Media Q&A – Energy (UPDATED)

Q1. Could this level of borrowing/refinancing ultimately affect Ontario's credit rating?

The refinancing of the Global Adjustment takes place only within the electricity system – current ratepayers pay less now, and future ratepayers in turn help to pay for their fair share of the significant investments we've made to build a clean and reliable electricity system, free of burning dirty coal.

The refinancing does impact taxpayers, or the provincial budget. As such, it does not affect Ontario's debt or credit rating.

Q2. If the Liberals lose the next election, could the new government undo this legislation?

Yes, they could. The Opposition has presented no credible alternative to provide relief to our province's ratepayers. A future government could undo this legislation, clawing back the 25 per cent on average savings for all residential customers and as many as half a million small businesses and farms, and the up to 40 to 50 per cent cut for families in rural or remote areas.

Q3. Were there any outside experts that disagreed with what you're doing?

We have consulted broadly both while developing the Fair Hydro Plan, and in drafting this legislation. Just some of those we have consulted with include:

- Experts across government
- [Accounting firms?]
- [Law firms?]
- Potential investors

Ontarians want savings on their electricity bills and fairness in the electricity system. Our proposed legislation would deliver our commitment to fairness and electricity rates would come down, stay down and make life more affordable for families and businesses across the province.

Q4. When will the 'Fair Hydro Plan' expire?

Our Fair Hydro Plan Act would lower rates by 25% on average across the province for all residential customers and as many as half a million small businesses and farms. These rates will be held to the rate of inflation for four years.

We project that the government will borrow against rates for about ten years, and that these loans will be paid back within the following twenty. This is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation of electricity ratepayers. This is not a temporary solution, and it does not sacrifice investments in the energy system. We're changing the way electricity costs are recovered, and moving funding for social programs off of hydro bills. This plan would deliver the biggest rate reduction in Ontario's history.

Q5. What do you expect to happen after 4 years?

We project that the government will continue to borrow against rates, up to a total of about ten years, and that these loans will be paid back within the following twenty.

In the meantime, the government and our agencies are working hard to reduce system costs and to give consumers more choice. The IESO is embarking on a Market Renewal project to improve the way we procure and dispatch energy, which will save costs. And the OEB is piloting projects to give customers greater flexibility in how they consume and pay for electricity. These measures will help ensure that electricity bills stay low in

Ontario.

[Information about the GA naturally flattening over the course of the next couple of decades?]

Q6. How did you decide how much to reduce rates by – 25%, 40%, 50%, etc.?

We heard from Ontarians that people needed relief, and we've taking significant action to lower rates and bring fairness our electricity system, so current ratepayers pay less, and future ratepayers in turn help to pay for their fair share of the significant investments we've made to build a clean and reliable electricity system, free of burning dirty coal.

Twenty-five per cent is a significant savings for all residential customers and as many as half a million small businesses and farms. And an up 40 to 50 per cent cut for low-income Ontarians and those in rural or remote communities support the most vulnerable electricity consumers.

We're achieving the largest rate cut in Ontario's history with a mix of provincial support, such as the Ontario Electricity Support Program, and ensuring the costs of our electricity system line up more fairly over the lifespan of our infrastructure with its benefits through refinancing.

Q7. There are a lot of variables here – what is the chance this legislation won't work as planned?

We have consulted broadly both while developing our Plan, and in drafting this legislation. Just some of those we have consulted with include:

- Experts across government
- [Accounting firms?]
- [Law firms?]
- Potential investors

Q8. What if financiers don't want to buy your debt?

We have consulted broadly both while developing our Plan, and in drafting this legislation. Just some of those we have consulted with include:

- Experts across government
- [Accounting firms?]
- [Law firms?]
- Potential investors

Q9. When will the 'Clean Energy Adjustment' start being added to ratepayer bills?

We project that the government will continue to borrow against rates, up to a total of about ten years, and that these loans will be paid back within the following twenty.

