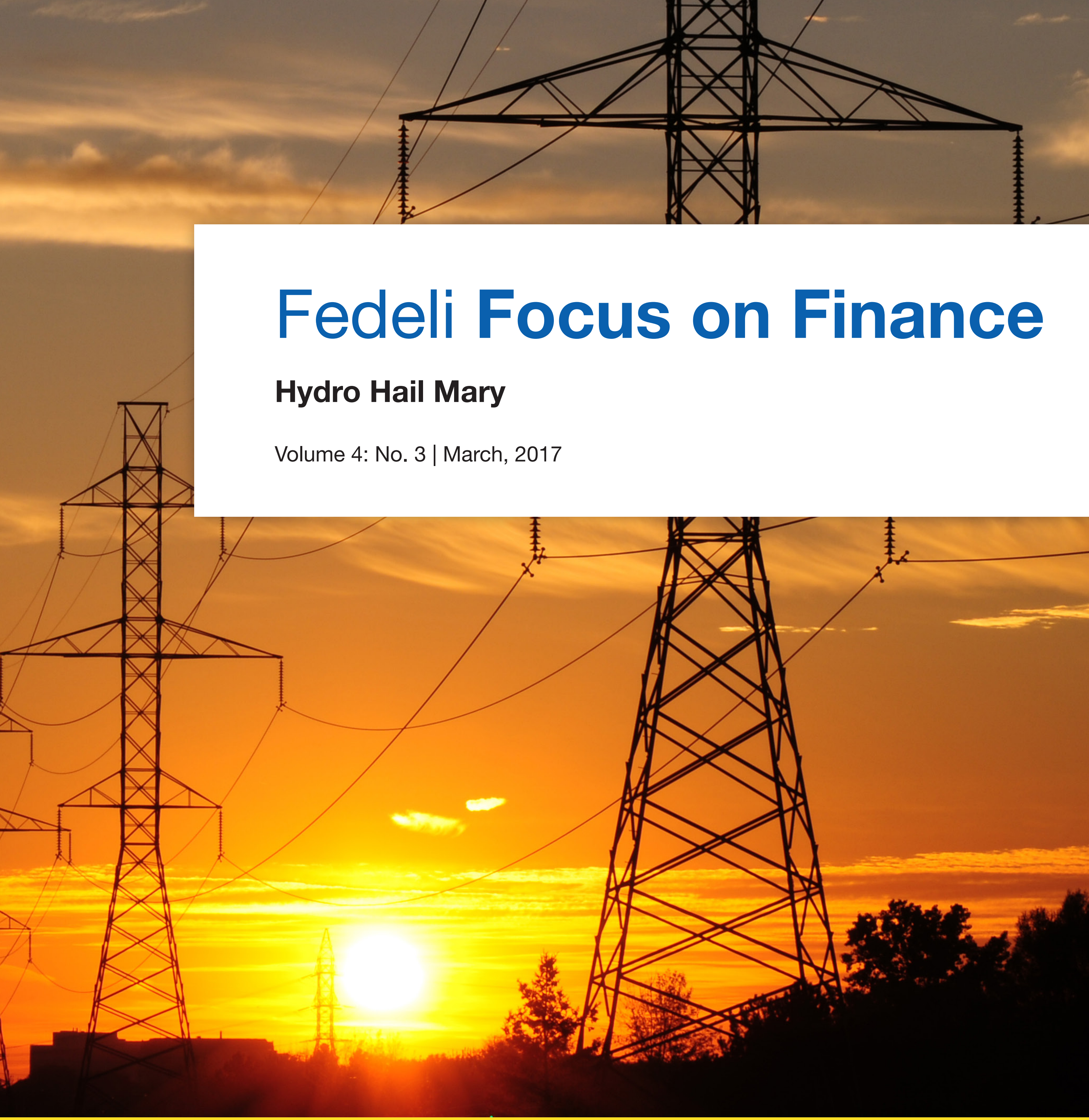

Fedeli **Focus on Finance**

Hydro Hail Mary

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Hydro Hail Mary

With the government slumping in the polls due to skyrocketing hydro rates (almost 400% increase in 14 years), and with families being forced to decide whether to heat or eat, the government launched their *Fair Hydro Plan* at the beginning of the month.

