RE: TBS Issues Review for Friday March 3

From: "Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>
Date: Mon, 06 Mar 2017 10:11:28 -0500

Hi Cindy,

Please see article below.

Here's how Premier Wynne plans to reduce hydro bills by 25%

By Geoff Zochodne (QP Briefing)

What exactly are the Liberals proposing? QP Briefing takes a whack at it.

Ontario's Liberal government has said it will reduce electricity bills by an average of 25 per cent starting this summer.[1]

How the Grits propose to do so is an adventure in accounting. What follows is ***QP Briefing***'s best explanation of how that savings-sausage gets made, drawn from Thursday morning's technical briefing and a scrum with Energy Minister **Glenn Thibeault**.

First, there's the 8-per-cent rebate the Liberals announced last September, which actually started being refunded to consumers in January. This rebate is costing the provincial treasury about $1 billion annually.

More savings will come from the Liberals' move to shift the cost of electricity assistance programs off hydro bills and onto tax bills. Those programs will also be increased, providing more savings for people. Over three years, this is expected to cost the government $2.5 billion. This will be paid for, again, by tax dollars.

But the backbone of the 25-per-cent plan is the Liberal government's move to "refinance" the global adjustment charge, which cost consumers about $10 billion in 2015.

All hydro customers pay the charge, which is the difference between Ontario's hourly electricity price and the one guaranteed to electricity generators. So if a company's contract says it is to be paid $100 for some electricity, and the market price is $75, hydro customers are forking over the missing $25 (this applies to contracts for all sorts of power: nuclear, gas, solar, wind). The fee also covers the cost of conservation programs.

With this in mind, the Liberals are going to reduce the global adjustment costs by about $2.5 billion per year over the first 10 years of a 30-year refinancing period. This is anticipated to begin as early as this summer.

The government's thinking is that the province has signed 20-year contracts with some generators, but the power plants will keep producing electricity past the end date of their contracts. Therefore, the government says, not so much of the cost needs to be up front. The Liberals like comparing this idea to remortgaging one's home.

But how does one make $2.5 billion disappear from hydro bills?

The government's answer is, essentially, to just collect less money from consumers. At the same time, the province will keep paying electricity generators the same amount they're always paid, creating immediate savings for electricity customers, but a gap as well.

Enter the whipping boy.

In short, the difference between the now-lower consumer payments and the standard generator payments will be plugged using debt. A single entity will be responsible for this burden.

First, the Independent Electricity System Operator, which runs Ontario's power grid and market, will define and create an "asset" that represents the gap between the reduced amount customers are paying and what the electricity generators are owed. The gap, the debt needed to fill the gap, and the interest payments on that debt filling the gap make up the "asset." Ontario Power Generation, the provincially owned power company, would then acquire the asset from the IESO and create a company to carry the load.

The company really only exists to accrue and service the debt, which, remember, is being used to shore up the gap between the reduced customer payments and the same-as-usual generator payments.

So the whole scheme means hydro customers will pay less money to their local electricity company, which will pay an average of about $2.5 billion less annually to the IESO as a result. OPG and the holding company will then send $2.5 billion to the IESO, which OPG and the company borrowed from banks. The IESO then pays electricity generators exactly what they're owed.

Got that?

Oh, but while the holding company will take on the debt needed to reduce the global adjustment charge, interest on that debt will also build up over time (thus completing the "asset").

Electricity customers will be responsible for starting to pay interest on that debt in about 10 or so years. And over 30 years, the Liberal government expects ratepayers will cough up $25 billion in interest payments in order to "refinance" the global adjustment charge.

The government says these payments shouldn't be higher than $1.4 billion in any given year over the next 30 years, which is based off a projected interest rate of 5 per cent. But those interest payments will flow from the customers, to the utilities, to the IESO, to OPG's holding company, which is servicing the "asset."

And, lest we forget, fluctuating interest rates and electricity prices could render all of the numbers above entirely incorrect. Fun!

Anyway, to pull all this off, the government is going to need to pass some legislation. But since the Liberals still have a majority in the legislature, it shouldn't be a problem.

As Minister Thibeault told reporters Thursday: "If there would have been an easier way to do this, we would have done it."

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From: Veinot, Cindy (TBS)
Sent: March-05-17 7:22 PM
To: Hosick, Sarah (TBS)
Subject: FW: TBS Issues Review for Friday March 3

Sarah – there is an article referred to below – QP Briefing – uses the term adventure in accounting – can you track it down and send it to me – thanks,

From: Bigley, Jane (TBS)
Sent: March-03-17 7:33 AM
Subject: TBS Issues Review for Friday March 3

Good morning!
Here is the Treasury Board Secretariat Issues Review.
Cabinet Top Issues for today will be sent later.

