

Fedeli Focus on Finance

Ontario's Hydro Crisis

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Ontario's Hydro Crisis

The release of this issue was delayed to include any update from September's Speech from the Throne. My updated commentary is found at the end.

There is a crisis in our hydro sector. We have been saying this for years. In his 2011 report, the Auditor General (AG) told us so. And now it's confirmed – we have energy poverty throughout all parts of Ontario. This issue will review and analyze energy news that was disclosed within the month of August.

It started with the province's newly-minted Energy Minister. He stated he was “still not using the word crisis” when it came to describing families struggling with hydro bills. His Letter to the Editor ran in several newspapers, where he claimed all is well, the government removed the Debt Retirement Charge (DRC), and created 40,000 green energy jobs. Naturally I was compelled to correct him with my own Letter to the Editor in those papers. It pointed out that the 2011 AG's report stated the DRC had *already* been paid off, and he asked the government why they're still collecting that \$1 billion annually. And I chuckled at his job creation number, pointing out his predecessor claimed it was 31,000 jobs, and the Environment Minister just recently said the number “was over 20,000 jobs”. Clearly the Minister was repeating talking points rather than actually digging deep and developing an understanding of what is happening in the energy sector.

Pardon the rant, but it really was not a great start to the month!

Data from the Ontario Energy Board (OEB) revealed some startling news. There are 567,000 families who were in arrears at the end of 2015, owing \$172.5 million. This is significantly higher than the 472,620 electricity customers who owed roughly \$108 million in 2013. Hydro One, which serves 1.3 million customers (primarily in rural and Northern Ontario) reported the number of their residential customers in arrears grew from 183,934 in 2013 to 225,952 in 2015; an increase of 22.8%. This resulted in Hydro One write-offs from \$327,230 in 2013 to

\$1,798,531 in 2015; a 450% increase. But the most startling fact from the OEB was that nearly 60,000 residential customers were disconnected from their hydro services for non-payment, last year alone. Keeping that number ‘down’ to 60,000 is a government program, Community Homelessness Prevention Initiative (CHPI), that administers funds through local social service boards, to pay hydro arrears for those most in need. In my riding of Nipissing, more than \$57,000 was issued over the last 12 months, to prevent hydro disconnections.

What really brought the energy crisis to the forefront was excellent reporting by Global News. For weeks they painted a picture of the impact Ontario's failed hydro policy is having on families. They aired several features with titles such as “Energy Minister in the dark”, “The high cost of soaring hydro”, “Hydro horror stories”, “Families struggle”, and the list goes on and on. Francesca Dobbyn, Executive Director of the United Way of Bruce and Grey County, was one of the people Global spoke to about the size of the OEB numbers. “It explains why people are struggling, it explains the frustration and despair, and it really explains the anger we're seeing out in Ontario,” said Dobbyn.

This month we also learned of a new distinction for Ontario. For years we have stated that we have amongst the highest energy rates in North America. But now it's official: Ontario has *the* highest rates. Medium-density customers pay 22.6 cents, and the low-density price hit 25.9 cents – and that's before HST is added. That now surpasses Hawaii, the previous record-holder at 22.6 cents/kw hour. (If you live in an urban centre, I'll bet you were not aware that there are higher-tiered rates for those of us who live in the country!)

Respected analysts from all sectors piled on. Doug Porter, BMO Chief Economist, said rising hydro rates could cause “serious harm” to Ontario's economy. He warned that “continued increases to the cost of electricity threatens to undermine the long-

term competitiveness of Ontario's economy". "It hurts small businesses, it hurts large businesses. And it reduces their willingness to invest here in the province if one of their core costs is higher than in nearby regions", added Porter. This is on top of the continued pleas from the Ontario Chamber of Commerce, the CFIB, and so many other business organizations.

