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Subject: QP Briefing: The summer of savings? Liberals pass hydro relief bill

The summer of savings? Liberals pass hydro relief bill

QP Briefing
May 31, 2017
Geoff Zochodne

Summertime and the savings are easy – especially if you have a majority of seats in the legislature.

The Liberal government's Fair Hydro Act passed third reading Wednesday morning at Queen's Park. The vote on the bill was 53-41, with the Grits voting in favour and the NDP and PCs against.

The legislation outlines how the Liberals will provide electricity customers with an average 25-per-cent cut on their hydro bills by this summer, relying on a complex borrowing scheme, as well as rebates and increased assistance programs that the province's budget watchdog has warned will cost $45 billion over 29 years.

Energy Minister Glenn Thibeault said the way the Fair Hydro Act was written requires the Ontario Energy Board, which sets electricity rates, to implement the plan within 15 days of the bill receiving Royal Assent (it already lowered time-of-use rates by 17 per cent effective May 1, with some of those savings attributed to the forthcoming passage of the Fair Hydro Act). The lieutenant-governor is expected to sign the bill into law by Thursday, Thibeault said, which would mean ratepayers would start getting charged 25 per cent less by Canada Day.

"By July 1, it'll happen," Thibeault told *QP Briefing*.

NDP energy critic Peter Tabuns said the Liberals' hydro relief legislation, and the sale of just over 50 per cent of Hydro One to outside investors, works out to a "one-two hit" to Ontarians.

"I actually think that what they have done will damage this province for decades to come," said Tabuns.

The Liberals' Fair Hydro Plan is a three-pronged attempt to cut electricity costs, aiming for an average reduction of 25 per cent, with rate increases over the next four years pegged to inflation. The Financial Accountability Office, however, projects that bills will jump by an average of 6.8 per cent after that until the end of 2027.

The first part of the hydro relief plan is an already announced 8-per-cent rebate on bills, which has been in effect since the start of 2017. The second portion is paying for programs that assist low-income and rural electricity customers with tax dollars, instead of making ratepayers foot the bill for the measures. The programs will also be enhanced. Those two parts of the plan will cost an estimated $5.5 billion over three years.

The third prong of the Fair Hydro Plan is the "refinancing" of the global adjustment charge all electricity customers pay, which is a fee that now makes up the bulk of the cost of generating power. This will be done by cutting rates for customers and then covering the shortfall by paying power producing companies with borrowed money.

According to the Financial Accountability Office, the set-up goes like this: Ontario borrows $1.1 billion from the debt markets and invests it into Ontario Power Generation, which turns around and uses the money to create the OPG Trust. OPG borrows $200 million from the debt markets and puts that into the trust, which borrows another $1.2 billion itself, for a total of $2.5 billion in annual debt.

Meanwhile, the Independent Electricity System Operator, which runs the province's power grid and market, takes in $2.5 billion less from ratepayers. It creates a "regulatory asset" worth that $2.5 billion. OPG Trust buys that asset, turning it into an investment.

The investment asset is labelled thusly because there will be interest payments made on the pile of debt – about $25 billion or so that will be borrowed over 10 years by OPG, OPG Trust, and the province – by electricity customers. This will be called the "clean energy adjustment," and consumers will start forking it over about a decade from now.

One of the changes made to the Fair Hydro Act during committee hearings was to add a passage that allows for the Superior Court of Justice to order that the IESO or OPG follow the law and possibly compensate its creditors. Another section allows a creditor to file an application with the court if the IESO or OPG isn't following the law.

"For us, it's making sure that we can get the people to invest to actually help us finance this over the term that we've put out there," said Thibeault.

While Premier Kathleen Wynne has admitted the hydro plan will cost more than the status quo would have, the FAO estimates ratepayers will have to pay help back the principle plus another $21 billion in interest.

"From 2028 until 2045, the repayment of electricity cost refinancing will add approximately $22 per month to the average eligible ratepayer bill resulting in bills that are an average of 4% higher under the FHP than the status quo despite the HST rebate," said the budget watchdog.