MC-2018-97

⊖ F41

PL Premier fwds, for info, Complaint about OF HP's ~~facts~~ accounting practices, and the ~~prov~~ management of the provincial power system in general

S: Energy policy

DeFreitas, Shelley (ENERGY)

From:	Bond, Doug (CAB)
Sent:	January 22, 2018 9:34 AM
To:	Write2us (ENERGY)
Subject:	INFORMATION COPY wsu 2190147
Attachments:	1-30758842-INCOMING.msg; INFORMATION COPY.pdf

January 22, 2018

jdeakos@cogeco.ca

Dear Mr. Deakos:

Thank you for your email regarding Ontario's Fair Hydro Plan. I appreciate hearing from you.

As my colleague the Honourable Glenn Thibeault, Minister of Energy, would also be interested in this issue, I've passed along a copy of your message to him for his information. I trust that he will also give your views his careful consideration.

Once again, thanks for contacting me. Please accept my best wishes.

ORIGINAL SENT BY EMAIL
January 22, 2018

Kathleen Wynne
Premier of Ontario

c: The Honourable Glenn Thibeault

DeFreitas, Shelley (ENERGY)

From: Deakos John <jdeakos@cogeco.ca>
Sent: January 3, 2018 12:29 PM
To: Wynne_Kathleen-MPP; gthibeault.mpp.co@liberal.ola.org
Cc: Flynn_Kevin-MPP-CO; Brown Patrick; Horwath Andrea; Macleans; gopublic@cbc.ca
Subject: Provincial Auditor General's 2017 Report on Ontario's FairHydroPlan

The attached e-mail, which clearly outlines the disastrous situation that our Provincial Power Sector was in at the time, was sent to you back in 2015. It was no surprise not to receive any kind of response from you at the time. However, here we are 2 years later & the 2017 Auditor General's
Report on Ontario's FairHydroPlan (refer to attachment below) clearly shows just how much further down the abyss our Provincial Power Sector has continued to fall. Not only are energy rates not falling, the cost to rate payers & taxpayers is continuing to grow exponentially. Not only are our costs & debt increasing, but now your government has reached the lowest of the low by using questionable accounting practices.

This is totally unacceptable & I & my friends will be basing our vote in the next election on which party can put forward a plan "with measurable outcomes" to rationally bring our Provincial "Public" Power Sector into the 21st century. There is absolutely no reason why we cannot have in-place a team of experienced players who can reduce the bloated bureaucracies & stop the incompetent "political" management of this file.

I have worked in the power sector for 40 years & have never ever seen such incompetence & total disregard for the taxpayers that we have seen in this province. This needs to be a #1 priority for our future government.

I can only hope that this type of irresponsible behaviour is not endemic in the other government departments, but I am not optimistic.

Your early response would be greatly appreciated.

John Deakos
(905) 469-5930
904-2175 Marine Drive, Oakville, ON L6L5L5

Extract of the 2017 – Auditors General's Report on Ontario's FairHydroPlan:

The Auditor General's Summary of Concerns: After reviewing the information available to us, it is clear to us that <u>the government's intention in creating the accounting/financing design to handle the costs of the electricity rate reduction was to avoid affecting its fiscal plan. That is, the intention was to avoid showing a deficit in the Province's budgets and consolidated financial statements for 2017/18 to 2019/20, and to likewise show no increase in the Provincial net debt.</u>

Our Office does not question the government's Policy Decision to reduce Ontarians' electricity bills, as such policy decisions are a government's prerogative. <u>Our concerns are that the planned accounting for the government's budgets and consolidated financial statements is incorrect, and that it was known that the planned financing structure could result in significant unnecessary costs for Ontarians.</u>

The substance of the issue is straightforward. Ratepayers' hydro bills will be lower than the cost of the electricity used as a result of the electricity rate reduction. However, power generators will still be owed the full cost of the electricity they supply, so the government needs to borrow cash to cover the shortfall to pay them. The effects of the additional debt required to fund the generators need to be accounted for as part of the annual deficit and net debt of the Province. However, the government did not properly account for this debt impact from the electricity rate reduction in its 2017/18 budget and is not planning to account for it properly in its future consolidated financial statements. In essence, the government is making up its own accounting rules.

This Special Report highlights the following key concerns:

1) Through the Fair Hydro Act, the government created a needlessly complex accounting/ financing structure for the electricity rate reduction in order to avoid showing a deficit or an increase in net debt in its budgets and in the Province's consolidated financial statements (Section 1.0).

2) According to the government's current plan, the only electricity rate reduction lasting beyond 2027 will be a 9% reduction mainly from the HST rebate and other taxpayer funded programs. From 2028 on, ratepayers will be charged more than the actual cost of the electricity being produced in order to pay back the borrowings. The total borrowings to be repaid will be an estimated $39.4 billion, made up of $18.4 billion borrowed to cover the current rate reduction shortfall and $21 billion in accumulated interest over the term of the borrowings (Section 1.0 and Appendix 1, Section 4.0).