Finally, the Independent Electricity System Operator's (IESO) long-term outlook confirmed the cost of delivering electricity has skyrocketed by \$5 billion over the past decade; a 32% hike. They also noted a drop in overall energy demand, which has driven up the average unit cost of electricity. They paid \$143.48/mw hour in 2015, up from \$101.53 in 2006; a 41% increase. The outlook also illustrates a startling drop in industrial energy use, as companies have either cut production or moved out of Ontario. Recall that Ontario has lost 350,000 manufacturing jobs in the last decade.

As a result of all the negative PR over the month of August, both the Premier and her Energy Minister developed a new narrative, with new talking points. According to them, your hydro bill has increased because the government inherited a hydro system in decline, and they needed to spend money to put 10,000 km of transmission lines in place. What they're not telling you is that the majority of those transmission lines were used to bring power in from newly-created, far-flung, expensive wind and solar projects; not primarily to upgrade the system, as they allude to. As further proof, the Annual Blackout Tracker Report found the number of reported outages in Ontario increased by 275% from just 2012 to 2015!

As usual, it took the Auditor General to explain why hydro rates have increased dramatically, in her December 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." She went on to say, "Global Adjustment fees have increased significantly, from \$650 million in 2006 to \$7.03 billion in 2014. Electricity consumers have already paid a total of \$37 billion, and they are expected to pay another \$133 billion in Global Adjustment fees from 2015 to 2031." Despite the government's talking points, we know that signing contracts for power we don't need, is what caused (and continues to cause) your electricity bills to skyrocket.

Rate Changes Since May 1 st , 2015	
Increases:	
o	May 1, 2015 – Ontario Energy Board Approved Increase + \$68 a year
o	Nov 1, 2015 - Ontario Energy Board Approved Increase + \$53.04 a year
o	Jan 1, 2016 - Ontario Electricity Support Program Begins + \$11.16 a year
o	Jan 1, 2016 - Ontario Clean Energy Benefit Repealed + \$153.60 a year
o	May 1, 2016 – Ontario Energy Board Approved Increase + \$37.56 a year
Decreases:	
o	Jan 1, 2016 - Debt Retirement Charge eliminated – \$68.40 a year

A new analysis from the Financial Accountability Officer (FAO) has indicated that household energy costs have been on a steady increase. The average household in Ontario spent \$295 more on home energy in 2014 than in 2010; an increase of 14%. A quick tally of electricity rate changes since May, 2015 reveals that households have faced a further increase of \$254.96 in just a 12-month period.

Post-Throne Speech notes

I delayed publishing this issue to add an update after the Throne Speech. As you would be aware, the province has pledged to provide a hydro rebate equivalent to the provincial share of the HST. This amounts to 36 cents/day, on average. This does absolutely nothing to remedy the damage caused in our hydro system, especially the points made by the Auditor General. They are still signing contracts for heavily-subsidized power we don't need; still paying the U.S. and Quebec to take our surplus power every night. Instead, their solution is to borrow another billion dollars annually to dole out to the ratepayers. This is all about appearing to do something rather than actually doing something. And by the volume and tone of the e-mails I've received, this appears to be more of an insult to the families who were looking for a way out of the energy poverty they are experiencing.

Conclusion

Since the government first took office, average households in Ontario are paying \$1,000 more a year on their annual hydro bills. Skyrocketing hydro costs have created unprecedented levels of energy poverty and significantly reduced business investment. The latest facts suggest the hydro affordability crisis is deepening and yet the newly-minted Energy Minister has refused to acknowledge a crisis even exists. This is deeply troubling. Without urgent action to address the province's costly hydro system, there appears to be no end in sight.

Key Questions

Will the Premier and the Minister of Energy admit that Ontario is facing a hydro affordability crisis and provide real and meaningful solutions to Ontario's energy poverty?

Why did Hydro One have so many ratepayers in arrears when they identified only 7,570 customers as low-income and eligible for the Ontario Electricity Support Program?

Will the Premier and the Minister of Energy admit that their "transmission" talking points are incorrect, and that the real problem is, as the Auditor General pointed out, generation costs for power contracts we don't need?



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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