The media headlines describe the sentiment regarding the hydro plan best … "Sleazy, desperate hydro ploy to fool Ontarians"; "Cutting today's hydro bill, for today's votes, with tomorrow's money"; "Hydro slash will cost us"; "Hail Mary"; "$25B hydro boondoggle"; and "Hydro on Layaway". There are many and varied ways to dissect the plan and this issue will attempt to unpack the ones that should be most important to you.

Why is the government doing this?

This is probably the most interesting part of the story. Remember back in the October issue of *Focus*, I revealed that government pollster David Herle gave a presentation to an energy association. His first slide read "Rates are an increasingly major concern in Ontario. The cost of electricity is not just seen to be unreasonably high; it is widely seen as damaging to the provincial economy." He told the government that people like the elimination of coal, improved reliability, conservation, and renewable energy. Now, you certainly don't want to blame the cost hikes on things people like, even if that's actually why costs are skyrocketing. Instead, the blame could be focused on several hot-button issues, such as the billions spent on upgrading transmission lines, because surveys show reliability is important (even though the transmission lines they built actually were to bring power from far-flung wind turbine locations, not to "upgrade an aging system" as they claimed). Again, none of the talking points need to be based on facts – where's the fun in that?

In the Premier's Toronto Star column, she wrote "Brownouts, blackouts, and dirty coal endangered our economy. We closed all of Ontario's coal plants, built thousands of kilometres of new transmission lines, and introduced renewable energy. Ontario now has a clean, reliable system with a modern, diverse mix of generating sources. But – all this came at a price. We put the $50-billion cost of the rebuild onto the hydro bills of just one generation."

Isn't it fascinating how the precise wording in my October newsletter turned out to be her precise talking points five months later! It's because her words are just that – words. There are no facts behind them. Think they've built a reliable system? I've discussed the lack of reliability in *Focus* before, where *Blackout Tracker Annual Report* revealed the number of Ontario outages <u>increased</u> by 275% from just 2012 to 2015. And in the Auditor General's 2015 Annual Report she revealed, "Most of the increase in what consumers pay for electricity has come from generation cost increases, which account for 60% of the overall cost of electricity. Generation costs have increased by 74% over the last decade." Despite the government's talking points, we know that signing contracts for power we don't need, is what caused (and continues to cause) electricity bills to skyrocket.

What is the government doing?

Although no Bill has been tabled in the Legislature, I did obtain a copy of the Ministry's slide deck. The plan has four major components: refinance the Global Adjustment (GA); enhance consumer rebates; lower the Industrial Conservation Initiative threshold; and find efficiencies in the market.

The GA bucket is where most of the sins lie, as it's the difference between market price and what the government pays for power, plus all other hydro-related costs. The Auditor General told us "GA fees have increased significantly, from $650 million in 2006 to $7.03 billion in 2014." She added "Electricity consumers have already paid a total of $37 billion, and they are expected to pay another $133 billion in GA from 2015 to 2031." The government's number used in the announcement put the 2017 GA over $12 billion. The refinancing plan would spread the costs over a longer period of time, by reducing about $2.5 billion per year over 10 years, for an additional accumulated debt of about $28 billion.

The enhanced consumer rebates consist of broadening the Rural or Remote Electricity Rate Protection ($500 million in the coming year; funded by provincial revenues); enhancing the Ontario Electricity Support Program ($185 million in the coming year; funded by provincial revenues); First Nations On-Reserve Delivery Credit ($20 million in the coming year; funded by provincial revenues); and establishing a New Affordability Fund ($200 million in the coming year; funded by provincial revenues). The total cost to the tax base is $905 million annually. This is on top of the roughly $1 billion required from the tax base to pay for the 8% HST rebate.

The Industrial Conservation Initiative will target industries with the NAICS codes 31-33 and expand the eligibility to manufacturers with average monthly peak demand over 500KW. The cost to the ratepayers is yet to be calculated.

The last area is finding efficiencies or as the government says, ‘bending the cost curve’. The government feels that the changes they will make to future initiatives are estimated to save at least $200 million per year, starting in 2021.

