

RE: Finance-Budgets: Ontario's Auditor-General is wrong about hydro costs - The Globe and Mail

From: "Imbrogno, Serge (ENERGY)" </o=govon/ou=ontario public sector - iserv
ems/cn=recipients/cn=imbrogno">
To: "Orsini, Steve (CAB)" <steve.orsini@ontario.ca>
Date: Thu, 10 May 2018 23:25:03 -0400

For sure.

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From: Orsini, Steve (CAB) <Steve.Orsini@ontario.ca>
Date: Thursday, May 10, 2018, 10:49 PM
To: Imbrogno, Serge (ENERGY) <Serge.Imbrogno@ontario.ca>
Subject: RE: Finance-Budgets: Ontario's Auditor-General is wrong about hydro costs - The Globe and Mail

Thanks. Can we meet tomorrow at 10:30 to discuss HydroOne?

From: Imbrogno, Serge (ENERGY)
Sent: May 10, 2018 8:52 PM
To: Orsini, Steve (CAB)
Subject: RE: Finance-Budgets: Ontario's Auditor-General is wrong about hydro costs - The Globe and Mail

Hi. I'm on the university of waterloo's WISE advisory council. Jatin is also on the council.

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From: Orsini, Steve (CAB) <Steve.Orsini@ontario.ca>
Date: Thursday, May 10, 2018, 8:28 PM
To: Imbrogno, Serge (ENERGY) <Serge.Imbrogno@ontario.ca>
Subject: FW: Finance-Budgets: Ontario's Auditor-General is wrong about hydro costs - The Globe and Mail

Does the ministry have any direct or indirect relationship with Jatin?



Ontario's Auditor-General is wrong about hydro costs

The Globe and Mail
Mon May 7 2018
Page: B4
Section: Report on Business
Byline: JATIN NATHWANI

Professor and **Ontario** Research Chair in public policy for Sustainable Energy at the University of Waterloo

Since 2005, billions of dollars have been borrowed to refurbish and upgrade **Ontario's** electricity infrastructure and achieve the goal of shutting down coal generation. The province's **Auditor-General, Bonnie Lysyk**, says the government is keeping the debt off the books through "bogus" accounting.

This is an unfortunate characterization, and it arises because the AG refuses to accept a principled approach to the accounting of investment costs incurred within the electricity sector. The **Auditor-General's** observation has become the primary source of fuel for an angry public reaction and a distorted political debate. The **Auditor-General's** office, playing into an attention-seeking device that casts the government and related agencies (Hydro One, OPG and IESO) as having "fiddled" the books, creates more heat than light and does not serve the public interest.

The details of the flows of revenues and incurred costs within the electricity sector among many players - generators, distributors, consumers small and large and financing institutions - are complex. But the big-picture view is relatively easy to grasp.

Over the past decade, **Ontario's** investment commitments in the electricity sector are in the order of \$50-billion.

What we now have is a power-system infrastructure that will serve **Ontario** for many years to come. Who should pay for these costs?

One principled approach is to ensure that those who benefit pay. This principle puts a "ring fence" around the sector to ensure costs incurred for the needed investments are paid for by those who benefit from the delivered service, now and into the future. The cost of the "borrowed billions" are then recovered through the hydro rates.

The alternative choice is to spread the costs over the entire tax base of the province. The negative consequences of the burden of electricity sector investments - if transferred to the government's debt obligations - can crowd out the government's capacity to address other priorities for investments in health, education, transport and other sectors.

There is merit in keeping the burden of electricity system obligation within the sector and the costs to be recovered through the hydro rates. Notwithstanding the **Auditor-General's** assertion that all costs of regulated utility should show up on the province's balance sheet, the approach chosen by the government was to confine the costs within the sector. The impact of this choice resulted in higher hydro rates.

In response to public demand for relief, the government offered a 25-per-cent reduction in hydro rates but would stretch the repayment of the debt over a longer period. The repayment of the "mortgage" provides relief in the short term, but comes with an overall higher cost in the long term. Whether the additional cost of paying a debt over a longer period constitutes an undue burden on future ratepayers can be debated, but we must acknowledge that both children and adults will continue to benefit from the current investments into the future.

If we stick to a principled approach to the recovery of the costs from the users of electricity, then the criticism by the **Auditor-General's** office of a \$3-billion to \$4-billion cost differential on the regulated asset base is not germane. For example, Enbridge is a private-sector regulated utility that provides gas delivery to **Ontario** homes and industry. As part of its business operations, Enbridge incurs maintenance and investment costs and borrows on the capital markets as necessary. These costs are recovered through delivery charges on gas consumers but approved by the **Ontario** Energy Board.

In a similar vein, when the regulated electricity sector agencies (Hydro One, OPG and IESO) borrow money on the capital markets - albeit at a higher financing cost in relation to government borrowing - to build and maintain regulated assets, where is the principled argument for assigning that cost to the broader tax base?

That is precisely what the **Auditor-General** seems to propose.

Ms. Lysyk's conclusions are not convincing and fail to provide a compelling public-interest rationale for loading up the electricity system borrowing costs onto the province's debt obligations. It is a dubious strategy that creates needless peril for the funding of important social infrastructure such as mass transit, schools and hospitals.

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