

HYDRO ONE NETWORKS INC.

HAND-UP RE: ONTARIO STANDING COMMITTEE ON ESTIMATES EXCERPT

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Tab	Document
1.	Annotated Extract of the Submission of Building Owners and Managers Association, Greater Toronto dated February 6, 2017 in EB-2016-0160, p. 4.
2.	Extract of the Written Reply Submission of School Energy Coalition dated January 29, 2018 in EB-2017-0336, p. 11.
3.	Extract of Ontario, Legislative Assembly of Ontario, <i>Standing Committee on Estimates, Official Reports of Debates (Hansard)</i> , First Session, 41st Parliament (29 Sept 2015), E20 at E-419.
4.	Extract of Ontario, Legislative Assembly of Ontario, <i>Standing Committee on Estimates, Official Reports of Debates (Hansard)</i> , First Session, 41st Parliament (20 Oct 2015), E23 at E-497.

TAB 1

ONTARIO ENERGY BOARD

Hydro One Networks Inc. Transmission

**Application for electricity transmission revenue requirement
and related changes to the Uniform Transmission Rates
beginning January 1, 2017 and January 1, 2018**

SUBMISSION OF

**BUILDING OWNERS AND MANAGERS ASSOCIATION, GREATER TORONTO
("BOMA")**

February 6, 2017

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testimony in the 2015 Estimate Committee hearings in October 2015, during the annual legislative review of the Estimates of the Ministry of Energy and the Environment. During the review, the following exchange occurred between Peter Tabuns, the NDP energy critic, and Serge Imbrogno, the Deputy Minister of Energy.

Ontario, Legislative Assembly of Ontario, Standing Committee on Estimates, *Official Reports of Debates (Hansard)*, First Session, 41st Parliament (20 Oct 2015) at E-497.

“Mr. Peter Tabuns: OK, Mr. Imbrogno, you previously said that the \$2.6 billion transaction from the Ontario Financing Authority to Hydro One and then on to the OEFC would be both cash neutral and fiscally neutral (our emphasis). Was this not correct?

Mr. Serge Imbrogno: Yes.

Mr. Peter Tabuns: I want to just get into that a bit further. This is a \$2.6 billion contribution to Hydro One.

Mr. Serge Imbrogno: That is correct.

Mr. Peter Tabuns: So it’s coming out of our treasury.

Mr. Serge Imbrogno: Well it’s fiscally neutral, because when Hydro One exited the PILs regime under the Income Tax Act, it makes a departure tax payment like any other corporation would. That’s a \$2.6 billion tax payment to the Province. To keep Hydro One whole, there is a \$2.6 billion payment back to Hydro One, to maintain its capital, so it can optimize its valuation going forward.

Mr. Peter Tabuns: So we’re recycling the cash. It goes from our working capital to Hydro One. Hydro One pays it to the OEFC. I am assuming the OEFC isn’t paying off debts, because if I understand you correctly, the cash comes back to the Ontario Financing Authority [Ontario government]. Is that correct?

Mr. Serge Imbrogno: That’s correct.” [Page E419, Estimate Committee Proceeding of September 29, 2015]. The relevant pages from the Estimates proceeding are in Appendix A to this Submission.

This excerpt demonstrates that, notwithstanding HONI’s statements to the contrary, neither HONI nor the Ontario government incurred any cost in connection with the “departure tax”.

Second, Hydro One Limited (HONI) is the owner of 100% of Hydro One Networks Inc., a transmission and distribution monopoly regulated by the Ontario Energy Board, and 98% of the revenue of Hydro One Limited is derived from the income stream generated by the networks businesses. 85% of its assets are assets, the return on which is regulated. The regulated business constitutes almost all of the value of the group, and that revenue is provided by HONI’s

Ontario, Legislative Assembly of Ontario, Standing Committee on Estimates, *Official Reports of Debates (Hansard)*, First Session, 41st Parliament (29 Sept 2015) at E-419.

Ontario, Legislative Assembly of Ontario, Standing Committee on Estimates, *Official Reports of Debates (Hansard)*, First Session, 41st Parliament (20 Oct 2015) at E-497.

TAB 2

ONTARIO ENERGY BOARD

IN THE MATTER OF a cost of service application made by Hydro One Networks Inc. on May 31, 2016 under section 78 of the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to its transmission revenue requirement and to the Ontario Uniform Transmission Rates, to be effective January 1, 2017 and January 1, 2018;

AND IN THE MATTER OF the Decision and Order dated September 28, 2017 in this proceeding;

AND IN THE MATTER OF the Decision and Order dated November 9, 2017 in this proceeding; and

AND IN THE MATTER OF Rules 40 and 42 of the Ontario Energy Board's *Rules of Practice and Procedure*.