In the meantime, the government and our agencies are working hard to reduce system costs and to give consumers more choice. The IESO is embarking on a Market Renewal project to improve the way we procure and dispatch energy, which will save costs. And the OEB is piloting projects to give customers greater flexibility in how they consume and pay for electricity. These programs will help ensure that electricity bills stay low in Ontario.

Q10. You say you want to ensure fairness for this generation – how can you ensure fairness for our kids and grandkids if you're borrowing more than $27 billion?

Our Fair Hydro Plan acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers pay less now, and future ratepayers in turn help to pay for their fair share of the significant investments we've made to build a clean and reliable electricity system, free of burning dirty coal. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

This is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation. This is not a temporary solution, and it does not sacrifice investments in the energy system.

Beginning last year, we started to ask tougher questions about how we got to this point. And what could be done. For decades, mistakes had piled up on top of more mistakes. Those governments, including ours, who for 30 years pushed off the price of reinvesting in the system? That was a mistake. Putting too much of the burden on a single generation of ratepayers? That was a mistake. And asking hydro users alone to pay for policies that ought to be paid for by all taxpayers? That was a mistake also.

The economic rationale for this smoothing policy is that the useful productive lives of contracted generation are in many cases longer than the durations of the contracts. For instance, wind-power contracts are structured for 20 years, even though wind turbines may be expected to operate for 30 years or longer.

Natural-gas-generation contracts are generally for 20-year periods, though in the United States, many gas plants continue to operate beyond 40 years. Under 20-year contracts generator capital costs are amortized too quickly relative to their useful life, leading to higher annual capital charges than would be the case if the amortization period was extended to the full life span.

Q11. Why isn't the 4-year inflation part of the plan in the legislation? Why can't you commit to this promise via legislation?

Commented [DAC1]: We need flexibility to meet inflation. Is the definition of "inflation" clearly defined anywhere? Maybe we can't make this promise in legislation because we need the flexibility to meet "inflation" targets that are accurate to cost-of-living in Ontario…

Q12. Is the Auditor General going to agree with all of this accounting?

We can't presuppose the work of the Auditor General. Our officials worked hard to assess all fiscal impacts and worked closely with both internal government and external auditing experts.

The government has been working closely with major accounting firms on the development of this plan, and all have agreed that the accounting is possible, subject to certain conditions. The IESO has engaged KPMG, and the OPG has received advice from PWC and EY.

Q13. What took you so long? How are you just realizing this now?

It did take too long, and we've talked about that.

While our government has taken steps to address rates with targeted relief and support programs - it was not enough.

Beginning last year, we started to ask tougher questions about how we got to this point. And what could be done. For decades governments pushed off the price of reinvesting in the system. This put too much of the burden on a single generation of ratepayers.

People want to know three things:

- First, that relief – substantial relief – is on its way.
- Second, that the relief will go to everyone
- And third, that the relief will be lasting because it is built on a real change – that bills won't jump back up in a couple months or a couple years.

And that's why we made the structural change to the system that will give Ontarians relief on their bills.

Q14. How is this different from what was done in the past?

This is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation of ratepayers. This is not a temporary solution, and it does not sacrifice investments in the energy system. We're changing the way electricity costs are recovered, and moving funding for assistance programs off of hydro bills. This plan is the biggest rate reduction in Ontario's history.

Q15. Isn't artificially freezing rates what got us into trouble in the first place?

We've already invested over $50 billion in badly needed improvements to our electricity system, as a result of neglect from previous governments of all political stripes. These investments will last Ontarians for generations to come, and it's only fair that more than one generation pays for them.

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Q16. Why not just renegotiate contracts?

We would have done this if it was that easy.

We have done that where we could - Samsung saved an estimated $3.7B in costs.

We looked further to see if this was a realistic solution. We received independent expert advice that said if we were to renegotiate, not only is it completely uncertain if we would get benefits, but the benefits would be negligible compared to the systemic changes we announced today.

This is a key aspect of the NDP and PC proposals - so we would look to them to ask how they would be better suited at finding significant ratepayer savings than the government and the independent legal advice we received.

I also know that the PC energy critic, Todd Smith, admitted that renegotiating contracts would come at a huge cost to taxpayers and would increase electricity rates.

