

Fedeli Focus on Finance

Samsung Deal - Opportunity Lost

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As I've stated many times in the Legislature, and several times in my Focus on Finance series, the Gas Plant Scandal Hearing documents continue to reveal insider facts. The latest papers we discovered were a March 26, 2013 Treasury Board, Management Board of Cabinet 'Assessment Notice' outlining that the government could have cancelled the lucrative Samsung deal, without penalty!

This is found in a government document marked Confidential: Not to be Copied or Reproduced. But through dogged persistence before the 2014 election, we were able to have all the files obtained through the Gas Plant Scandal Hearings released publically. Stating that date is important, because after the election, Premier Wynne had the Committee disbanded, and there was no further access to new documents.

The Samsung document starts with "The Ministry is seeking a negotiating mandate to amend the Green Energy Investment Agreement (GEIA), which was signed between the Korean Consortium (KC), as represented by the Samsung Corporation, and the Province."

The crux of the document states, "KC has since missed key commitments in the GEIA by missing multiple milestone deadlines (March 31, 2012) for Phase 2 and 3 construction projects. This triggers the province's ability to terminate the GEIA, without penalty, through existing termination clauses." This would have resulted in cost avoidance for the province of \$5.2 billion – and saved about 2% on the average residential electricity bill.

Once the province realized they could walk away from this deal, they needed to make a decision – do we do what's best for the ratepayers – or best politically? About two weeks after the Treasury Board note was issued, here is the Cabinet Briefing Note:

"The GEIA commits the KC to deliver a total of 2,500 MW of wind and solar electricity generation through five phases. The agreement also commits KC to establishing

four manufacturing plants in Ontario with an expected 900 jobs. In return, KC receives a long-term revenue stream through Power Purchase Agreements (PPA), priority access to the transmission system, plus an additional payment of up to \$110 million if specific job creation targets are met."

"To date, KC has secured Power Purchase Agreements only for Phases 1 and 2. KC has also established three of the four manufacturing plants in Ontario, although these have not yet achieved the full job creation targets. Phases 3, 4, and 5, as well as the fourth manufacturing plant, have not yet been implemented for a variety of reasons."

"The ministry proposes to eliminate Phases 3, 4, and 5 from the agreement. The ministry also proposes to reduce the additional payment while having KC maintain some of their job requirements."

"Currently, KC is in default of the terms of the existing GEIA. The ministry is proposing to authorize a 45 day negotiation period. If an agreement with KC cannot be reached within that timeframe, the Minister of Energy would be authorized to terminate the entire agreement (with 30 days notice). In this event Phases 1 and 2 would still be able to proceed."

The Cabinet Office Analysis also offers a window into what the thinking of the day was:

"The ministry is now proposing to eliminate much of the existing agreement. The ministry argues that doing so could save Ontario ratepayers as much as \$5.2 billion over 20 years."

"Aside from the GEIA, there is a more fundamental question about what Ontario's future electricity needs are and how they should be met. Currently, Ontario has more generation capacity than it requires, and the ministry presents this as a rationale for not proceeding with the future phases of the GEIA. However, this may not be consistent with the government's previous commitment to fostering renewable energy generation."

“Also, saying that KC’s renewable generation capacity is not needed could also be contentious in communities where other renewable generation projects (e.g., wind farms) are currently being built in the face of community opposition.”

“Whether the agreement is renegotiated as proposed or terminated, Ontario would have to manage the risk of being perceived to be walking away from an investment agreement that, in the past, has been described as an important job creation initiative. To date, KC has not achieved the job creation targets set out in the GEIA.”



CTV's Paul Bliss covered this breaking issue twice in one week. In addition many radio stations and newspapers covered this latest scandal.

“Even though Ontario appears to be well within its rights to terminate the agreement, the ministry has lagged that there is a risk that KC could initiate legal action against the province.”

“Ontario’s negotiating position with KC became stronger when KC went into default of the GEIA on December 31, 2012. This gives Ontario more leverage than it had in previous negotiations and supports the rationale for proceeding with the decision at this time.”

What does all this mean to you and what did the government ultimately do?

Three months after the initial Treasury Board Note, the Minister of Energy made his announcement ... “The province will now buy

\$6 billion worth of electricity produced by Samsung’s wind farms and solar projects over the next 20 years, which is \$3.7 billion less than the original 2010 agreement.” He added, “This was the most significant step our province could take ... to bend the cost curve for ratepayers.” He told reporters, “Samsung missed some deadlines, so the province was able to reopen negotiations and reduce the amount of electricity it will buy from 2,500 MW to 1,369 MW.”

Now hang on a second, there are two lags on the play here. The documents state “The cost of the GEIA to ratepayers is \$10.5 billion over 20 years.” In fact Page 1 details the breakdown of each Phase, showing the total to be \$10,514,000,000. Let’s call it \$10.5 billion. So right from day one, the government has been using the lower \$9.7 billion number, for whatever reason, when their documents clearly show this is low by \$800 million. Did the government deliberately understate this figure?

The second point is that while the documents state the cancellation would save \$5.2 billion, the announcement says \$3.7 billion – fully \$1.5 billion less. And the announcement states they’re reducing from 2,500 MW to 1,369 MW, when Phases 1 and 2 only allowed for 1,069 MW – that’s 300 MW less.

The answer is that while the government did cancel the wind projects of Phases 3, 4, and 5, they left the 300 MW of future solar projects intact. According to this announcement then, they will be paying \$1.5 billion for 300 MW of solar.

The bottom line is that clearly, the ratepayers come last. While the government would like you to believe there’s little it can do to mitigate skyrocketing hydro costs, we now know that’s simply not true – they had a real opportunity to make a serious course correction – and chose not to. And the document also contains a clear admission that this deal would increase the cost of hydro – something the government denied right from the beginning.

And just when you would think there can't be anything more cynical to add, let me present the various media quotes the government trotted out throughout this whole deal ...

"Premier Dalton McGuinty has signed a landmark agreement with a South Korean consortium that will see 16,000 new jobs over six years."

"Samsung will build wind turbines and other green energy equipment in Ontario – that will mean four new factories and some 1,440 manufacturing jobs."

"Thanks to Samsung's Green Energy Investment Agreement with the Government of Ontario, we are creating 9,000 jobs, kick-starting a new industry in Ontario and generating 1,369 megawatts of clean energy."

March 2013 Treasury Board Note:

Job Targets (for all 5 Phases) = 900;
Jobs created = 300.

Conclusion

When deadlines were missed, the government could have walked away from a sole-sourced deal and saved the ratepayers \$5.2 billion. Instead, they chose their own Party interests over the interests of Ontario families, and unnecessarily forced them to pay \$1.5 billion more than needed on their hydro bills. Their assertion that there is nothing that could be done to mitigate skyrocketing hydro rates in Ontario is patently untrue.

Key Questions

Who in Cabinet voted to override the advice of government bureaucrats?

Why did the government not tell the public that they made a choice to spend \$1.5 billion to proceed with part of a deal they could have walked away from for nothing?

Why did the government proceed with 300 MW in solar projects, when their own documents clearly state Ontario already has more generation than it requires?



This was originally disclosed in my newest book, **Focus on Finance 3**.

Please go to www.fedeli.com to download your own copy of the book.

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