WRITTEN SUBMISSIONS OF THE SCHOOL ENERGY COALITION

January 29, 2018

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“Accordingly, as a pragmatic matter, to facilitate the privatization of its wholly owned utilities, the Province had to either reduce or eliminate this departure tax burden on the Exempt Utility FMV of the assets. This is the reality that faced the Province and Hydro One in connection with the IPO. In response to that reality, the Province and Hydro One arranged to eliminate the departure tax obligation before completing a sale of shares to the public.” [emphasis added]

- 2.4.9** We note that the Province agreed with the Board’s characterization of the transaction in the Decision, as shown in this excerpt from the 2015 Estimate Committee hearings, quoted by BOMA in its Final Argument in EB-2016-0160²⁷:

"Mr. Peter Tabuns [MP]: OK, Mr. Imbrogno, you previously said that the \$2.6 billion transaction from the Ontario Financing Authority to Hydro One and then on to the OEFC would be both cash neutral and fiscally neutral. Was this not correct?

Mr. Serge Imbrogno [Deputy Minister of Energy]: Yes.

Mr. Peter Tabuns: I want to just get into that a bit further. This is a \$2.6 billion contribution to Hydro One.

Mr. Serge Imbrogno: That is correct.

Mr. Peter Tabuns: So it's coming out of our treasury.

Mr. Serge Imbrogno: Well it's fiscally neutral, because when Hydro One exited the PILs regime under the Income Tax Act, it makes a departure tax payment like any other corporation would. That's a \$2.6 billion tax payment to the Province. To keep Hydro One whole, there is a \$2.6 billion payment back to Hydro One, to maintain its capital, so it can optimize its valuation going forward.

Mr. Peter Tabuns: So we're recycling the cash. It goes from our working capital to Hydro One. Hydro One pays it to the OEFC. I am assuming the OEFC isn't paying off debts, because if I understand you correctly, the cash comes back to the Ontario Financing Authority. Is that correct?

Mr. Serge Imbrogno: That's correct."²⁸ [emphasis added by SEC]

- 2.4.10** Thus, what actually transpired – a circulation of funds between the Province and Hydro One – has the same substantial result as the Province exempting Hydro One from Departure Tax in the first place. Did the Applicant pay the Departure Tax if the result is the same as if they had not paid the Departure Tax? In substance, the answer as the Decision correctly points out, is they did not.

²⁷ EB-2016-0160, BOMA Final Argument, p. 4.

²⁸ Ontario, Legislative Assembly, Standing Committee on Estimates, *Official Report of Debates (Hansard)*, E-20, (29 September 2015), at p. E-419-420.

TAB 3



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Legislative Assembly of Ontario

First Session, 41st Parliament

Assemblée législative de l'Ontario

Première session, 41^e législature

Official Report of Debates (Hansard)

Tuesday 29 September 2015

Journal des débats (Hansard)

Mardi 29 septembre 2015

Standing Committee on Estimates

Ministry of Energy

Comité permanent des budgets des dépenses

Ministère de l'Énergie

from tax revenue, it's not coming from cutting services, it's not coming from debt—

Mr. Todd Smith: It's coming from selling the golden goose, is where it's coming from. You are selling the golden goose.

Hon. Bob Chiarelli: The reality is, there are going to be a number of solutions that will be put in place for infrastructure funding. We have always said that the proceeds from Hydro One are part of a solution. They go into a Trillium fund for infrastructure and it will be spent on infrastructure. There is other funding that is being realized from other assets as well. Selling assets is not the only solution. Part of the solution is running good government.

Mr. Todd Smith: Well, that would be nice. It's been a long time since we've had good government in this province—12 years, as a matter of fact, since we've had good government.

I'll end on that note. Thank you, Minister.

The Chair (Ms. Cheri DiNovo): Thank you, Mr. Smith. We now go to the—

Mr. Chris Ballard: We've got a comedy routine

The Chair (Ms. Cheri DiNovo): Quiet, please. We now go to the third party.

Mr. Peter Tabuns: Thank you, Chair. Good morning, Minister, Ms. Geraghty, Mr. Imbrogno.

I want to start off with the supplementary estimates that came out last week. There is an expenditure of \$2.663 billion for assets management and transformation. It shows a cost of \$2.6 billion for tax adjustment offset. What is this meant to pay for?

Hon. Bob Chiarelli: It's part of the transitioning, the transactions that have to take place in creating a new Hydro One as a public company. We do have the numbers and the deputy will explain what those are.

