

Fwd: Hydro One Investments

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Deputy,
Attached is the revised note for review. The new sentence is highlighted. Ok to share with SoC office / flag for MO?
Keley

From: Kwamena, Boafoa (CAB)
Sent: January-06-17 10:01 AM
To: Katona, Keley (ENERGY)
Subject: Hydro One Investments

Good morning Keley

The SoC would like a note on this article as well as comments and perspectives.

Can I receive by next Friday? Thanks

No way out for Hydro One

(*National Post, Brady Yauch*)

Ontario's electricity grid is aging and the risk of increased and longer outages is increasing. Hydro One, the company that owns and operates the province's transmission network, says it needs billions of dollars to solve the problem - translating to faster-thaninflation rate increases over the next two years.

But the province, not Hydro One, is largely to blame. Contrary to the government's claims that the double-digit rate increases in recent years "helped ensure system reliability," money spent supporting the province's renewable energy policies led Hydro One to defer work to improve reliability and, ultimately increased the risk of more blackouts for its customers.

With the passage of the Green Energy Act in 2009, the then wholly

government-owned Hydro One embarked on a ratepayer-funded spending spree to give renewable generators access to Ontario's electricity grid. The Ontario Energy Board (OEB), which sets the company's rates, was directed by the government to approve those costs. Over the next four years, Hydro One spent \$566 million to comply with provincial policies supporting both renewable generators and the closing of Ontario's coal plants, necessitating the deferment of badly needed upgrades.

As a result, 28 per cent of Hydro One's transformers, nine per cent of its breakers and 19 per cent of its conductors are outdated and more prone to failure, increasing the risk of blackouts and other interruptions.

Catching up on the backlog of work will be a costly exercise. The company wants to more than double the amount it ordinarily spends on upgrades, from \$389 in 2012 to \$776 million in 2017 and \$842 million in 2018. The increase in transmission rates needed to support that spending will exceed five per cent in 2018 - even more, if demand falls once consumers look for ways to contain their soaring bills. Looking beyond the next two years, Hydro One has plans to increase its annual capital spending to more than \$1 billion - nearly three times the amount spent in 2012.

Maintaining the status quo - failing to modernize its assets to limit rate increases - would make the problem worse, Hydro One says. Over the next five years, according to information Hydro One presented to some of its largest customers, if it were to "do nothing" or keep spending at past levels, the risk of more blackouts and other interruptions would increase by 20 per cent.

Hydro One is warning that kicking the can down the road any further will result in a higher risk of blackouts, which for many of the large industrial customers that connect directly to the transmission grid would be a costly bet. Along with price, large consumers of power consider reliability their top concern.

Conservation advocates - including the province, which has made conservation a pillar of its energy policy - argue that putting more money into conservation will prevent this "day of reckoning" and, ultimately, save consumers money. Yet conservation isn't saving anyone any money. As Hydro One admitted when asked whether there was "any threshold" of conservation where the cost of delivering power to consumers on the transmission system will go down, officials replied that they couldn't "think of one." In fact, the less power the company sells, the more it must charge for each unit of power it delivers along its transmission lines.

Hydro One's predicament is another example of the many hidden costs of the province's rush into renewable energy. For years, Hydro One was legislated to spend hundreds of millions of dollars ensuring the province's renewable energy dreams became a reality. In doing so, it allowed its assets to age and the risk of blackouts to increase. Now it needs the money to do the real work of keeping the lights on.

Brady Yauch is an economist and the executive director of Consumer Policy Institute.

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