

Saturday Media Scan: Hydro Rate Reduction Plan - November 11, 2017

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MEDIA SCAN: HYDRO RATE REDUCTION PLAN

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Print Coverage

Orillia Packet & Times: Politicizing hydro rates creates cost smokescreen; A4; 2017.11.11

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Politicizing hydro rates creates cost smokescreen

The price consumers pay for power in Ontario is now a political decision, rather than an economic one. That's the result of new measures introduced in the Fair Hydro Act, which will allow the minister of Energy to arbitrarily set electricity rates.

Much of the public debate around the Fair Hydro Act has neglected this aspect of the legislation, although it amounts to eliminating one of the last areas of independence at the Ontario Energy Board (OEB). It also caps off a decade-long march by the province to wrest decision-making away from the OEB.

Prior to the Fair Hydro Act, the method for setting electricity rates by OEB was in line with standard regulatory principles that have been in place in Ontario for decades. The OEB would forecast the cost of generating electricity, then set electricity rates accordingly, ensuring those rates fully recovered all costs. Under that method, consumers paid the "real" cost of generating power.

Cost-based prices ensure decisions made by electricity consumers are appropriate to the cost of generation. If the province needs higher-cost sources of generation to meet new demand, it makes sense for customers to pay higher prices, providing them with the right incentives to avoid wasting electricity.

Cost-based prices also ensure the public is fully aware of the province's decision to sign above-market contracts with generators, particularly those related to clean energy, which it says is the main reason for its 25-per-cent rebate. As the province signed more contracts with clean energy generators - as well as natural gas generators, needed to maintain reliability - the OEB repeatedly raised rates to ensure those generators were fully compensated for their output.

The government, then, was held to account for its decision to sign lucrative contracts with new generators, as those costs were visible to consumers. The OEB's job simply was to ensure all generating costs - whether incurred through the purchasing of power in competitive wholesale markets (as was initially intended) or through provincially determined contracting (the current reality) - were fully accounted for in the prices consumers pay.

The Fair Hydro Plan breaks the relationship between the cost of generating power and the price consumers pay for it and makes the OEB largely irrelevant in the process. It allows the energy minister to apply any range of "methodologies" and "different periods of time" when setting electricity rates. Making

those rates fully recover costs is no longer a necessary precondition.

By granting the minister of energy the power to set rates, the Fair Hydro Act turns the price of power paid by consumers each month into a smokescreen, where the price only reflects what Queen's Park determines is a desirable amount, lacking any concrete relationship to the actual cost of generating power. Worse still, not only does the minister determine how long today's costs are kicked to the future, but he or she also decides who will be left holding the can when the day of reckoning comes. While the minister may decide that all customers should equally bear the costs of paying back today's rebate, he may just as easily embark on another round of pick-the-winner, politically motivated policies and exempt certain customers from those costs.

Suddenly, the actual cost of generating power has little impact on prices compared to the minister of energy's power to decide who pays how much and for how long. The province's energy regulator, which by law is tasked to "promote economic efficiency" and maintain a "financially viable" electricity industry, has been stripped of those duties. Electricity customers will be the worse for it. Brady Yauch is an economist and executive director of the Consumer Policy Institute, a division of Energy Probe Research Foundation.

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