AMO
Association of Municipalities Ontario

# Office of the President

Sent via e-mail: premier@ontario.ca

December 19, 2016

The Honourable Kathleen Wynne
Premier of Ontario
Legislative Building
Queen's Park
Toronto, Ontario M7A 2E1

Dear Premier:

Recently you requested ideas regarding ways to reduce the electricity bills in this province. As you know, municipal governments have been very concerned about the high cost of electricity resulting in the loss of businesses to other jurisdictions, hardships for those with fixed incomes and budget impacts due to our own corporate bills. There are numerous factors which influence electricity bills and the advice we provide touches on a few of these factors.

We are aware that you have recently suggested that forcing amalgamation of Local Distribution Companies (LDCs) is a solution to the high cost of electricity. As 81% of the electricity bill is not related to local distribution, it is not helpful or appropriate to look at LDCs as the source of the problems. In fact, rather than reducing costs it will have the opposite impact.

The high cost of electricity is linked to unrealistic contracts with generators, debts related to capital asset construction, and legacy Hydro One issues. Recent mergers or acquisitions by Hydro One will result in price increases despite some short term dips in price offered as part of the purchases. This is because Hydro One continues to pay wages well above the balance of the sector. Wages of newly acquired LDCs migrate to the higher pay scale. Experience shows that after an amalgamation a significant reduction in staff compliment does not occur. The result is that the merged entity staff continues on but with higher wages.

Any reset on electricity must be based on three factors. First, greater transparency. The global adjustment accounts for a significant proportion of electricity bills and it is a black box. It is not clearly understood by residents and businesses, and the uncertainty is a disincentive to business. It is difficult to help with solutions when this key component of the bill is not understood.

Second, one size does not fit all. The Ontario Energy Board and Independent Electricity System Operators make their decisions to create uniformity, which results in simplicity for them, but does not necessarily result in fairness, nor respond to moving toward better energy solutions. A more responsive, collaborative, and less risk averse decision-making environment is needed.

Finally, greater local involvement in all aspects of electricity planning and delivery is needed. There are areas of the province ready to collaborate to find new ways of doing business. Further, the low carbon economy will flourish to the extent that municipal governments and LDCs are empowered to work collaboratively. We need willing partners who respect the local input and a desire to integrate the region wide and local initiatives.

We have not technically assessed each suggestion below, but believe each one has a measure of feasibility that would lower the price of electricity.

In the immediate term, the following possibilities should be explored:

- Renegotiate the price per kilowatt for all sources of generation. The Province has done this in the past and may find room for more favourable prices if negotiated in combination with other initiatives;
- Deal with the “Administration and Overhead” costs at Hydro One. As the principle shareholder, the Province is in the position to undertake cost savings such as red circling the wages which are significantly higher than the rest of the distribution sector, moving the headquarters out to a smaller centre where real estate costs are significantly lower. A further benefit is that the lower cost of living in a smaller centre would positively impact employees whose wages were adjusted;
- Require shoulder to shoulder contracts for maintenance and other operational costs impacted by the configuration of the distribution system;
- Ensure the Ontario Energy Board (OEB) and Independent Energy System Operator (IESO) model corporate efficiencies in the processes they use;
- Streamline the administrative burden the regulator requires of the Local Distribution Companies (LDCs) to reduce LDC administrative costs;
- Remove the debt related costs from the global adjustment and repay these debt costs through the income tax. This could apply to Conservation and Demand Management (CDM) funding as well;
- Do not proceed with unbuilt Large Renewable Program until the issue of costs and a longer term plan are in place; and
- Eliminate bonuses for meeting CDM and make this a condition of a license;
- Look to purchasing significant amounts of electricity from Manitoba and Quebec.

There are many other suggestions that have potential to reduce costs, but will take somewhat longer to achieve. For example:

- Increase electricity use. The greater the amount that is used, the lower the global adjustment costs per bill. This can be accomplished through stimulating industry in an effort to recuperate manufacturing and greenhouse industries that have gone to other jurisdictions. As well, increasing electric vehicle use will help achieve this goal by increasing the amount of electricity used, as well as achieving additional benefits. Fast tracking provincial fleet renewal to electric should be explored;
- Tie in local generation initiatives to the larger electricity plans. This would reduce transmission costs and line loss;
- Put greater emphasis on deploying new technologies;
- Stand-by costs for co-generation do not optimize prices. Move to a different model;
- Provide rate reductions for communities which grow in a fashion that lessens the need for infrastructure; and
- Separate the distribution from the transmission functions of Hydro One so that greater clarity of the roles will bring greater efficiencies. Currently the Hydro One score card shows it to be among the least efficient.

We also suggest that the rate reductions or freezing offered to communities where Hydro One has recently acquired the utility be capped for a longer term that the two or three years named in these contracts. This would stimulate this company to seek new kinds of internal cost savings.

Finally, as fellow politicians we know that the pressure to resolve an immediate issue can result in a loss of the long term perspective. We ask that your government not lose site of the long-term impacts of electricity decisions on all of us as you seek to help in the near term.

We trust these ideas will be useful in meeting your immediate and longer term goals for reducing electricity costs, while preparing for a significant change in the way all energy is produced, delivered, and used. We would be happy to meet with you and Minister Thibeault to discuss our ideas to reduce electricity costs early in the new year.

Yours sincerely,

Lynn Dollin
AMO President

cc: The Honourable Glenn Thibeault, Minister of Energy
The Honourable Bill Mauro, Minister of Municipal Affairs

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