Message

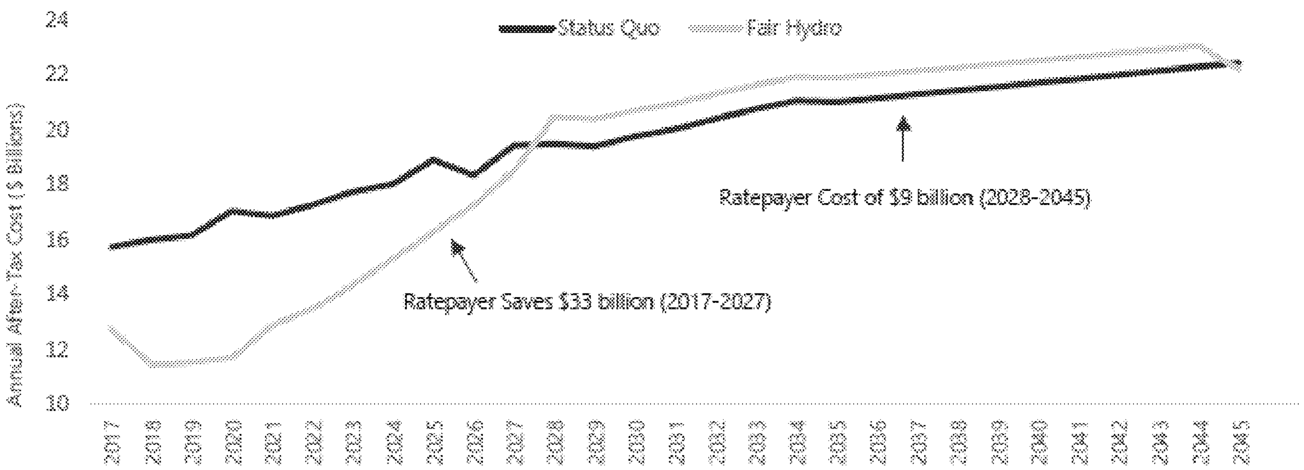
Subject: FAO Report: Fair hydro Plan
Attachments: FAO - Fair Hydro Plan.pdf

Summary

- The Financial Accountability Office (FAO) estimates that the proposed Fair Hydro Plan (FHP), will cost the Province $45 billion over 29 years while providing overall savings to eligible electricity ratepayers of $24 billion. This results in a net cost to Ontarians of $21 billion.
- Under the FHP, electricity costs are projected to be lower than the status quo from 2017 to 2027. After 2027, electricity costs are projected to be higher under the FHP than under the status quo.
- The estimated $45 billion cost to the Province assumes that the Province is able to achieve and maintain a balanced budget over 29 years. If the Province is required to fund its FHP programs (i.e. the HST rebate and electricity relief programs) through debt, then the cost to the Province could increase to between $69 billion and $93 billion.
- The FAO estimates the over half of the projected savings from 2017 to 2027 is achieved through the electricity cost refinancing component of the FHP.
- The cost of refinancing will not impact the Province's surplus/deficit. The FAO recommends that MPPs obtain assurance from AG that the Province's proposed accounting treatment will not impact the annual surplus/deficit.

FHP Impact on Eligible Ratepayers:

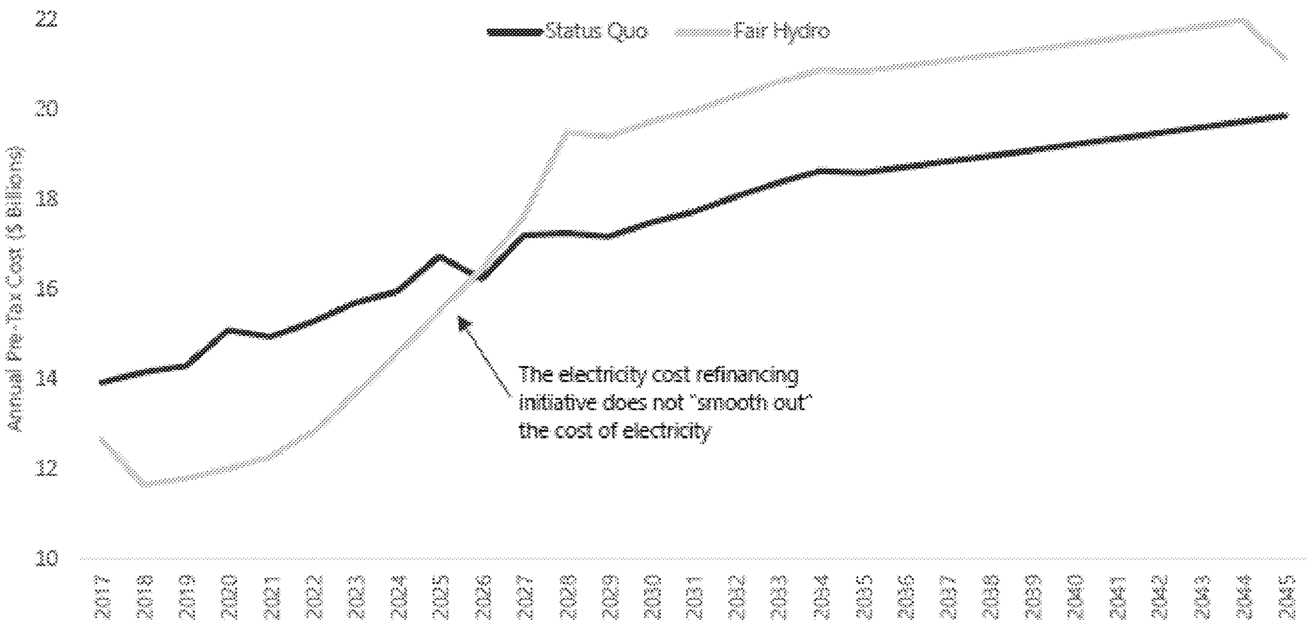
Figure 3-1: FAO's Estimated Impact of the FHP on Eligible Ratepayer Electricity Costs



Source: FAO analysis of Provincial information.

Impact of refinancing component:

Figure 3-2: FAO's Estimated Impact of Electricity Cost Refinancing on Eligible Ratepayer Electricity Costs



Source: FAO analysis of Provincial information

Under the status quo, the FAO projects the pre-tax cost of electricity to eligible ratepayers will increase steadily at approximately 2% per year until 2028 followed by an extended period of slower growth (Figure 3-2).[13] The Province's proposed electricity cost refinancing initiative would result in lower short-term costs to 2021, followed by a period of rapid cost growth to 2028. Starting in 2028, the pre-tax cost of electricity is projected to be on average 12% higher than under the status quo.

Risks:

- There is a risk that as a result of the bill reductions, demand increases, resulting in higher than expected deferred costs and thus increased interest during the repayment period.
- Changes in the interest rate could significantly impact the interest cost paid by ratepayers.

Accounting

"If the creation of the regulatory / investment asset does not meet with public sector accounting standards, then the electricity cost refinancing initiative would impact the Province's annual surplus / deficit over the 29-year period. In the absence of a regulatory / investment asset, the FAO estimates that costs to the Province would increase by an additional $26 billion over the next 11 years, but would decrease by the same amount over the following 18 years thereafter"

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