Fedeli **Focus on Finance**

No Plan to Retire the "Debt Retirement Charge"

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In his 2011 annual report, former Ontario Auditor General Jim McCarter noted that the provincial government had not provided the public a full accounting on the status of the Debt Retirement Charge (DRC) for some time, even though it was required to do so by law.

McCarter noted in his report that the original amount of debt, which the DRC was intended to pay off, was $7.8 billion, yet there was still a balance, even though the current government had collected $8.7 billion by March 31, 2011. Surprisingly, the government now claims that it still owed $5.8 billion as of that date!

The original $7.8 billion figure was established in 1999 during the restructuring of the province's former electricity utility, Ontario Hydro, and was never subsequently challenged by the current government until difficult questions started to be asked. We have no discovered the government had re-set the debt to $11.9 billion, a secret it kept to itself from 2004 until after the 2011 election.

More Questions than Answers Remain

The most recent annual report from newly-appointed Auditor General Bonnie Lysyk states the amount collected has since grown to $10.6 billion as of last year, while the government claims $3.9 billion is still owed and refuses to say specifically when it will be fully paid off. Ontario households and employers can be forgiven for scratching their heads and wondering why this surcharge remains on their monthly electricity bills, where all of this money has really gone, and what is the plan for ending it.

> *Section 85 (of the Electricity Act, 1998) requires that the Minister of Finance "from time to time" determine the amount of the outstanding residual stranded debt and make this determination public.*
>
> *-Office of the Auditor General of Ontario, 2011 Annual Report, page 12*

A Little History

In 2002, Ontario families and employers began paying a specific surcharge on their monthly electricity bills in order to pay back debts collected by the former Ontario Hydro. The amount of that debt was $7.8 billion, and it was estimated that by 2012 enough money would be collected to meet these obligations. The DRC is applied at a rate of 0.7 cents per kilowatt hour (kWh). With average residential use ranging between 800 kWh and 1,000 kWh per month, this equates to between $5.60 and $7.00 on an average monthly bill. Beginning in 2010, the government applied the Harmonized Sales Tax to the DRC. In total, the DRC raises close to $1 billion a year in annual revenue.

As 2012 approached, the government pushed back the estimated date for paying off the residual stranded debt from 2012 to "somewhere between 2015 and 2018." In the most recent annual report from the agency in charge – the Ontario Electricity Financial Corporation (OEFC) – even this date range was omitted. Why? (Source: Ontario Electricity Financial Corporation, Annual Report, 2012)

Yearly Revenues from the Ontario Debt Retirement Charge

(2002 to Present)

2013-14:	**$957 million** *(2013 Budget projection)*
2012-13:	**$957 million** *(2013 Budget interim figure)*
2011-12:	**$952 million**
2010-11:	**$944 million**
2009-10:	**$907 million**
2008-09:	**$970 million**
2007-08:	**$982 million**
2006-07:	**$991 million**
2005-06:	**$1.021 billion**
2004-05:	**$997 million**
2003-04:	**$1.0 billion**
2002-03:	**$889 million**
TOTAL	**$11.6 BILLION**

Source: Ontario Electricity Financing Corporation

After the auditor general pointed out in 2011 the government's failure to comply with its reporting requirements, the Ministry of Finance provided a long-awaited update on the Debt Retirement Charge on May 15, 2012. It stated the remaining residual stranded debt was $4.5 billion, leading to numerous questions, such as how was it possible to collect $8.7 billion and only pay down $3.3 billion worth of debt? The government claimed that there was interest owed on the debt, even though the definition of the residual stranded debt and DRC, as written into law, does not include interest payments: "the definition of residual stranded debt in section 85 [of the Electricity Act] does not include interest or other [Ontario Electricity Financial Corporation] expenses." (Source: Office of the Auditor General of Ontario, 2011 Annual Report, page 125)

This, of course, begs the question – where did this money go and why are we still paying the DRC?

Ontario Ministry of Finance on August 18, 2011:

Amount of debt to be paid off = $7.8 billion

Ontario Ministry of Finance on May 15, 2012:

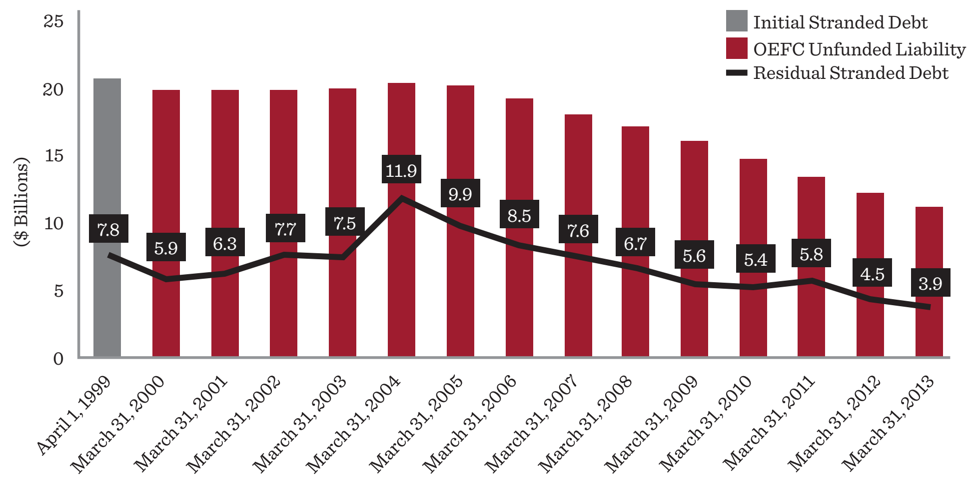
Amount of debt to be paid off = $11.9 billion

-Ontario Electricity Financial Corporation, Annual Report 2010-11, released August 18, 2011; and, Ontario Ministry of Finance, press release, May 15, 2012

The $4 Billion Question

The most curious aspect of the government's update in 2012 was the fact it retroactively restated the 2004 amount of residual stranded debt as $11.9 billion – a $4.1 billion increase from the original amount. However, a review of the 2004 annual report from the Ontario Electricity Financing Corporation makes no mention of this sudden increase. In fact, neither does any annual report up to the 2011 election. The figure used was $7.8 billion in 11 consecutive annual reports. In essence, it was like a credit card bill we kept paying, but no one ever told us how much was left. When that number was finally revealed, the original balance jumped $4 billion.

Residual Stranded Debt Since April 1, 1999



Note: Unfunded Liability amounts are from OEFC Annual Reports from 1999-00 to 2012, and the Annual Financial Statements for 2013.
Sources: Residual Stranded Debt value for April 1, 1999, as announced on April 1, 1999. Values for the period from March 31, 2000, to March 31, 2010, as estimated by the Ontario Ministry of Finance in the *2012 Budget* and for March 31, 2011, to March 31, 2013, as determined by the Minister of Finance in accordance with a regulation made under the *Electricy Act*, 1998.

Where did all this money go if it wasn't paying off $7.8 billion of residual stranded debt? The auditor gave one major clue in his 2011 annual report:

"External legal advisers we engaged to assist us ... confirmed our view that section 85 of the Electricity Act, 1998, which is titled 'The Residual Stranded Debt and the Debt Retirement Charge', allows the DRC to be used for any purpose that is in accordance with [the government's] objectives and purposes, and not just the retirement of the residual stranded debt." (Source: Office of the Auditor General of Ontario, 2011 Annual Report, page 12)

While it appears the current government clearly exploited this loophole, it is nevertheless a loophole.

When originally implementing the DRC, the Minister of Energy of the former government said explicitly it was the government's policy that: "All revenues from the DRC will go directly to the Ontario Electricity Financial Corporation to be used exclusively to service the residual stranded debt. Once the residual stranded debt has been retired, the DRC will end." (Source: Office of the Auditor General of Ontario, 2011 Annual Report, page 124)

It was therefore a deliberate change in government policy not to use separate accounting to track the residual stranded debt. In a 2011 briefing to the Ontario PC Caucus, government officials confirmed that they combine revenues collected through the DRC revenues with other electricity-related revenue streams, which are then all applied together to the overall unfunded liability. The amount of remaining residual stranded debt is then recalculated – each year – to derive a remaining balance.

What's Really Going on Here?

Two things – first, the Debt Retirement Charge is not earmarked toward the residual stranded debt, even though that is its intended purpose. Second, the government really has no plan to ever eliminate the DRC. Take a second look at the figure above. Between 2010 and 2011, the amount of debt owed actually increased from $5.4 billion to $5.8 billion – over the same period the government raised $950 million in DRC revenues.

Is it any wonder the government cannot present its long-term plan to eliminate the DRC?

The most recent government update on the remaining residual stranded debt figure came in the 2013 Fall Economic Statement at $3.9 billion – which, coincidentally, is roughly the difference between the original estimate and government's revised estimate for 2004.

Conclusion

If the government had properly managed the electricity system and directed money collected through the DRC toward its intended purpose, the residual stranded debt should have been paid off by now, and the charge should have come off Ontario electricity bills. Instead, it appears that when the government needed money for other expenses, it diverted these funds toward those purposes, prolonging the amount of time Ontario families and employers will be required to pay the DRC.

Key Questions

If the government has collected roughly $1 billion in DRC revenues every year for the past 12 years, why is it not able to give a specific date for when the residual stranded debt will be paid off?

How does the government explain the fact that it used $7.8 billion for the amount of debt each and every year for 8 years, only to revise this estimate upwards to $11.9 billion immediately following the 2011 election?

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