Q17. Why not just reign in salaries?

We froze salaries across the broader public sector in 2012, and these salaries will remain frozen until organizations comply with our framework. Just as we did with Ontario's colleges, if proposals come forward that are unacceptable, we will keep salaries frozen and force them back to the drawing board.

Every dollar of public money should be spent with good intention and consideration. We are monitoring the implementation at OPG very closely, if we feel that the actual salaries selected are unacceptable, we will reject them.

However, the percentage of savings that reducing salaries would contribute to our energy system is not significant. OPG managers make up approximately 1.6% of the entire energy system spending.

Reducing this amount, even significantly, would have a minimal impact on bills.

Q18. Why not just stop the sale of Hydro One?

The sale of Hydro One has nothing to do with rates. That is simply misinformation perpetuated by the opposition parties. Hydro One does not set their own rates. Rates are set by the Ontario Energy Board. Third party experts have said that they expect to see efficiencies from the broadening of Hydro One's ownership, potentially leading to savings across the system.

In fact, as part of Ontario's proposed Fair Hydro Plan, rates would be reduced by 25 per cent on average for all Hydro One residential customers and over 100 thousand of its small business and farm customers. And a Hydro One low density (R2) customer in a rural or remote community that consumes about 2500 kilowatt-hours would see delivery charges for their electricity cut by more than $75 per month.

Q19. The NDP has a strategy that doesn't require borrowing $27.7 billion – why not take their strategy for once?

The NDP hydro pamphlet is both short on details and long on hollow promises. Many of that party's proposals rely on a vague and yet-to-be-determined "expert panel" that will be convened in the future, as well as pie-in-the-sky negotiations with the federal government. The NDP's most expensive idea – buying back more than $4-billion in shares of Hydro One – will not take one cent off electricity bills. What it will do is send billions to the stock market instead of making much needed infrastructure investments in communities across Ontario.

Our plan would deliver real immediate relief for everyone and it is lasting because we are making a structural change to our electricity system.

Q20. Why are you saddling our kids with billions of dollars of debt?

So the good news is that we've created an electricity grid that is second-to-none. In the past few years we've invested more than 50 billion dollars in electricity infrastructure – new dams in the south, new towers in the north, 13 billion dollars to refurbish nuclear power plants alone and billions more to ensure new distribution everywhere. These are enormously important assets that meet the demand for cleaner and reliable power everywhere in the province.

But we asked one generation – today's generation – to unfairly shoulder the burden of nearly all those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

Think of it in terms of a mortgage. We needed to rebuild the system and so we went to the bank for that money. The mistake we made was setting terms that weren't fair – particularly the amortization. Instead of paying off the mortgage over 25 or 30 years, we agreed to a term of 10 to 15. That means we pay things down faster. But the monthly mortgage payments – or, in this case, your hydro bills – are higher. And it doesn't really make sense since that house – or in this case the electricity system – is an asset that will continue to benefit people far past that ten year window. In effect, this generation is subsidizing not just those who came before, but those who will come next.

It was a mistake – and it has been notably unfair on today's hydro users. So we're fixing that.
We're renegotiating the mortgage and setting a new term that stretches over a longer period. Over time, it will cost a bit more. And it will take longer to pay off. But it is fairer – because it doesn't ask this generation of hydro customers alone to pay the freight for everyone before and after. The burden now will be shared more evenly and more appropriately.

Q21. Are you trying to buy yourself some time before the next election?

Beginning last year, we started to ask tougher questions about how we got to this point. And what could be done. For decades, mistakes had piled up on top of more mistakes. Those governments, including ours, who for 30 years pushed off the price of reinvesting in the system? That was a mistake. Putting too much of the burden on a single generation of ratepayers? That was a mistake. And asking hydro users alone to pay for policies that ought to be paid for by all taxpayers? That was a mistake also.

People want to know three things:

- First, that relief – substantial relief – is on its way.
- Second, that the relief will go to everyone
- And third, that the relief will be lasting because it is built on a real change – that bills won't jump back up in a couple months or a couple years.

