



Hydro One

Updated Financial Analysis of the Partial Sale of Hydro One

Technical Briefing

fAO

Financial
Accountability
Office of Ontario

Background

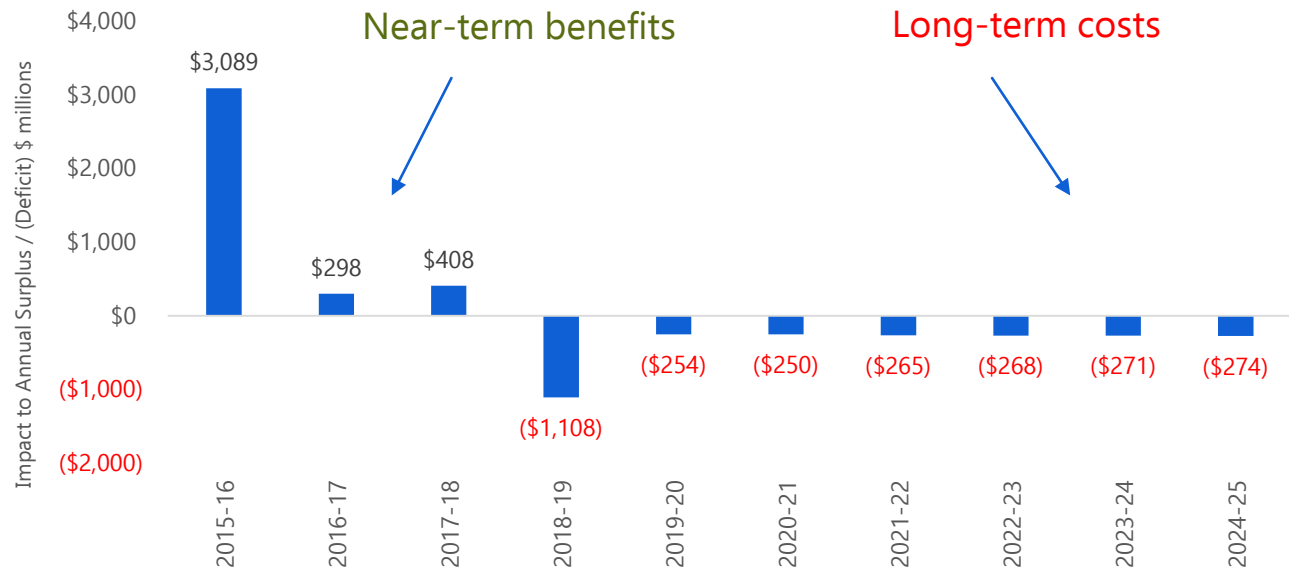
- In the 2015 Ontario Budget, the Province announced its intention to sell up to 60 per cent of Hydro One
- Targeted \$9 billion in sale proceeds
 - \$5 billion to reduce debt
 - \$4 billion to infrastructure investment
- In December 2017, the Province completed its final sale of Hydro One, generating **\$9.2 billion** in proceeds by selling only 53 per cent

Report Outline

- Follow-up to the FAO's October 2015 report
 1. Updated fiscal impact estimate
 2. Tracking sale proceeds and allocations
 3. Impact on electricity rates
 4. Hydro One's purchase of Avista

1. Updated Fiscal Impact Estimate

Fiscal Impact



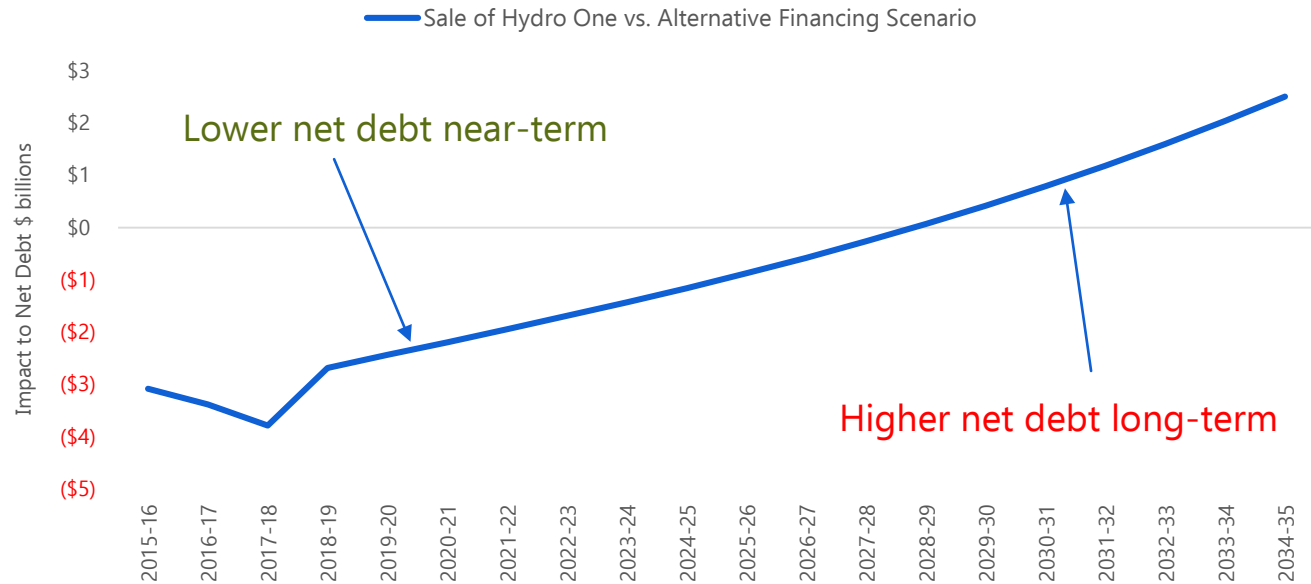
- Total benefits of **\$3.8 billion** through 2017-18

