

# Auditor General rips into the Fair Hydro Plan

*(October 18, 2017) Ontario's Auditor General said the Fair Hydro Plan raises rates in the long-run, contravenes the province's accounting standards and further erodes the independence of the Ontario Energy Board.*

<https://ep.probeinternational.org/2017/10/18/auditor-general-rips-into-the-fair-hydro-plan/>  
The newest band-aid solution from Queen's Park to fix the province's ailing electricity sector is laced with poison.

That's the latest [damning assessment from Ontario's Auditor General \(AG\)](#)<sup>1</sup> on Queen's Park's most recent distortion of the province's electricity sector, the Fair Hydro Plan. The AG concludes that the Fair Hydro Plan will cost electricity customers more in the long-run, contravene the government's own accounting practices and eliminate the independence of the province's energy regulator in setting rates.

Like [countless assessments before her](#), the AG again points out that while the Fair Hydro Plan may deliver lower bills today, it does so at the expense of future electricity customers. The AG confirms earlier figures from the province's other watchdog, the Financial Accountability Office (FAO) that, while the savings over the next decade will amount to \$18.4 billion, accrued interest costs on the debt needed to deliver those savings will add up to \$21 billion. The FAO also warned that a one percent rise in interest rates could push total interest costs to \$30 billion – meaning future electricity customers could pay \$11.6 billion more in rates to cover the costs of the new policy.

Today's savings are, in short, a mirage.

The AG also pointed out that the province's decision to create a “needlessly complex” accounting and financing structure to deliver the savings – rather than simply issue provincial debt and push it back into deficit budgets – adds \$4 billion of unnecessary costs to future hydro bills. Worse still, the province was fully aware that its financing scheme was needlessly expensive, as bureaucrats within the government admitted as much, saying it “would be a lot simpler and cheaper” if the province simply issued its own debt to cover the rebate to electricity customers

But the AG takes particular aim at the province's decision to, in essence, make up “its own accounting rules”. She concludes that, while the government says publicly that it follows Canadian Public Sector Accounting Standards (PSAS), the accounting methods it's using with the Fair Hydro Plan “are actually not in accordance” with those rules. The AG says internal documents make it clear that the province was fully aware its accounting methods likely wouldn't get a positive audit from the Auditor General, but “accepted this risk” solely to avoid the embarrassment of once again tabling a deficit budget.

The AG also points out that the province has a history of dealing with something like the Fair Hydro Plan, but has in the past accounted for it using recognized and accepted accounting methods. The much-disliked Debt Retirement Charge – which paid for the mistakes of the old Ontario Hydro – was added to electricity bills in 2002. At the time, the government included the debt on its consolidated financial statements and counted the money received from ratepayers to pay down that debt as revenue, which allowed it to accurately “track ratepayer costs and taxpayer costs separately.” The AG is encouraging the province to do the same with the Fair Hydro Plan.

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<sup>1</sup> [http://www.auditor.on.ca/en/content/specialreports/specialreports/FairHydroPlan\\_en.pdf](http://www.auditor.on.ca/en/content/specialreports/specialreports/FairHydroPlan_en.pdf)

The Fair Hydro Plan also furthers the province's decade-long dismantling of the regulatory system and, once again, transfers greater control of the electricity system to the Ministry of Energy. The AG rightly notes that the Ontario Energy Board (OEB), which by law is tasked with setting rates, had little input in the implementation of the Fair Hydro Plan, which breaks the regulatory practice of fully charging electricity customers the cost of providing them power. The OEB's main function – setting rates – is now being usurped by the Ministry of Energy, which will now have an outsized role in determining how much of the cost of generating and delivering power is included in rates.

Clear and effective regulation over the electricity sector has taken another step backwards.

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