Minister Sandals is quoted in a QP Briefing story on cyber security. The article is in response to the Auditor General's concerns of the province's aging IT system. "Quite frankly, we would not refer to it in detail, and I would hope the auditor not refer to it in detail, because when you set up a security system, the last thing you need is somebody running around dissecting it," said Sandals. "This is an area where you do not want to discuss the details because when you discuss the details, what you're really doing is helping people who want to breach your system," said Sandals. "Revealing details actually plays into the hands of the people who want to breach." Ontario's security advisor Ray Boisvert is also quoted. **Article in TBS Media Watch.**

HYDRO RATE CUTS:

There is multiple media coverage on the announcement of hydro rate cuts. Generally critics say the plan makes the future generation pay for "our mistakes" and it is an election ploy. Highlighted below is a selection of stories: **Multiple Articles in TBS Media Watch.**

The Globe and Mail (A1) notes the plan provides only modest relief to industrial customers. Firms say they can't compete and electricity costs are driving business out of the province.

The Toronto Star (A14) notes 'cheaper hydro now will cost more in the long run." It reports "T his will result in an annual cost to the treasury of $1.83 billion."

QP Briefing notes the 25% reduction is an "adventure in accounting". The article then goes on to explain 'how' government will do it.

The Toronto Sun's (A9) Lorrie Goldstein writes " Trusting Premier Kathleen Wynne and the Liberals to fix the hydro mess they've created is like trusting rabbits to guard the lettuce patch."… "Ontarians will be paying for that mistake for generations to come."

Guelph Today quotes Minister Sandals from a telephone interview. " "I think we've heard from people all across the province that some of them are really, really struggling with their electricity bills," she said. "So we sat down, had a look and said, what can we do to make the electricity bills more affordable." ""So why are we asking today's consumer to pay in 20 years for something that people are going to be using for 30 years," Sandals said. "We are saying that everybody who is going to get electricity from that generator (over a 30-year period) should help pay for the capital costs of building that generator."
Article attached

TREASURY BOARD :

The Toronto Star (B6) and the Globe and Mail (B1) report t he Canadian economy outperformed expectations in the final three months of 2016 by growing at an annual rate of 2.6 per cent. – thanks to consumer spending in the fourth quarter. **Articles in TBS Media Watch.**

The Ottawa sun (A13) has a piece by Charles Lammam of the Fraser institute. He writes about five ‘myths and reality’ in Canada’s infrastructure spending. **Article attached**

The Toronto Star(A1) and The Globe and Mail report Metrolinx is in talks to replace bombardier with another company to supply vehicles for the Eglinton Crosstown LRT project. Court filings show Metrolinx claims ” Bombardier's failure to deliver vehicles on time has pushed the situation to an "urgent crisis point." They warn that Metrolinx could suffer "extreme" financial losses if it's not permitted to find another supplier. The agency's $770-million vehicle deal with the Quebec-based rail manufacturer has been tied up in court since earlier this month.” **Articles in TBS Media Watch.**

The Globe and Mail (A3) reports the federal budget will “ be based on a two-month-old survey of private-sector economists in spite of increasing signs lately that the economy is doing better than expected.” **Article in TBS Media Watch.**

COMPENSATION and HR:

The National Post (A6) reports English Catholic Teachers have voted 87% in favour of a 2-year deal. **Article in TBS Media Watch.**

The Windsor Star reports the city’s inside workers have voted 94% in favour of a new four-year agreement with the city. Wages will increase 1.25% for each year of the agreement. **Article in TBS Media Watch.**

I.T. and OPEN GOVERNMENT:

The Waterloo Region Record (C10) reports BlackBerry's shift from smartphone maker to a software maker is complete but branding is now a challenge for the inventor of the smartphone. **Article in TBS Media Watch.**

The Toronto Star (B3) reports the CEO of Yahoo has agreed to forgo her $2M bonus and her $12M equity award (for 2017) because of the massive customer data breach her company suffered in 2014. **Article in TBS Media Watch**

CALENDAR:

Premier Wynne to make calls to Ontarians about Ontario’s Fair Hydro Plan
10:00 a.m. / Toronto: Ontario Premier Kathleen Wynne makes calls to Ontarians about Ontario's Fair Hydro Plan. (Main Legislative Building, Room 281, Queen's Park)

MPPs speak about Ontario’s plan to lower electricity bills and ensure fairness
1:45 p.m. / Ottawa: MPPs Bob Chiarelli, Nathalie Des Rosiers, John Fraser, Marie-France Lalonde and Yasir Abbas Naqvi speak about Ontario's plan to lower electricity bills and ensure fairness. (Hydro Ottawa - Main Gate, 3025 Albion Rd. North)

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