

Hydro Statement – DRAFT #9

Good morning.

We're here today to talk about the high cost of electricity in Ontario – how it got to this point, how it must be fixed and how exactly we're going to put that fix in place.

For too long, governments – my own included – have made mistakes in the way we've structured Ontario's electricity system. That has resulted in rates that are unfairly high. It's time to fix those mistakes. In ways that work for today – and for the future.

There's no mystery behind today's announcement. Electricity is not a frill – it's an essential part of our daily life. And everywhere I go, I hear from people worried about the price they are asked to pay for hydro and the impact it has on their household budget. It's not just some people or in some places. It's everyone and in every corner of the province. In the North and the South. In rural Ontario and downtown Toronto. For the past couple months I've made a point of connecting with people who have written to me about this issue. I've called them up or gone to visit. I've sat and talked and listened.

Here's what I've heard.

Families don't understand why rates have gone up so much – or why've they gone up so quickly. People are confused by bills that charge more for delivery than for the power that's been used. For some families it's gotten to the point where they must choose between keeping the lights on and keeping food in the fridge. That's unacceptable.

People want to know three things:

- First, that relief – substantial relief – is on its way.
- Second, that the relief will go to everyone
- And third, that the relief will be lasting because it is built on a real change – that bills won't jump back up in a couple months or a couple years.

We're going to deliver on all three counts – and that starts by bringing down what people pay on their bills.

Last September, I committed to reduce electricity bills by 8 per cent across the board, equivalent to the provincial portion of HST. But it hasn't been enough. It's made too small a dent.

For that reason, we are taking further action. We are tripling the size of the cut we're making to people's hydro bills from 8% to an average of 25%. Electricity rates in Ontario will come down significantly, they're going to stay down and everyone will benefit.

Let me emphasize that last point – the cut will go to all households. All small businesses and all farms. There will be no asterisks, no loop holes and no exceptions. **Every single household that pays for electricity in Ontario will see an average cut of 25%.** And for those living in rural communities or with low incomes the break will be even greater.

Commented [TG(1)]: Still seeking clarification on how many households will see significantly less than 25 per cent relief.

In dollars and cents, the exact benefit will vary by household. But if, for example, your monthly bill adds up to \$175, this cut will lead to a savings of at least \$525 a year.

Commented [TG(2)]: Still seeking to confirm that this would be consistent with what an 'average' household in the 905 would see as savings.

In addition, this rate relief is designed to last. After we bring bills down by 25% we will hold them there with rates rising only with inflation – or roughly 2% - for at least four years. This makes it the largest cut to electricity rates in the history of Ontario.

Now that I've described what we're doing today let me turn to how. I'll have to begin with a bit of context about the way our electricity system has evolved over the years. Because the way we bring rates down isn't by waving a magic wand. It's by fixing a system that has been structured unwisely and, in many ways, unfairly.

For decades, Ontario enjoyed one of the largest, most impressive and up-to-date electricity systems in North America, if not the world. Power generation was supported through a combination of hydro, coal and nuclear. Power lines crisscrossed the provinces and the lights came on because we had sophisticated, well-run distribution systems.

But over time, there were two problems. First, governments of all stripes let the maintenance and support of that system slide. No politician or premier wants to defend rising rates and for decades the easiest way to avoid the pinch was to invest as little as possible. But that came with a price. Eventually, systems became outdated, the grid was less reliable and, just like an old house that wasn't kept up, it began to show. We all remember the blackouts in 2002 when it became obvious that our system was long overdue for some significant – and expensive – upgrades.

Let me just pause and say on this point that we all bear responsibility for that. Liberal, Conservative and NDP governments. For the better part of 50 years we didn't pay our way. Until about a decade ago, when it came to a head. The system needed major rebuilding. Which meant a major price tag. A lot of that money came in the form of rates – higher bills. So for the past few years customers have been paying not only for the power they consume but for the sins of the past – for years of stranded debt, for the price of major new refurbishments and for the cost of renovating a system that went without proper repairs for far too long.

So the good news is that we've created an electricity grid that is second-to-none. In the past few years we've invested more than 50 billion dollars in electricity infrastructure – new dams in the south, new towers in the north, 13 billion dollars to refurbish nuclear power plants alone and billions more to ensure new distribution everywhere. These are enormously important assets that meet the demand for cleaner and reliable power everywhere in the province. Assets that belong to all the people of Ontario and that will serve us for many decades to come.