3) Applying the government's complex accounting/financing structure could result in Ontarians incurring extra interest costs over 30 years that could total up to $4 billion more than necessary (Section 2.0).

4) The government applied a correct accounting treatment for the electricity sector's stranded debt in 1999/2000, and there is no good reason for it not to apply the same accounting treatment to the debt that will accumulate as a result of the Fair Hydro Act's electricity rate reduction (Section 3.0).

5) The creation of a regulatory asset legislated in the Fair Hydro Act violates the government's own accounting policies, developed in accordance with Canadian Public Sector Accounting Standards (Section 4.0).

6) The government knew there was a high risk that it would receive a "qualified" audit opinion on the Province's consolidated financial statements as a result of using legislation to create a regulatory asset, but it accepted this risk in order to avoid showing a deficit and an increase in net debt in its budgets and consolidated financial statements. Accordingly, the 2017/18 budget does not, but should, include the impact for 16% of the costs of the Policy Decision to reduce electricity rates by 25%. The 16% reduction is estimated to cost an average of $2.5 billion per year (over 10.5 years) through to 2027 (Section 5.0).

Begin forwarded message:

From: Deakos John <jdeakos@cogeco.ca>
Subject: Provincial Auditor General's 2015 Report
Date: August 28, 2016 at 12:00:18 PM EDT
To: Premier Kathleen Wynne <kwynne.mpp@liberal.ola.org>, "MPP Bob Delaney, Minister of Energy" <bdelaney.mpp@liberal.ola.org>, "MPP Kevin Flynn, Minister of Labour" <kflynn.mpp.co@liberal.ola.org>
Cc: Macleans Macleans <letters@macleans.ca>

To Whom It May Concern:

The Provincial Auditor General's 2015 Report: clearly states that **"Over the last decade, Ontario's power system planning process has essentially broken down, and Ontario's energy system has not had a technical plan in place for the last ten years.** The Ministry of Energy is not taking the recommendations & expert advice of the body that was put in place to plan our power system here in Ontario, namely, the OPA. The OPA has strongly argued against many of these projects, claiming them not to be economically viable & yet the Ministry deliberately ignored this expert advice & "instructed" the OPA to proceed with the projects anyway. The following are excerpts from the Auditor General's Report:

Expensive Wind and Solar Energy: The OPA had recommended that the Ministry use a competitive procurement process for large renewable energy projects, but the Ministry decided against it. With wind and solar prices around the world beginning to decline around 2008, a competitive process would have meant much lower costs. The prices under Ontario's guaranteed-price renewable program were still double the market price for wind and three and a half times the market price for solar energy in 2014.

The Lower Mattagami Hydro Project: In January 2010, the OPA expressed concerns to the Ministry after the estimated costs increased substantially since its initial estimate, by $1 billion. The Ministry directed the OPA to proceed with the project.

Conversion of Thunder Bay Coal Plant to Biomass Facility: The Ministry directed the OPA to convert a Thunder Bay coal plant into a biomass facility despite OPA's advice that the conversion was not cost-effective. The cost of electricity from this facility is $1,600/MWh—25 times higher than the average cost at other biomass facilities in Ontario.

Conservation During Surplus Power Period Contributes to Expensive Electricity Curtailments and Exports: Since power is exported at prices below what generators are paid, and curtailed generators are still paid even when they are not producing energy, both of these options are costly. Ontario paid exporters a net total of $32.6 million to take our power.

Outstanding Capacity and Reliability Issues: The majority of transmission lines delivering power to these areas have exceeded, reached or are close to reaching their capacity, and are not expected to be capable of meeting significant increases in peak demand. The OPA identified these issues in its 2007 Integrated Power System Plan that was never approved or implemented.

Lack of Capacity to Connect Renewable Generators: A total of 2,545 small guaranteed-price (microFIT) renewable projects could not proceed because there was not enough transmission capacity to accommodate the number of project applications that flooded in. To deal with this, the Ministry directed the OPA to allow those applicants to combine their projects and reapply under the larger guaranteed-price program (FIT) while still offering them the higher microFIT contract price set for small projects. This will cost electricity consumers an estimated $239 million more for these contracts over their 20-year contract terms.

When can we expect our Provincial Liberal Government to begin to take seriously their responsibility to provide us Ontarions with a rational, cost effective & publicly owned power sector. The costly waste & incompetence that we have seen in this area over the last few decades need to be brought to an end. Not only are you not listening to the recommendations coming from the experts within your own Ministry departments, you have now chosen to dump the OPA all together. Is this the future for your other departments or will you continue to hang onto them & use them, as you have in the past, as political fronts for the politicians.

You could learn a lot from your Federal counterparts who have moved toward a system in which their government departments are working in collaboration with & working with competent experts within their fields of responsibility.

I look forward to seeing a positive response from "somebody" who can make a change on this very important issue.

John Deakos

904-2175 Marine Drive,

Oakville, Ontario

Phone: (905) 469-5930

P.S. This is not the only government department in this province that has serious competency problems, but this discussion I leave for another day.