Mr. Serge Imbrogno: Mr. Tabuns, the \$2.6 billion represents the capital contribution that the province is making to Hydro One. It's related to the departure tax that Hydro One pays.

Mr. Peter Tabuns: I want to just get into that a bit further. This is a \$2.6-billion contribution from the province to Hydro One?

Mr. Serge Imbrogno: That is correct.

Mr. Peter Tabuns: So it's coming out of our treasury?

Mr. Serge Imbrogno: Well, it's fiscally neutral because when Hydro One leaves the PILs regime under the Income Tax Act, it makes a departure tax payment, like any other corporation would. That's a \$2.6-billion payment to the province. To keep Hydro One whole, there is a \$2.6-billion payment back to Hydro One to maintain its capital so it can optimize its valuation going forward.

Mr. Peter Tabuns: Just a second. You're telling me the \$2.6 billion comes from our treasury, goes into Hydro One, Hydro One writes a cheque back to the government of Ontario for taxes—

Hon. Bob Chiarelli: The other way around.

Mr. Peter Tabuns: Pardon?

Hon. Bob Chiarelli: Hydro One, as an LDC, is required to pay the tax. We're paying a tax to ourselves. Our entity is paying \$2.6 billion to ourselves, the treasury. It's going from one bank account that we have to another one, and we're putting it back in. So it's revenue-neutral.

Mr. Peter Tabuns: Let's just get the names of those accounts. The \$2.6 billion is coming from the treasury—

Hon. Bob Chiarelli: No.

Mr. Serge Imbrogno: The \$2.6 billion is paid from Hydro One into the Ontario Electricity Financial Corp.—

Mr. Peter Tabuns: Ah, it goes to the OEFC. Okay.

Mr. Serge Imbrogno: That's correct. We consolidate the OEFC so that \$2.6 billion then comes back onto the province's book. So that's fiscally neutral. Then there's another transaction where the province then makes a payment, a capital contribution, into Hydro One. We have assets in Hydro One as a set-off to that. So both those transactions are fiscally neutral to the province, and we're doing that to maintain a capital structure that, I guess, optimizes our proceeds going forward.

Mr. Peter Tabuns: So the \$2.6 billion is going to reduce the debts that OEFC is liable for?

Mr. Serge Imbrogno: That's correct.

Mr. Peter Tabuns: So is this part of the \$5-billion debt reduction that's supposed to come out of this deal?

Mr. Serge Imbrogno: No. This is different. This is like any corporation that leaves the tax regime—that goes from the payments-in-lieu regime to income taxable under the federal Income Tax Act. There's a departure tax that's paid. Any PIL payment goes to the OEFC—

Mr. Peter Tabuns: And why is it that Hydro One is not paying this out of the revenues it receives from the sale?

Mr. Serge Imbrogno: The tax is due before you actually go into the IPO. It's the second before, technically.

Mr. Peter Tabuns: So where is the government of Ontario getting the \$2.6 billion that's used to pay OEFC ultimately?

Hon. Bob Chiarelli: From Hydro One.

Mr. Serge Imbrogno: Hydro One is making that payment into the Ontario Electricity Financial Corp.

Mr. Peter Tabuns: The government of Ontario gives money to Hydro One; Hydro One gives the money to OEFC.

Mr. Serge Imbrogno: No; sorry. Let's just start from the first part of it: Hydro One is required to pay the departure tax. So Hydro One pays the \$2.6 billion into the Ontario Electricity Financial Corp.

Mr. Peter Tabuns: Fair enough. So the new investors start off with \$2.6 billion they've paid out.

Mr. Serge Imbrogno: Right. And those—

Mr. Peter Tabuns: So why are we giving them \$2.6 billion?

Mr. Serge Imbrogno: Let me just finish that. That payment—the tax and the payment—is neutral because we consolidate Hydro One. So they're down \$2.6 billion,

TAB 4



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Legislative Assembly of Ontario

First Session, 41st Parliament

Assemblée législative de l'Ontario

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Official Report of Debates (Hansard)

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Journal des débats (Hansard)

Mardi 20 octobre 2015

Standing Committee on Estimates

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Ministère de l'Énergie

it has. I just don't know exactly what's left in terms of the initial debt-for-equity swap versus how much is in this payable.

0940

Mr. Todd Smith: So how in the world do we ever expect to pay down that \$26 billion that's there?

Mr. Serge Imbrogno: Not to get into too much technicality, there is total debt, but part of that is that there have been loans made from the OEFC to OPG. OPG, unlike Hydro One, doesn't borrow in the capital markets; it borrows from the OEFC. That additional debt is backed by assets at OPG, so it's not part of the stranded debt. Even though OEFC's debt hasn't reduced by as much as the stranded debt, that's because we've added borrowing from OPG through the OEFC. It's almost like the banker to OPG.