Fiscal Impact Cont'd

Benefits	Costs
Gains on Sale	Net Income
Deferred Tax	Electricity PILs
Corporations Tax	DRC Revenue
Interest Savings	

Corporations tax revenue < forgone Electricity PILs

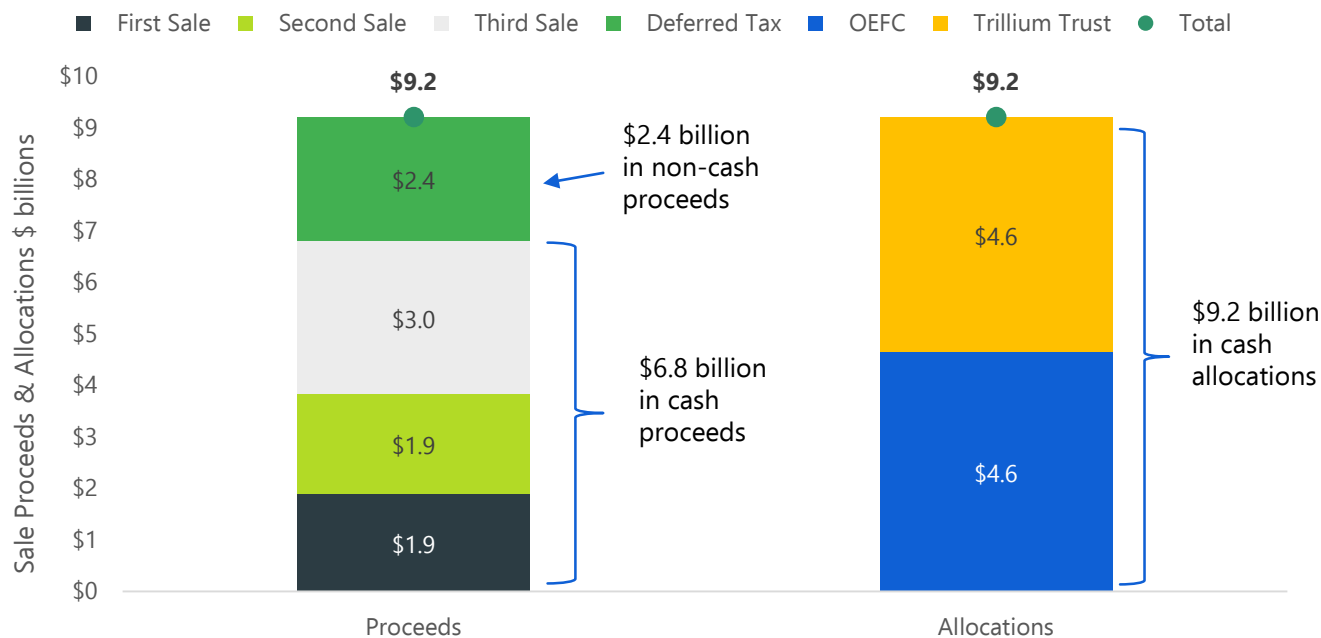
Alternative Financing Scenario



- Cost of **\$1.8 billion** on a discounted cash flow basis...
- ...when compared to the alternative financing scenario of issuing debt to fund infrastructure investment

