it is clear to readers what costs are being refinanced. For example, "electricity cost" and "cost of electricity" are used often, at times in the same sentence as "electricity cost refinancing". Consider using "GA refinancing" to differentiate the initiative and the total electricity system costs.
Tim Christie	Recommend making it clear throughout the report whether values and corresponding figures are in real or nominal dollars.
Tim Christie	Recommend using net present values where appropriate. "Electricity cost refinancing" has a cost of $21 billion (presumably in real dollars), but would be substantially lower (or even a benefit) in net present value depending on discount rate.
Tim Christie	FAO document seems to assume GA refinancing will end by 2045. Legislation proposes 2047 as the end date.

Mike Smith	While understanding FAO comments on uncertainty in the future, the Ministry has never indicated a policy intent to end the funding of social programs after 2020-21. In particular the visualization of costs on page 6 may give the impression that these programs will be ending. FAO should consider ways to visualize/incorporate on-going social program funding into the analysis.
Ron Kwan	May wish to clarify that costs estimates are illustrative based on a conservative 5% interest rate assumption. Overall interest costs could be substantially lower, as per the sensitivity analysis performed.

Specific Comments		
Report Section	**Comment made by (person)**	**Comment**
Section 1 – pg. 2	Tim Christie	Recommend the following edit: "a rebate to residential ratepayers ~~of~~ equivalent to the 8% provincial portion of the HST…"
Section 1 – pg. 2 (and elsewhere in document	Mike Smith	Recommend "Harmonized Sales Tax (HST) Rebate" be referred to as "8% Provincial Rebate" to align with edit above.
Section 1 – pg. 2 (and elsewhere in document)	Mike Smith	RRRP stands for *Rural or Remote Rate Protection*, not *Rural or Remote Ratepayer Program*.
Section 2 – pg. 3	Tim Christie	Figure 2-1: Suggest clarifying whether the values are before or after tax.
Section 2 – pg. 3	Bruno Amara	Not clear on figures behind Figure 2-1. FAO calculation based on information provided?

Section 2 – pg. 5	Tim Christie	Unsure of the value of this chart as it may be confused with 2-1. It appears one is real and one in nominal.
Section 2 – pg. 5	Tim Christie	Paragraph beginning with “Cost of providing electricity to eligible ratepayers”: Increases in generation cost could lead to a reduction in GA costs if the increased costs (e.g. fuel costs) are reflected in a higher HOEP. This would leave the refinancing proposal largely unaffected.
Section 2 – pg. 5	Tim Christie	While increasing demand was raised as a factor that could impact refinancing, the inverse is also true (i.e., the impact of decreasing demand). Additionally, increasing demand in the longer-term would decrease the average cost of repayment for eligible ratepayers.
Section 2 – pg. 6	Tim Christie	Relief Programs savings should extend indefinitely.
Page 6 (Figure 2-3)	Usman Syed	Estimated annual cost of relief programs to taxpayers is shown in Figure 2-3(e.g. ~$0.45 Billion in year 1). However, the first values listed in the graph are for FY 2017-18. For comprehensiveness, the graph should show the $100 M for the Affordability Fund in FY 2016-17. ENERGY provided information to the FAO in late March/early April (Excel attached) which identified A-Fund as a one-time cost from tax in FY 2016/17, pending a future request(s) for additional funding by the Ministry.
Section 3 – pg. 8	Tim Christie	The “obligation for ratepayers to repay the Province” is due to debtholders, including entities other than the province.
Section 5 – pg. 10	Tim Christie	It may be useful to indicate how much is being consumed for this monthly bill estimate. Is it based on 750 kWh per month?
Section 5 – pg. 10	Tim Christie	Regarding Table 5-1, the reduction of $13 related to the tax line appears to be overstated. Both the 8% rebate and the 13% HST are applied on the amount before tax.
Section 5 – pg. 10	Tim Christie	Regarding Table 5-1, the impact of GA refinancing on the electricity line appears to be understated given that the reduction in the tax line is overstated.
Section 5 – pg. 10	Bruno Amara	Per comments above regarding Table 5-1,

		May want to split current “Tax” line into 2 lines OREC (8% rebate = to HST) and HST impacts. Note FHT Impacts do not add to the $41m. Believe Electricity and WMC impacts need to be recalculated. These amounts can be calculated from table provided to FAO “Record 1 FA1710 Fair Hydro Plan…”
Section 5 – pg. 10	Tim Christie	Regarding Table 5-1: The cost of RRRP and OESP are part of the regulatory line on a bill. Wholesale market service charges are a subset of the regulatory line.
Appendix B – p 11	Tim Christie	Interest rate assumption for OPG debt is too high. The spread between provincial and OPG debt will be less than the 270 basis points used in the analysis.
Appendix B – p 11	Ron Kwan	Based on expected interest rate spreads between the Province and OPG of closer to 20-50 bps, the interest cost reductions compared to the 5% illustrative case is likely to be much closer to $10 bn regardless of the percentage financed by the OPG Trust versus the Province.