

From: Don Huff [huffd@ecostrategy.ca]
Sent: 2017-05-24 8:44:40 AM
To: Joseph Berta [jberta@rogers.com]; Peter Love [peter@loveenergyconsultants.com]; John Jeza [johnjeza@sympatico.ca]; Elizabeth McDonald [elizabethmcdonald@energyefficiency.org]; Michael Lio [michael@mlio.ca]; Terry Young [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=872fa3f6e61a48709b11458c0c3b6ca6-Terry Young]; Paul Seccaspina [paul@oraclepoll.com]
Subject: Debt from Liberals' hydro plan will be hot commodity, committee hears – QP Briefing

<http://www.qpbriefing.com/2017/05/23/debt-from-liberals-hydro-plan-will-be-hot-commodity-committee-hears/>

Debt from Liberals' hydro plan will be hot commodity, committee hears

Bay Street will be eager to buy a piece of the Liberal government's plan to cut costs for Ontario's weary electricity customers, a legislative committee heard Tuesday.

Investors will be able to do so because the hydro plan involves taking on approximately \$28 billion in debt from the bond market and otherwise that will help pay for the Grits' efforts to lower electricity bills by an average of 25 per cent. Electricity customers would pay back the investors lending the money through monthly hydro bills, beginning about a decade from now; the government claims interest payments wouldn't top \$1.4 billion in any given year.

While the rest of the legislature has the week off, committee hearings on Bill 132, the Liberal government's Fair Hydro Act, began Tuesday at Queen's Park. The justice committee's afternoon session included testimony from several organizations that will be used to implement the Grits' plan to reduce costs to electricity customers, outlined in Bill 132, such as the Independent Electricity System Operator and Ontario Power Generation.

IESO's role under the legislation would be similar to its current function, said agency CEO **Bruce Campbell**. The non-profit IESO manages the province's power grid and electricity market, collecting cash from the local distribution companies and paying the power-producing companies. The IESO settled approximately \$17 billion in financial transactions last year, Campbell told the committee.

Campbell also said the hydro plan would reduce the amount of money the local utilities could collect, because of the lower payments being made by customers, therefore reducing the amount of money the IESO receives and would be able to pay the generators. The IESO would then set up a "variance" account that would track the "shortfall," Campbell explained.

The IESO would pay back the generators with money that OPG would borrow using a special entity. When its debt gets big enough, OPG's holding company would start paying for the monthly shortfall by issuing bonds and other forms of borrowed money, hitting up the capital markets three to five times a year, according to the company's CEO.

Jeff Lyash said OPG, which generates about 50 per cent of Ontario's electricity, has brought in credit agencies and investment banks to gauge interest in buying Fair Hydro Plan debt.

"The financing entity established by OPG would purchase these investment assets from the IESO using a short-term debt instrument, warehousing the debt until the balance is large enough to take to the capital markets," Lyash told the committee. "With the right structure, we believe there will be substantial appetite for this type of investment."

The foray onto the capital markets wouldn't be the first time for Premier **Kathleen Wynne's** government. The Liberals have sold more than half of Hydro One, the province's largest electricity transmission company, on the stock market.

Bill 132 would allow Ontario Power Generation to become the government's "bank," as Lyash has put it. Consumers would get a 25-per-cent discount on their rates, but OPG would borrow approximately \$28 billion over 10 years that would go to pay power companies the money they would have received from their customers. OPG and the government say the company is ideal for the task because of its experience in borrowing money for major projects.

The debt from the Fair Hydro Plan wouldn't show up on the books of the province or OPG – just the "entity."

"If the legislation is passed, OPG would create a financial entity, which will be ring-fenced from our regular operations," said Lyash. "The financial entity would finance costs related to the Fair Hydro adjustment and spread their recovery over a period of time through 2047."

The Liberal government has called this a refinancing of the province's global adjustment charge. The global adjustment is a fee all electricity customers pay that represents the difference between the market price of electricity and the price guaranteed to power producers. It covers the cost of conservation programs as well. Ontario's auditor general has predicted that customers will pay about \$133 billion in global adjustment fees from 2015 to 2032.

Customers would start paying interest on the debt built up under the hydro plan about 10 years from now, a \$1.4-billion cost the government has termed the "clean energy adjustment," but that the opposition has taken to calling a new "debt retirement charge." The debt retirement charge is used to pay off debt left behind by the now-defunct Ontario Hydro. Residential customers don't pay it anymore, but businesses must pay the fee until next March.

The other parts of the Fair Hydro Plan include the 8-per-cent discount customers have received since January and the upload of social assistance programs from hydro bills to tax bills. Those programs, such as one for low-income customers, are being enhanced as well.

The legislation would force the Ontario Energy Board, which regulates the electricity industry, to reduce rates to an extent that electricity customers would receive a 25-per-cent discount on their bill, starting on July 1.

How long those costs will stay down was called into question by a document the Progressive Conservatives say was leaked to them, showing that prices will spike up again next decade. The province's Financial Accountability Officer will weigh in on the government's hydro plan on Wednesday morning with a new report.

Lyash also said there is a section of the bill outlines what guarantees the government may make. The legislation allows cabinet to order the energy and finance ministers "to agree to guarantee or

indemnify any debts, obligations, securities or undertakings associated with an investment interest.”

Other witnesses at the committee were far less technical about the Liberal government's hydro plan.

“It’s going to kill us,” said former NDP MPP **Rosario Marchese**.

To contact the reporter on this story:

gzochoodne@qpbriefing.com

416-212-5913

Twitter: [@geoffzochodne](https://twitter.com/geoffzochodne)

[Click here for reuse options!](#)

Copyright 2017 QP Briefing

Don Huff

President | ECO Strategy

www.ecostrategy.ca

C: 416-805-7720

Toronto Office
19 Yorkville Avenue, Suite 400
Toronto, ON, M4W 1L1
416-972-7401

Sudbury Office
31 Larch Street, 3rd Floor
Sudbury, ON, P3E 1B7
1-800-494-4199

This email is intended only for the use of the individual(s) to whom it is addressed and may be privileged and confidential. Unauthorized use or disclosure is prohibited. If you receive this e-mail in error, please advise immediately and delete the original message. This message may have been altered without your or our knowledge and the sender does not accept any liability for any errors or omissions in the message.

Ce courriel est confidentiel et protégé. L'expéditeur ne renonce pas aux droits et obligations qui s'y rapportent. Toute diffusion, utilisation ou copie de ce message ou des renseignements qu'il contient par une personne autre que le (les) destinataire(s) désigné(s) est interdite. Si vous recevez ce courriel par erreur, veuillez m'en aviser immédiatement, par retour de courriel ou par un autre moyen.



Please consider the environment before printing this e-mail.