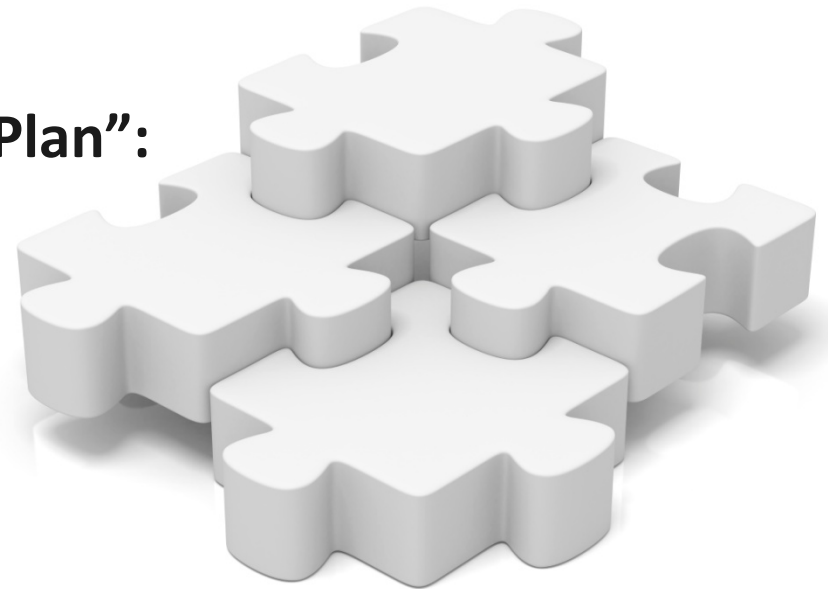




Reflections on the “Fair Hydro Plan”: What does the FHP mean for municipalities?

OSUM Conference
Blue Mountain

May 2017



Agenda

1. Political Context
2. Ontario Hydro Rate Trends
3. What is the Fair Hydro Plan?
4. Political Implications?
5. What Does it All Mean for Municipalities?

Political Context



Electricity policy emerged as a critical issue in 2015-2016:

- Strong opposition to the **Hydro One IPO**
- Public anxiety about prospect of **increasing hydro rates**
- **Auditor General's** damning 2015 report re hydro prices
- Hydro policy dominated **Question Period**
- **8 % rebate** effective January 1 2017 didn't quell the uproar
- Key factor in the Liberal's **steep decline in the polls**

Political Context: Remember the Headlines Last Year!

Fails to ease concerns about Hydro One privatization

GLOBE EDITORIAL

Ontario's new electricity policy:

History repeats as farce

Liberals' hydro rebate criticized for doing little to stem cost of electricity

Paying hydro bills a 'struggle' for Windsor residents

'It's either pay my hydro bill or put food on the table, I have to pick and choose each month'