One interesting side-note is that the government has co-opted OPG into their scheme. The slide deck states that OPG “Finances/manages the GA proposal”. Why, you might ask? Well OPG is certainly large enough to absorb this massive financial hit, but primarily … they are two steps removed from the province … and this liability doesn’t show up on the province’s books. Burying this purported fix inside of OPG’s balance sheet does nothing to solve the government’s bad contracts crisis. Instead, it simply masks the consequences of this Hail Mary. It’s inappropriate and risky for OPG.

As you can see, there is nothing here that fixes any of the hydro problems. The government will continue to sign contracts for power we don’t need and continue with escalating hydro rates from the further sale of Hydro One (which has been discussed in previous *Focus* issues). This is simply financial engineering – no solutions; just accounting changes.

And now take a bow

The government was so eager to spread the word about their plan, that rather than tabling it in the Legislature, having a debate, and voting on it, they just went ahead and bought $1 million worth of taxpayer-paid advertising. And they tell us there’s more to come. The Auditor General weighed in calling the ads a “pat-on-the-back” and could be considered partisan. She also said the ads likely wouldn’t have been approved under old government advertising rules. But remember I covered this last year … the government changed the advertising rules to allow partisan ads to run, and the AG’s approval has been reduced to a rubber stamp. The Auditor was so incensed by the changes that she penned a Special Report to the Legislature decrying the changes. She said changing the rules would end up giving taxpayers the bill for millions of dollars of partisan ads. “Sure enough, the government walked right through that open door,” she added.

What did $50 billion get us?

Recall the Premier stated the government spent $50 billion on the cost of the rebuild. But her own Energy Minister issued a news release claiming Ontario had “invested more than $35 billion” in new and refurbished generation. So between them, their talking points differed. My retired banker friend and frequent National Post energy columnist Parker Gallant beat me to the punch and has created a comprehensive list. His findings are here:

Frills and shiny baubles:

Smart Meters	$2.0B
Smart grid	1.2B
Coal plant write-off	.6B
Conservation	2.5B
Cancelling gas plants	1.1B
	$7.4B

Unreliable & intermittent power:

Wind generation	$10.2B
Solar generation	5.2B
Transmission connections for above	5.0B
	$20.4B

Photo-op generation:

Beck hydro tunnel ($600M over budget)	$1.5B
Mattagami hydro project ($1B over budget)	2.6B
	$4.1B

Value for money:

Bruce Nuclear refurbishment	$3.4B
	$3.4B

This is indeed shy of the $50 billion the Premier says was spent, but the number lines up with the Energy Minister's claim. Nonetheless, this proves that the bulk of the money did not go towards "the cost of the rebuild." It went to intermittent and unreliable wind and solar projects (like the AG said it did), which are unable to deliver generation when the wind isn't blowing and the sun's not shining. The second largest category created no generation, nor improved transmission, nor reduced blackouts or brownouts.

Conclusion

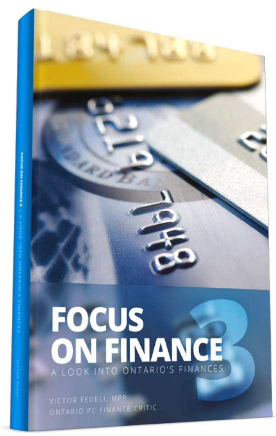
We now understand why the government did this. Their polling numbers were terrible, and people saw the hydro crisis as damaging to the economy. The pollsters convinced them the solution was to tell people what they needed to hear. We also now understand what they did. It was purely financial engineering – nothing whatsoever to do with fixing the systemic problems with hydro. And they co-opted OPG into being their bank for the financing of their scheme. Then they used taxpayer's money and the rules they changed to allow partisan advertising to tell the people of Ontario how good this plan was, before even tabling it in the Legislature.

Key Questions

Will the government come clean and admit this Hail Mary plan is nothing more than financial engineering, and will come at a monumental cost to future generations?

Will the government admit the $35 billion spent was not to rebuild a broken system, but rather to support the introduction of unreliable & intermittent power, as the Auditor General suggests?

Will the government reverse their decision to allow partisan ads to be paid for by Ontario taxpayers, as the AG suggests?



Similar stories of waste, mismanagement, and scandal are 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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