Q22. Are you using taxpayer money to fix liberal mistakes?

The situation that we find ourselves in is the result of years of inadequate investment in generation by all parties.

Our plan is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation.

This is not a temporary solution, and it does not sacrifice investments in the energy system. We're changing the way electricity costs are recovered, and moving funding for assistance programs off of hydro bills. This plan is the biggest rate reduction in Ontario's history.

Q23. You keep saying "immediate" but summer doesn't sound "immediate" to us. What about this spring?

Our Fair Hydro Plan Act would, if passed, bring down rates, on average, 25 per cent this year. It will start to be seen on people's bills near the end of spring, early summer – just when people start to turn on their air conditioners.

Ontarians are already starting to see the benefits of our Fair Hydro Plan, through the 8 per cent reduction in January, as well as the Ontario Energy Board's May 1 rate update, which will deliver further savings to ratepayers sooner than expected.

Q24. Will you continue to be able to balance budgets?

With our economic growth projected to continue and balanced budgets planned for the foreseeable future, Ontario is once again in a strong, healthy position. A balanced budget means 100 per cent of the funds it borrows is for capital investments, like new hospitals, schools, roads and public transit.

These are important assets in our communities, create jobs and contribute to Ontario's long-term economic growth. [from Finance Budget Qs&As]

Q25. You say you'll hold rates to increases of only inflation for 4 years – assuming that's 2% that brings you back to an 8% increase over those 4 years. How will that help Ontarians?

This is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation. This is not a temporary solution, and it does not sacrifice investments in the energy system.

We realize that energy bills have gone up too quickly in the past 10 years, so holding any future increases, if any, to the rate of inflation allows Ontarians to adjust accordingly and plan ahead. We believe this is a fair structural change to the system.

Additionally, it's difficult to implement savings in the short-term and takes a significant period of time to properly structure long-term savings across the energy system. This is primarily due to the complexities in the system and all the partners involved. That's why we are holding rates for 4 years – allowing us to implement significant short-term savings, and also develop a long-term plan for additional savings in the 5th year and beyond.

We will have more in the LTEP.

Q26. What happens after the 4th year?

These details will be outlined in our Long Term Energy Plan.

Q27. How can we trust you?

We are following a model that has been done by 18 LDCs in the United States. We are following the advice of experts to make significant structural changes to our energy system.

Q28. Why aren't you bringing relief to large industrials?

Our focus was on families, farms, and small to medium sized businesses across Ontario.

However, larger businesses will still see a modest reduction in their electricity bills.

Through SaveOn Energy, many large industrials have already taken advantage of energy saving programs. That's why we lowered the eligibility threshold for ICI to 1MW, allowing additional large consumers to benefit. But we know we can do more. That's why we are lowering the threshold again to 500 KW as part of our Fair Hydro Plan.

Q29. Where did this idea come from?

Our government met with many stakeholders over the last few months - our plan is a culmination of the feedback we received and hard work by officials to come up with options. Our government felt this was the strongest, fairest reduction and structural change to Ontario's electricity system.

Approximately 18 US states have passed similar legislation in the past to help spread out costs from today over a longer time period. These examples offer strong legal and financial frameworks to help guide Ontario's own proposal. Duke Energy has used a similar mechanism to refinance the early retirement of nuclear energy. Long Island Power Authority also used a similar mechanism to spread out the cost of recovering the costs of debt.

Q30. What are you doing to tackle delivery charges or those in rural Ontario?

People living in rural and remote parts of Ontario have been paying much higher distribution costs, compared to people who live in urban areas.

We are going to be providing more relief on those distribution costs – supporting some 800,000 families.

Q31. Will you negotiate an additional 5% off bills with the federal government?

This is up to the federal government.

Q32. Why not just legislate contracts on the private sector generators?

As we've seen with other jurisdictions, legislating contracts on private sector companies could lead to legal challenges, meaning more costs for Ontario ratepayers.