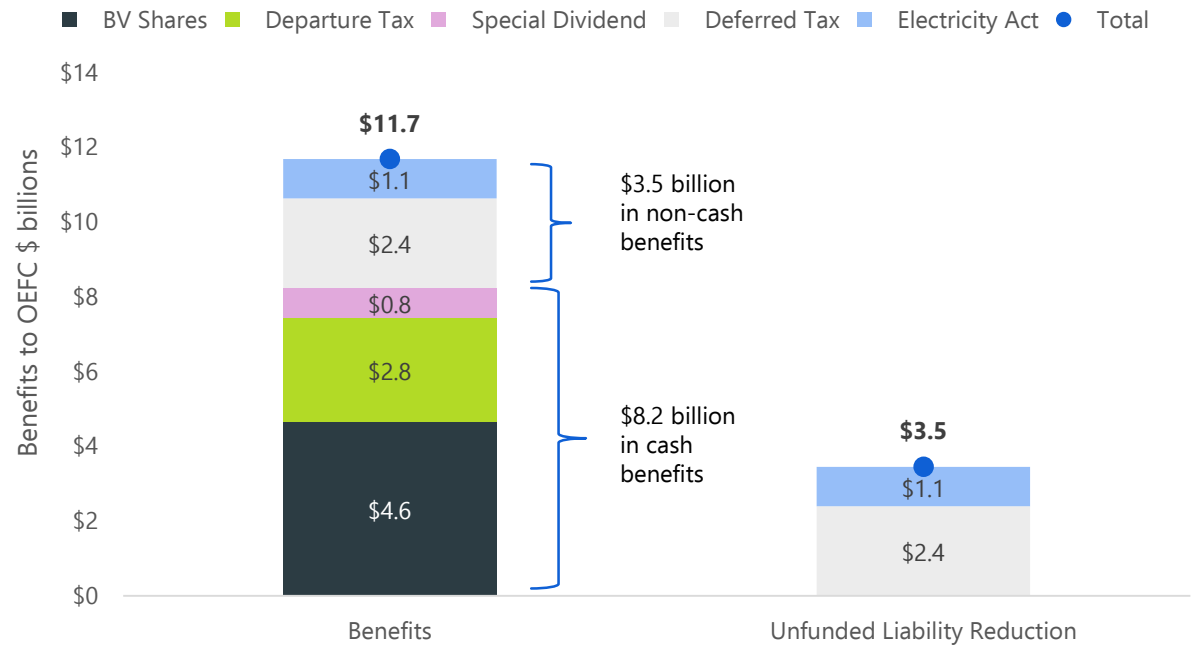
2. Tracking Sale Proceeds and Allocations

Proceeds & Allocations



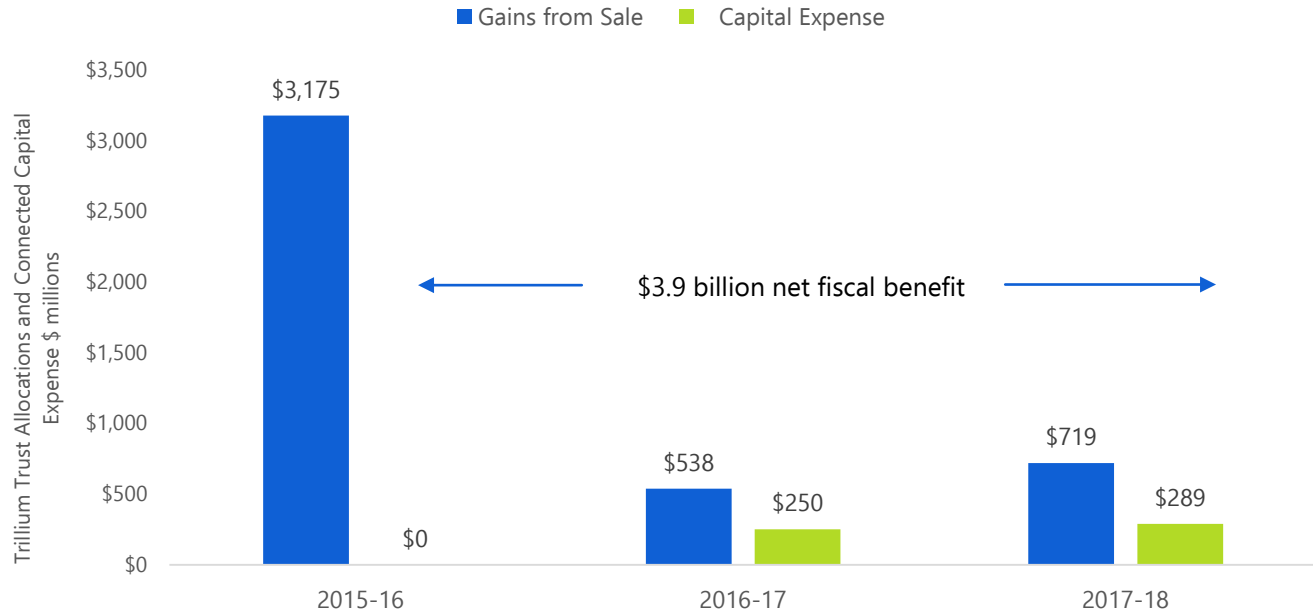
- Province required to borrow **\$2.4 billion** to finance Trillium Trust infrastructure investments

