



RNAO

Registered Nurses' Association of Ontario
L'Association des infirmières et infirmiers
autorisés de l'Ontario

Hon. Kathleen Wynne
Premier of Ontario
Room 281, Queen's Park
Main Legislative Building
Toronto, ON M7A 1A1

April 29, 2016

RE: Privatization of Hydro One

Dear Premier Wynne,

Thank you very much for meeting with me on April 21. I agreed to follow-up with you and convey, in writing, my concerns regarding the privatization of Hydro One.

We share important common ground. We both understand the critical role of government in advancing the full range of social and environmental factors influencing health and ensuring that there are sufficient resources to do so, particularly with our most marginalized populations. However, the Registered Nurses' Association of Ontario (RNAO) strongly opposes plans to sell off parts of Hydro One on a number of grounds, and was dismayed that the government proceeded with the first stage of the sale. It is not too late to avoid some of the biggest problems if Ontario decides to halt further sales of Hydro One shares.

First, we are concerned this is a bad deal for Ontarians. Hydro One is a monopoly that gives Ontario a substantial and regular stream of income -- currently \$750 million per year in profits and a further \$100 million per year in payments in lieu of taxes.¹ The Toronto Star reports that Hydro One is currently earning a rate of return on equity of between 10 and 11.5 per cent.² It simply does not make sense to sell off an asset that generates a much higher rate of return than current borrowing rates. As Ontario's Financial Accountability Office (FAO) concluded, the sale will result in a short-run increase in revenue from one-time asset sales, followed by a drop in future revenues as the bulk of income would now go to private share holders. The FAO also pointed to revenue risks that include possible loss of debt retirement charges (DRCs) that Ontario has so far been able to collect from nonresidential users; privatization revenue could ironically be offset by lost DRCs.³ The FAO concluded that the net amount that would be available for infrastructure spending from a sale of 60 per cent of Hydro One to be between \$3.3 and \$5.8 billion.⁴ That would put a very small dent in the government's infrastructure commitment. Ontario would not receive full value for this very valuable asset because investors will discount it as they cannot control major policy variables (e.g. electricity prices) as government does, and because substantial brokerage fees will be paid.⁵ That reduced future revenue stream will hurt the future ability to pay for programs and infrastructure.

Secondly, we are concerned about the immediate effects on the public. To the extent that the for-profit motive takes over, the new owners will have a very powerful incentive to press for rate hikes, which will affect all consumers. Since electricity is an essential commodity, rising

prices will disproportionately affect lower income people. Furthermore, it will be much more difficult for the government to pursue public purposes with Hydro One if the majority ownership is private. For example, maintaining services in smaller communities may be more difficult to achieve if management is controlled by profit-driven share holders. Similarly, it will be more difficult for government to support economic development and environmental measures such as renewable energy if Hydro One cannot readily be directed to follow suit -- for example, by ensuring there is sufficient transmission capacity to meet these public objectives.

We remain deeply concerned by the loss of oversight and control over Hydro One. Already, CEO compensation at Hydro One has soared with the initiation of privatization.⁶ The more public ownership is diluted, the greater risk to the public interest there is with the lack of transparency. Ontario has a poor record when trying to mix the public and private, as exemplified by Auditor General reports on eHealth Ontario,⁷ and on public-private partnerships (Alternative Financing and Procurement).⁸ The loss of control and oversight is a bad combination with the injection of the profit motive.

Premier Wynne, there are better ways to raise the revenue that Ontario needs to help build a healthier society. Ontario has already shown tremendous leadership by initiating pricing of carbon pollution. Aggressive use of the polluter-pay principle will get the province a long way towards where it needs to go, along with ensuring that all people pay their fair share of taxes. Ontario has taken important steps in this direction, but the sale of irreplaceable assets such as Hydro One is a step in the wrong direction.

RNAO strongly urges you to stop any further sale of this precious asset and maintain its firm public oversight.

Kind regards,

A handwritten signature in black ink that reads "Doris Grinspun". The signature is written in a cursive style with a long horizontal flourish underneath the name.

Doris Grinspun, RN, MSN, PhD, LLD(hon), O.ONT
Chief Executive Officer, RNAO

References

¹ Financial Accountability Office of Ontario. (2015). *An Assessment of the Financial Impact of the Partial Sale of Hydro One*. October. Pp. 16, 17. Retrieved April 27, 2016 at <http://www.fao.on.org/web/default/files/publications/FAO%20Hydro%20One%20EN.pdf>.

² Walkom, T. (2015). Plan to sell Hydro One could backfire. *Toronto Star*. October 31. Retrieved April 27, 2016 at <http://www.thestar.com/news/queenspark/2015/10/31/kathleen-wynnes-bone-headed-plan-to-sell-hydro-one-could-backfire-walkom.html>.

³ Financial Accountability Office of Ontario, op. cit. P4.

⁴ Financial Accountability Office of Ontario, op. cit. P6.

⁵ On a smaller proposed 2002 IPO of Hydro One of about \$5 billion, \$110 million in brokerage fees were in play. Nelson, J., Silcoff, S. (2015). Hydro One stake sale would bring windfall for Ontario. *Globe and Mail*. March 10.

⁶ Alexander, D. and Deveau, S. (2015). Hydro One CEO's pay of \$4 million with bonus approaches top end. September 28. Retrieved April 27, 2016 at <http://business.financialpost.com/executive/c-suite/hydro-one-ceos-pay-of-4-million-with-bonus-approaches-top-end>.

⁷ CBC. (2009). *EHealth scandal a \$1 B waste: auditor*. October 7. Retrieved April 27, 2016 at <http://www.cbc.ca/news/canada/toronto/ehealth-scandal-a-1b-waste-auditor-1.808640>

⁸ Auditor General of Ontario. (2014). *Infrastructure Ontario: Alternative Financing and Procurement*. Retrieved April 27, 2016 at <http://www.auditor.on.ca/en/content/annualreports/arreports/en14/305en14.pdf>.