

Behind those rising hydro rates

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Andy Frame (Toronto Star)

Ontario Auditor General Jim McCarter told us last week that electricity rates have been rising without sufficient oversight. Warning that they will rise still higher, he blamed the McGuinty government and noted that government legislation and directives have overridden powers assigned to the Ontario Energy Board (OEB).

The auditor's report reviews three areas of the electrical power system. The main section is on the Green Energy Act, which allowed the government to set aside existing legislation to quickly install a green energy economy that it claimed would result in 50,000 jobs. The auditor's findings are very critical of the act, its results and costs, and makes these points:

- Billions of dollars of new wind and solar power projects were approved without the usual planning and regulatory oversight process.
- The \$7 billion deal with the South Korean company Samsung was done with no formal economic analysis to determine if it was prudent. Neither the Ontario Energy Board nor the Ontario Power Authority (OPA) was consulted.
- The OPA was told to implement a feed-in tariff (FIT) program that provided generators of renewable energy, wind, solar and biomass at very attractive prices, much higher than in other jurisdictions. The government said it would result in a rate increase of 1 per cent per year; this later was revised to 7.9 per cent. The higher prices paid add \$220 million annually to the cost of electricity — for each year of the 20-year contracts.
- The government claimed 50,000 jobs would be created. To date, it claims 20,000 but the auditor points out that most of these are short-term construction jobs. The auditor notes that studies in other jurisdictions show that for each job created, two to four jobs are lost in other sectors, and that each job created costs \$179,000.
- The auditor questions the value of some renewable sources to the electricity system. Wind power fluctuates from zero per cent on summer

days when electrical demand is high, to 94 per cent on winter days when demand is low, and wind power is highest overnight when demand is low.

- The system sometimes has an oversupply, so the system operator instructs generators to reduce their output. However, the FIT program has a unique feature. It provides renewable energy generators an additional contract payment to compensate them for revenue lost on curtailment instructions. The result is that electricity customers pay for renewable energy generation even when the generator is not producing electricity.

The second review by the auditor dealt with the stranded debt of the former Ontario Hydro. Electricity consumers have been paying a fixed debt retirement charge (DRC) on hydro bills since 1999. The finance minister is required to determine from time to time the residual stranded debt and make that determination public.

The auditor points out that the residual stranded debt originally was \$7.8 billion and that, over a period of 10 years, \$8 billion was collected. However, no public report has been made and the DRC is still being collected. The legislation allows the finance minister to determine a date when the debt has been paid and that the determination of this date "cannot be challenged in court." The minister has estimated that the debt will be paid off between 2015 and 2016 but has not made any commitment to making a public report.

The third area of the auditor's report was on the role of the OEB and the decline of its authority to control electricity rates. The auditor notes that in recent years the rates for unregulated sources of power have been higher than regulated sources, and that they account for about 65 per cent of the price paid by the average consumer, meaning that only \$35 of every \$100 paid for electricity can be regulated. The unregulated sources are primarily supplies under power contracts signed by the OPA under government direction.

The OEB says the public expects the board to regulate the industry. This, however, is a misconception because the government has taken away its authority to regulate.

The auditor general's comments are very critical:

- The Green Energy Act was not reviewed properly before enactment and has been a major factor in the large hydro rate increases; also that the jobs

promised may be temporary and the act could result in an overall loss of jobs.

- The government continues to collect the debt retirement charge and has not made a public report on the payments as required under the legislation, despite indications that it has in fact been paid off.
- The authority of the OEB to control rates has been greatly reduced because of government directives and payments to unregulated suppliers of electrical energy.

The major increase in hydro rates requires hydro customers to do without some necessities in order to pay their hydro bill and some industrial customers have had to cut jobs.

The auditor general has spoken. Will the McGuinty government listen?

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