OEFC Debt Reduction



- **\$3.5 billion** reduction to OEFC unfunded liability (net debt)

Trillium Trust



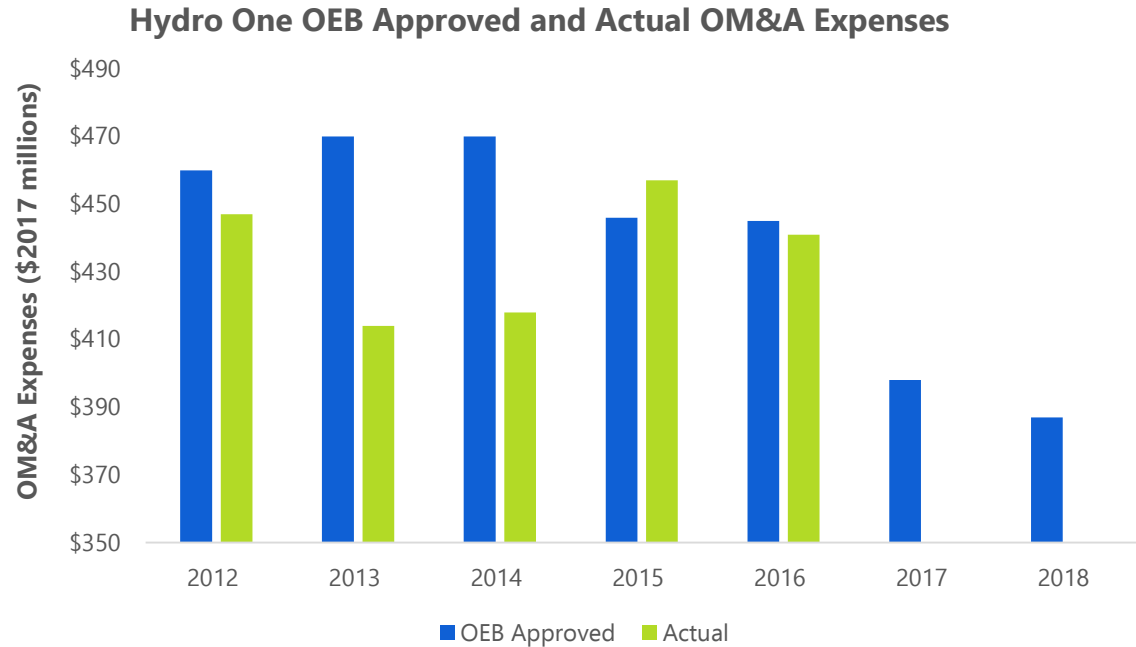
- **\$3.9 billion** net fiscal benefit to 2017-18
- Net fiscal loss in future years

3. Impact on Electricity Rates

Electricity Rates

- Areas where ratepayers will / could be affected:
 1. Operating expenses / efficiencies
 2. Cost of capital
 3. Allocation of the deferred tax benefit
 4. Debt retirement charge

Operating Costs



- Potential for operating efficiencies to **decrease rates**

Cost of Capital

- Downgrade to Hydro One's debt rating as a result of the sale
- Negative outlooks to Hydro One's debt rating as a result of the pending purchase of Avista
- Potential for higher debt costs to **increase rates**

Deferred Tax + Debt Retirement Charge

- Hydro One recorded a **\$2.8 billion** tax benefit when it became a publicly traded company
- The OEB has ruled that a portion of the benefit, estimated by the FAO to be approximately **\$900 million**, should be given to ratepayers
- Early retirement of the debt retirement charge (DRC) to save non-residential electricity ratepayers approximately **\$465 million**

4. Hydro One's Purchase of Avista

Avista Acquisition

- Hydro one intends to purchase Avista Corporation for \$4.4 billion
 - FAO estimates a **\$5 million deterioration** to Province's annual surplus / (deficit) in 2019-20. Going forward, fiscal impact to the Province will depend on profitability of Avista
- Avista acquisition **should not have a direct impact** on electricity rates in Ontario because the OEB sets rates based on regulated assets in Ontario. However,
 - If the Avista acquisition increases Hydro One's cost of debt, then electricity rates could increase in Ontario
 - If the Avista acquisition results in Hydro One cost efficiencies, then savings could lower electricity rates in Ontario
- Avista acquisition will **dilute Provincial ownership** of Hydro One from 47 per cent to 42 per cent
 - Potential for provincial ownership to fall below 40 per cent if Hydro One makes another similar acquisition

Thank you

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