But the way we financed those investments was a mistake. We asked one generation – today's generation – to unfairly shoulder the burden of nearly all those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

Think of it in terms of a mortgage. We needed to rebuild the system and so we went to the bank for that money. The mistake we made was setting terms that weren't fair – particularly the amortization. Instead of paying off the mortgage over 25 or 30 years, we agreed to a term of 10 to 15. That means we pay things down faster. But the monthly mortgage payments – or, in this case, your hydro bills – are higher. And it doesn't really make sense since that house – or in this case the electricity system – is an asset that

will continue to benefit people far past that ten year window. In effect, this generation is subsidizing not just those who came before, but those who will come next.

It was a mistake – and it has been notably unfair on today's hydro users. So we're fixing that.

We're renegotiating the mortgage and setting a new term that stretches over a longer period. Over time, it will cost a bit more. And it will take longer to pay off. But it is fairer – because it doesn't ask this generation of hydro customers alone to pay the freight for everyone before and after. The burden now will be shared more evenly and more appropriately.

That's the first and most important fix we're putting in place. There is a second reason however that hydro bills have gone up that I also want to acknowledge.

For years, we fueled part of our electricity grid with unclean coal. It was a relatively cheap way to generate power but it was costly in terms of environmental and health effects. Smog days, exhaust, particulates, emissions and climate change. These were all undesirable consequences of using coal. The previous government changed that. There is no more coal in Ontario.

And we have since gone further. We have adopted a range of programs to encourage the development of clean energy here at home with solar and wind generation. And we have championed conservation.

I believe strongly in those policies. A growing clean energy sector creates jobs for everyone. Fewer smog days improve the health of us all. I believe they will generate benefits far into the future – economically and environmentally. But they come at a cost. And I wouldn't be telling you the truth if I said we always got the implementation right. For example, the incentives we first put in place to encourage green energy production were too generous and we've had to bring them down.

It's not just about clean energy policies. We've also long had programs in place to give targeted help to certain communities and groups – like the Ontario Electricity Support Program or OESP which helps lower hydro costs for those with lower incomes. Again, it's hard to dispute the virtue of helping people who need that extra support. But the cost of those programs have come from ratepayers, not taxpayers. I've given it a lot of thought. And I've concluded that's simply not fair. As I have said, electricity is a necessity. So it only makes sense that we share the cost of making sure no one has to make those difficult decisions between heating their home and feeding their family.

Of course, the consequence of these two big changes – refinancing our electricity system's mortgage and shifting programs off of the Hydro bill – do not come free. Although the refinancing occurs within the electricity system and is accounted for separately, the overall fiscal impact of this relief and restructuring will cost the province about 2.5 billion dollars over the next three years.

Thanks to a provincial economy that is leading all of Canada in growth, we can make this change and stay on track for a balanced budget next year and the years to follow. But it's going to be a lot harder now and we'll remain a lot closer to the line.

I have three words to say about that: It's worth it.

At least it's worth it for a true structural fix that will be long-lasting. Not just another short-term stopgap. But something sound and sustainable. And that's exactly what we've done.

The people and families I've spoken with in recent months have made it clear: This must be our top priority. The burden of high hydro rates has become too great. We have to bring them down. And frankly, if we're going to bring our budget into balance what better place to direct that newfound financial strength than giving households a break in the high price they pay for electricity.

In that respect, let me also address the elephant in the room – didn't it take me too long to come to grips with this? Why am I only acting now?

Fair questions. It has taken a long time. And it's not like I've been unaware of the challenge. I see the rising rates. I get a bill like anyone else. And we did take action – with targeted relief, the 8 per cent cut, the Hydro-Quebec deal. These were worthwhile initiatives. But, ultimately they were too narrow in scope - too focused when the kind of fix required was more fundamental.

Beginning last year, I started to ask tougher questions about how we got to this point. And what could be done. What I found was that we had gotten the policy wrong – for decades, mistakes had piled up on top of more mistakes. Those governments who for 30 years pushed off the price of reinvesting in the system? That was a mistake. Putting too much of the burden on a single generation of ratepayers? That was a mistake. And asking hydro users alone to pay for policies that ought to be paid for by all taxpayers? That was a mistake also.

The policy was wrong. That made the pocketbook pressures impossible. And as Premier, I have an obligation to set the policy right. To put in place a fix that will work. And a fix that will last.

Bringing down rates by 25% and fixing the system's structure – that's the approach that I believe in. I think it's better for Ontario. And I know it's fairer on families.

Thank you.