Ontario throne speech promises electricity bill rebates

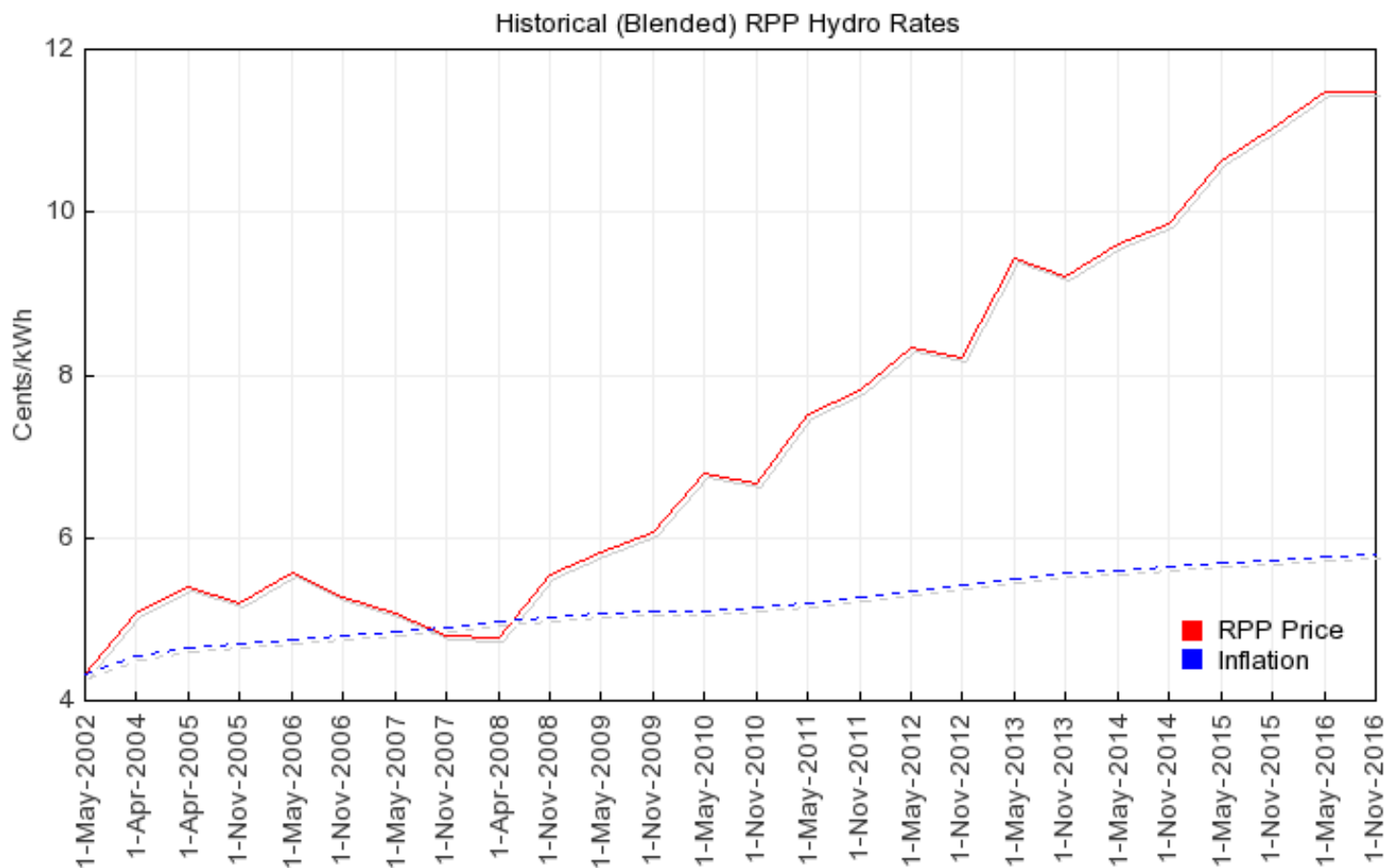
Tory powering up for fight to privatize Toronto Hydro

Ontario Liberals profiting from the politics of hydro tax cuts:

Cohn

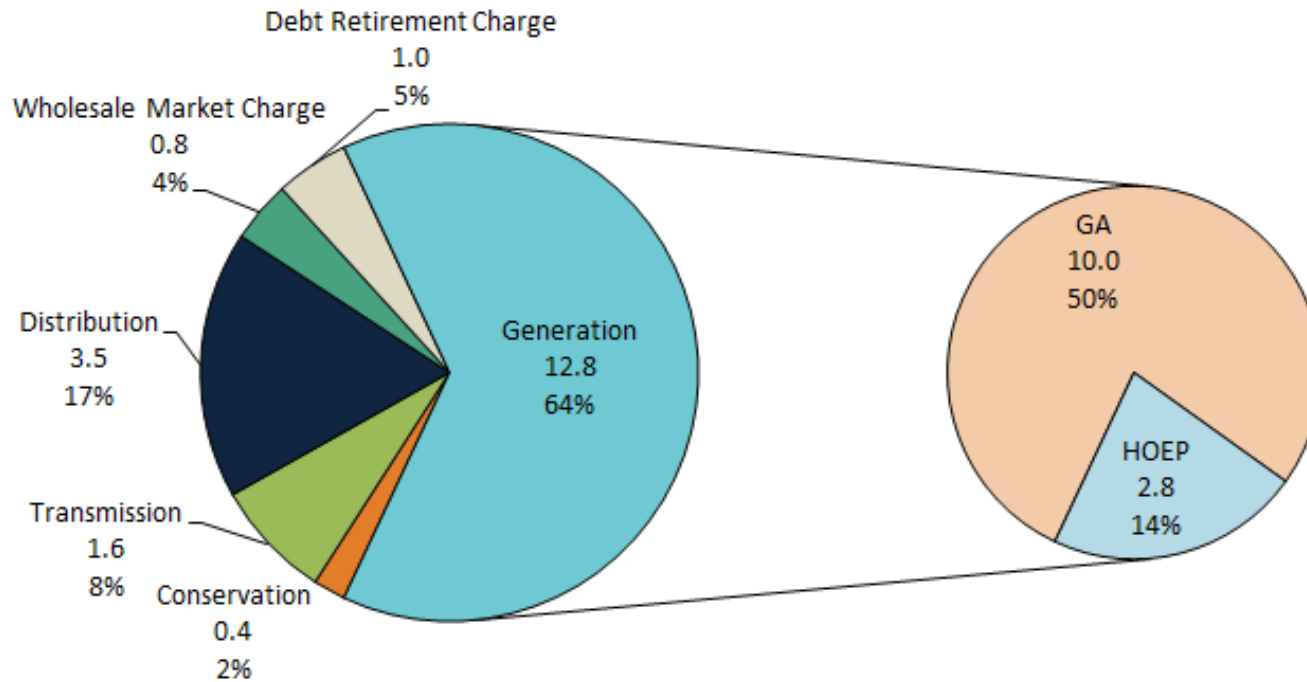
8% energy rebate 'is nothing'

Electricity Prices Have Increased At a Rate Greater than CPI



Global Adjustment is Significant Portion of Total System Costs

- Total system costs in 2015 were about \$20 billion
- About 64 % of those costs were related to “Generation” – costs incurred to secure generation capacity and produce energy
- The Global Adjustment now makes up the largest component of those Generation costs



What is the Fair Hydro Plan?

Key commitments:

- **Reduce hydro bills** by about 25% for the typical Ontario residential consumer
- **Hold rate increases to the rate of inflation** for 4 years



Other components:

- Expand **Rural or Remote Rate Protection** in the “costliest” LDCs
- Enhance **Ontario Electricity Support Program** for low-income consumers
- New **First Nations On-Reserve Delivery Credit**
- New **Affordability Fund**: funding for energy efficiency improvements
- Expand **Industrial Conservation Incentive**

Fair Hydro Plan Reduces Bills NOT Costs

- Some costs will be shifted from ratepayers to the tax base:
 - RRRP and OESP
- New programs will be funded through the tax base:
 - First Nations On-Reserve Delivery Credit
 - Affordability Fund
- Main tool for reducing hydro bills is refinancing Global Adjustment:
 - Costs that would normally be recovered over a 20 year period will now be recovered over a longer period
 - Global Adjustment reduced by about \$2.5 B a year for 10 years
 - Refinancing will cost about \$1.4 B a year in interest

Political Reaction

Political opponents have been quick to attack the refinancing mechanism:

Patrick Brown:

“That’s a hard pill for Ontario to swallow, that this government’s errors in energy is going to cost them \$14 billion in interest”

Andrea Horwath:

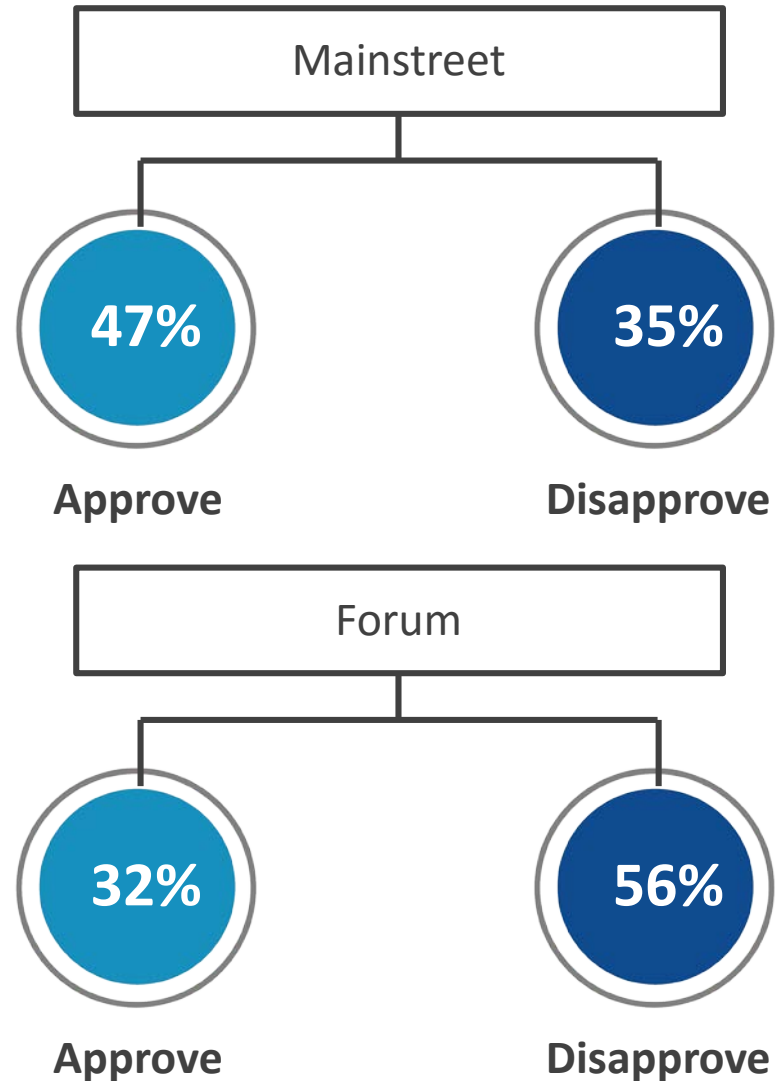
“It’s a borrowing scheme that gives an additional \$40 billion in interest payments to bankers. That’s \$40 billion that everyday Ontarians will pay for, one way or another”

Will The Fair Hydro Plan Help Turn the Page?

Topic disappearing from Question Period...

- Anticipate Liberal's continued shift to the left in the lead up to the next election:
- Change focus to other issues ("Fair Housing Plan", drug and healthcare funding, education)
- Apparent Strategy: Crowd the NDP on the left, and create a clear alternative to the PCs.

Polls suggest ... "perhaps" :



Reducing Rates Has Been No Guarantee of Electoral Success



1993 – Bob Rae’s NDP government freezes Ontario Hydro rates in face of huge costs relating to the nuclear program



2002 – Ernie Eves’ PC government imposes rate freeze shortly after opening of Ontario’s new electricity market



2010 – Dalton McGuinty’s Liberal government reduces bills with the Ontario Clean Energy Benefit

What Does the Fair Hydro Plan Mean for Municipalities?

A Municipality wears many hats...

Energy Consumer	<ul style="list-style-type: none">• Impact on hydro bills for municipal facilities?
Social Services Provider	<ul style="list-style-type: none">• Impact on residents?
Promoter of Ec. Dev .	<ul style="list-style-type: none">• Impact on business & employers?
LDC Shareholder	<ul style="list-style-type: none">• Impact on municipally- owned LDC?



For More Information Contact

Municipal Services
Practice Group


John Matheson, Chair

Energy Services
Practice Group

Aleck Dadson

Toronto Office

145 King Street East,
2nd Floor, Toronto, ON
M5C 2Y7

(T) 416-864-7112

(F) 416-864-7117

Ottawa Office

100 rue Queen Street
Suite 550
Ottawa, ON
K1P 1J9

(T) 613-231-2630

(F) 613-231-4113

strategycorp.com