Mr. Todd Smith: Isn't the OEFC, though, just supposed to be paying down the debt? Why is it lending money to the province?

Mr. Serge Imbrogno: Part of its objects allows it to lend money to the successor companies. Hydro One was able to go into the market and borrow. OPG at the time wasn't able to borrow into the market, so they borrowed from the OEFC.

Mr. Todd Smith: Okay. Over the last week, we've had—I don't know exactly what you can say, but the final prospectus came out. You're looking at initial share prices of \$19 to \$21 per share, which would bring, for the first 15% segment or tranche of the sale of Hydro One—if those numbers are legitimate numbers and that's what we can expect, we're talking about raising \$1.7 billion in the first tranche of the sale. If you multiply that over the next three sell-offs, if those numbers hold true, are we talking about \$6.8 billion—I see that counsel is ready to answer. Are we talking about \$6.8 billion, or where does the \$9 billion come from?

Ms. Sharon Geraghty: It won't surprise you; I'm just going to say it again. We're in the quiet period, and so the references to that price spread in that prospectus are part of the pricing process, the marketing process. It would be inappropriate for the minister or the deputy to speculate either as to what the value of the company will be at this time or at future times. Obviously, they're going to respond to your question, but I just wanted to mention again that we have to be very cautious and they really cannot be speculating about the value of the company.

Hon. Bob Chiarelli: I think it would be fair to say that our financial advisers are telling us that we're still on target to meet the \$9 billion that was referred to in the prospectus. I don't think we should go beyond that.

Mr. Todd Smith: There are no guarantees. This is the open market, and there are no guarantees.

Hon. Bob Chiarelli: It could go up.

Mr. Todd Smith: It could go up. It could go down. It could, right? There are a lot of variables at work here. I know we have to tread lightly there, so—

The Chair (Ms. Cheri DiNovo): Mr. Smith, your time is up.

Mr. Todd Smith: Oh, I guess I won't move on.

The Chair (Ms. Cheri DiNovo): We now move on to the third party. Mr. Tabuns?

Mr. Peter Tabuns: Thank you, Chair. Just a question for the deputy minister first, because I'm not sure I heard a statement correctly: Did you just say a few minutes ago that OPG borrowing increases the stranded debt, or did I mishear you?

Mr. Serge Imbrogno: It increases the total debt, but it's not stranded because it has an asset. It lends, but it has an asset in OPG.

Mr. Peter Tabuns: Okay. Thank you.

On October 10, a government backgrounder said, "The province remains on track to dedicate approximately \$4 billion to the Trillium Trust and \$5 billion towards debt repayments, as outlined at the time of the 2015 budget." The same backgrounder said that these dedications would include a \$2.2-billion one-time fiscal gain from an enhanced, deferred tax benefit resulting from the revaluation of its fixed asset. Am I to understand that the \$4-billion total includes this \$2.2 billion, or should the backgrounder have said that the government is now on track to dedicate a total of \$6.2 billion to the Trillium Trust?

Mr. Serge Imbrogno: No, the \$4 billion would include the \$2.2 billion.

Mr. Peter Tabuns: Okay. Mr. Imbrogno, you previously said that the \$2.6-billion transaction from the Ontario Financing Authority to Hydro One and then on to the OEFC would be cash neutral and fiscally neutral. Was this not correct?

Mr. Serge Imbrogno: Yes.

Mr. Peter Tabuns: So we're recycling the cash. It goes from our working capital to Hydro One. Hydro One pays it to the OEFC. I'm assuming the OEFC isn't paying off debts because, if I understand you correctly, the cash comes back to the Ontario Financing Authority. Is that correct?

Mr. Serge Imbrogno: That's correct.

Mr. Peter Tabuns: Okay. In other words, this \$2.6 billion in cash, including this \$2.2 billion that's going to be dedicated to the Trillium Trust, is already sitting there in the government's treasury, regardless of what accounting has done. There is no new cash coming in or going out. Is that not correct?

Mr. Serge Imbrogno: The Ontario Financing Authority would have working capital cash on hand, so that would be part of their normal course.

Mr. Peter Tabuns: So they're not borrowing?

Mr. Serge Imbrogno: No, they're not doing additional borrowing.

Mr. Peter Tabuns: And that working capital doesn't need to be replenished because the money is coming straight back into it, correct?

Mr. Serge Imbrogno: You can see it almost as an instantaneous transaction.

Mr. Peter Tabuns: Yes. It's a circle: Ontario Financing Authority, Hydro One, OEFC, back to the Ontario Financing Authority. Correct?