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Martin Regg Cohn

Here's a hot issue that Tim Hudak thinks will bring down the Ontario government: Higher hydro bills.

And here's the Tory leader's bizarre pitch to bring those bills down: Stop collecting for our hydro debt, by brazenly declaring it paid in full — even though it's still there.

Ignoring our debts is a strange notion coming from Ontario's once-proud Progressive Conservatives. But Hudak has calculated that by profiting from voter frustration, and banking on voter folly, he can cash in on voting day, Oct. 6.

His plan is a scam — a classic tale of buying votes with taxpayers' money. And a parable of how elections are won in an era of short attention spans.

A warning to readers: The PCs are counting on you tuning out the details.

So test yourself: You can read on — and see how the Tories toy with you. Or stop here — and prove the PCs are right that people won't follow the fine print.

Look at your hydro bill. You may have noticed a monthly "Debt Retirement Charge" (DRC) that averages \$5.60 per household. Hudak promised last month to eliminate it from residential bills — saving ratepayers about \$76 a year after taxes. What's remarkable about the Tory strategy is that the DRC monster they now pledge to kill off is a Frankenstein of their own creation — dreamed up by the old Mike Harris PC government in 1999.

The Harris Tories wanted to privatize Ontario Hydro, but had to off-load its old debt of \$21 billion. They conjured up a Byzantine road map for repayment: Its successor companies (OPG for power generation, and Hydro One for transmission lines) would allocate all their *future* revenue and tax streams to help pay down that debt. Unfortunately, all that *projected* cash flow — estimated at \$13 billion — still wouldn't cover off the massive debt payments, leaving a yawning gap.

So the Harris Tories came up with an even more exotic financial concept, virtually unheard of at the time: the "Residual (leftover) Stranded Debt." Sounds like a complex accounting concept, but it was really a financial fig leaf for a pile of *unsustainable* debt to be backstopped by hydro ratepayers (customers). This portion — the (leftover) unfunded liability — came to \$7.8 billion, which is now supported by the DRC on your monthly bill.

As their Hydro privatization plans went awry and deregulation created chaos, the PCs panicked — freezing electricity rates and allowing the hydro debt to soar. When the electricity sector became politically toxic for the Tories, they lost power in 2003. The incoming Liberals started paying down the inherited debt, which slowly declined but is far from paid off. Now, the Tories hope to regain power by promising to drop the DRC from your bill — delaying the day of reckoning as they did in the past. History is about to repeat itself.

Why walk away from the DRC? Remarkably, the Hudak Tories keep claiming the Residual Stranded Debt has been paid off. As proof, they make this breathtaking assertion: At last count, the government had collected \$7.8 billion from the DRC — which roughly matches the amount of the Residual Stranded Debt when the Tories concocted it in 1999. That must mean the debt has been paid off, right?

But as any homeowner can attest, there's no such thing as an *interest-free* debt (or mortgage) that allows you to pay off *only the principal*. Ask your friendly bank manager. Any debt has to be serviced. Yet the Hudak Tories persist with the fairy tale that a \$7.8 billion debt can be paid off a decade later with precisely \$7.8 billion. Last year, Ontario paid a whopping \$1.6 billion in *interest alone* merely to service the overall stranded debt (which has declined to \$14.8 billion since 1999).

The financial fiction goes further. The Residual Stranded Debt dreamed up by the Tories was never a fixed amount; there is no lender who holds a separate Residual Ontario Bond. It's only an accounting concept. Whenever there's a shortfall in the cash flow from the (unpredictable) future revenues of OPG and Hydro One, ordinary ratepayers must plug the ever-changing gap. The Residual Stranded Debt



Ontario Progressive Conservative Leader Tim Hudak promised last month to eliminate the Debt Retirement Charge on residential hydro bills.

TARA WALTON/TORONTO STAR

is a residue that keeps changing. It's a moving target that will only be eliminated when (projected) hydro cash flow is high enough to cover the rest of the debt down the road — and not before. You can thank the Harris Tories for devising this bizarre black box — it's the gift that keeps on giving, or more precisely, the debt that keeps on debiting.

That's why civil servants — the non-partisan stewards of the stranded debt — keep pushing back their projections for when it will be paid off. The Tories claim it's all scandalously manipulative. Provincial Auditor General Jim McCarter, who operates at arm's length from the government, has examined the books and found nothing wrong. Unsatisfied with his impartial audit, Hudak has taken the unusual step of calling for an "independent forensic audit." McCarter chuckled when I asked why Hudak doesn't trust him to do the job of auditing the stranded debt. If Hudak becomes premier, all he has to do is ask him to conduct another audit, McCarter countered. But he remains highly skeptical of Tory allegations that the government is diverting DRC revenue rather than paying down debt.

Hudak is sticking to his fanciful story, which he retold to the Chamber of Commerce last week: "The (DRC) charge was imposed in 2002 to pay off Hydro's residual stranded debt. All of the debt principal was paid in full by 2010. But the charge was not removed! In fact, it was extended to 2018. Can you imagine if a bank did this to you as a credit card customer? You've paid off your balance — congratulations — but we're going to keep hitting you for interest payments anyway? They'd go to jail. But in Dalton McGuinty's Ontario, it's just another experiment in creative revenue enhancement. Under my leadership . . . It Will Be Gone (sic)!"

In Hudak's imaginary world, a customer never pays any interest on his initial credit card balance, even a decade later. That's why he claims the Residual Stranded Debt should have been paid off by now, and blames Liberal impropriety. In the same breath, he acknowledges it won't be paid off until 2018. Regardless, he vows to stop collecting the DRC from *residential* ratepayers as premier. Hudak's office estimates this will cost the province \$360 million, to be made up elsewhere (Curiously, PC news releases last month pegged the cost higher, at \$400 million). In fact, it's likely to cost even more, because the Tories clarified with me on Friday that they'll also remove the DRC for farmers and small businesses. A confidential briefing document prepared for cabinet last fall shows that cutting the DRC on this broader group would have a "negative fiscal impact of \$500 million per year" — far more than the latest PC price tag of \$360 million.

Any DRC relief, whether \$360 million or \$500 million, would have to be made up elsewhere — *transferring the burden from ratepayers to taxpayers*. Either way, the buck stops with voters. Hudak's DRC gambit — now you see the debt, now you don't — is the kind of political sleight of hand that damaged the province's finances when the Tories were last in power, and created a crisis of confidence in their government. By playing the same shell game all these years later, Hudak may successfully dupe some people about the debt. But the Tory leader is fooling himself if he thinks this makes him ready to govern — and that cooking the books will never catch up to him, or the province.

The Tories tried similar tricks once before and paid a heavy price. If voters buy in now, and don't pay heed, we'll be going down the same blind alley — a debt maze of our own making.

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