

February 12, 2018

Updated Financial Analysis of the Partial Sale of
Hydro One
Media Statement

Good morning and welcome.

My name is David Wake. I am Ontario's Integrity Commissioner and am serving as Ontario's Financial Accountability Officer on a temporary basis.

Today, the FAO released a report that provides an updated financial analysis of the partial sale of Hydro One, including the fiscal impact to the Province and the effect of the sale on Ontario ratepayers. This report responds to a request from a Member of Provincial Parliament and also serves as an update to the FAO's Hydro One report from October 2015.

In addition to a discussion of the fiscal impact and the effect of the sale on ratepayers, our report also reviews a number of other aspects of the partial sale of Hydro One, including the amount of capital raised by the Province, how the sale proceeds are expected to be allocated, and provides some considerations around Hydro One's proposed acquisition of Avista.

I will ask the FAO's Chief Financial Analyst, Jeffrey Novak, to highlight a few of our report's key findings.

Thank you, Commissioner.

In terms of the impact to the Province's annual surplus / (deficit), the FAO estimates that the partial sale of Hydro One will improve the Province's fiscal position by \$3.8 billion over the three years ending in 2017-18, but weaken the Province's fiscal position by \$1.1 billion in 2018-19 and by an annual average of \$264 million from 2019-20 to 2024-25.

The FAO also reviewed the fiscal impact to the Province of issuing traditional debt to fund an identical amount of infrastructure investment, rather than using the funds raised from selling 53 per cent of Hydro One. Over the long-term, the FAO estimates that the Province's net debt will be higher as a result of the partial sale of Hydro One, when compared to an alternative of borrowing to finance an equivalent amount of infrastructure investment.

By a different measure, in today's dollars, the partial sale of Hydro One will cost the Province approximately \$1.8 billion, when compared to the alternative of financing the equivalent amount of infrastructure investment by issuing provincial debt.

Regarding electricity rates, the FAO has identified three main areas where Ontario electricity ratepayers could be affected as a result of the partial sale of Hydro One.

First, if Hydro One is able to achieve operating efficiencies as a publicly traded company that it was not able to achieve under 100 per cent provincial ownership, then those savings could be passed on to ratepayers.

Second, there are indications that Hydro One's cost of long-term debt may be higher in the future than it would be under 100 per cent provincial ownership. Any increase to Hydro One's borrowing costs would be passed on to ratepayers.

Lastly, when Hydro One became a publicly traded company it recorded a \$2.8 billion tax benefit. The Ontario Energy Board has recently ruled that a portion of the benefit, estimated by the FAO to be approximately \$900 million, should be given to ratepayers. Hydro One has appealed this ruling. Depending on the results of the appeal, Ontario ratepayers may receive approximately \$900 million in savings.

Thank you, we are happy to take questions.

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