We have already negotiated where we could - Samsung saved an estimated $3.7 billion in costs. We also received independent expert advice that said if we were to renegotiate, not only is it completely uncertain if we would get benefits, but the benefits would be negligible compared to the systemic changes we announced today.

The renegotiation process would be extremely complex and lengthy, and the advice we received stated that it is very unclear that the end result would be in the interest of ratepayers without any form of taxpayer subsidy.

The potential positive impacts are extremely small, not to mention potential litigation.

Q33. When are people going to see relief? Why are you making people wait when they need relief today?

Relief has already been delivered. Ontarians are already starting to see the benefits of the Fair Hydro Plan, through the 8 per cent reduction in January, as well as the Ontario Energy Board's May 1 rate update, which will deliver further savings to ratepayers sooner than expected.

The Opposition have been talking a big game when it comes to hydro rates - we hope their votes on the Fair Hydro Plan Act will match their posturing, and they will help us get this legislation passed and the full 25 per con average relief in place for Ontarians by this summer.

The NDP hydro pamphlet is both short on details and long on hollow promises. Many of that party's proposals rely on a vague and yet-to-be-determined "expert panel" that will be convened in the future, as well as pie-in-the-sky negotiations with the federal government. The NDP's most expensive idea – buying back more than $4-billion in shares of Hydro One – will not take one cent off electricity bills. What it will do is send billions to the stock market instead of making much needed infrastructure investments in communities across Ontario.

But at least the NDP have put something forward. It's been more than 60 days since we announced how we will provide real relief on electricity rates, and in that time the PCs have failed to provide a single constructive idea on how to help Ontario families. Their main talking point – ripping up contracts – would actually end up costing ratepayers money in penalties and legal fees, while reducing confidence in Ontario as a business-friendly province. This isn't very well thought out for a party that prides itself on paying lip service to helping businesses.

Q34. Why are you saying an average of 25%? Are some getting 50% while others get 0%?

We are tripling the size of the cut we're making to people's hydro bills from 8 per cent to an average of 25 per cent. Electricity rates in Ontario will come down significantly, they're going to stay down and everyone will benefit.

Let me emphasize that last point – the cut will go to all households that pay for electricity. There will be no asterisks, no loop holes and no exceptions. Every single household that pays for electricity in Ontario will see an average cut of 25 per cent. And for those living in rural communities or with low incomes the break will be even greater – up to 40 to 50 per cent.

Q35. How much will this cost?

As I've stated very clearly, the last decade has seen massive investments in improving our system. These costs need to be recovered, but it needs to be fair.

Part of that means moving the cost of social programs from the rate base to the tax base, and expanding this support to certain vulnerable groups. The fiscal impact of this move will be $2.5 billion over the next three years - this cost is additional to our expenditure on the 8 per cent rebate.

And part of that means sharing some of the costs of these investments with the future ratepayers who will continue to benefit from them. This element - the GA refinancing - will not impact the fiscal plan.

The GA refinancing will add new borrowing costs. Year by year the impact will vary based on interest rates and other factors but in any given year it will be an additional $700 million to $1.1 billion annually.

Q36. How can you ensure this is feasible? What if interest rates go up and it impacts your borrowing?

We built in conservative estimates in our financial calculations. There's always a chance that interest rates rise or fall, but we are confident that we built in the necessary buffer in our estimates by using higher rates than are currently forecasted.

Q37. Will this rate decrease apply to curling rinks, hospitals, schools?

These facilities will receive a marginal decrease on their electricity bills.

If pressed: *approximately 2 to 4 per cent as a result of shifting the social support programs to the tax base.*

Q38. Doesn't this lower the incentive to conserve energy? It's against all your conservation efforts.

Our government remains committed to putting conservation first. Conservation is good public policy - it empowers individuals to lower their own bills, while reducing system costs and saving all Ontarians the cost of new generation and transmission infrastructure.

We will continue to encourage and support to ratepayers who are looking to lower their bills through conservation, by providing incentives and rebates through saveONenergy programs. Further conservation efforts will be considered through the LTEP this spring.

Q39. Will any proceeds from cap and trade will be used for the relief package? NGOs have been asking.

No.