Rosemarie Leclair

From:	Rosemarie Leclair
Sent:	November 9, 2017 11:21 AM
To:	Martine Band; Ceiran Bishop
Cc:	Mary Anne Aldred; Neil Brodie
Bcc:	Rosemarie Leclair
Subject:	Fair Hydro Plan and OEB

The article below speaks to relationship between price setting by OEB and FHP..can you review it…and provider for me..(you may have already done this at some point)…a concise overview of what we used to do to set RPP…and what we currently do under FHP…and what if anything has changed in terms of our authority vs the Minister's…

(not a rush)

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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** as he sees fit.

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 decisionmaking away from the **OEB**. With the passing of the **Fair Hydro** Act, nearly every decision in the **energy** sector is now being made behind closed doors by Queen's Park through the **energy** minister.

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**.

Having the **OEB** set **rates** based on the cost of generating **power** was beneficial because it helped customers make smart economic decisions and smart political decisions.

Cost-based prices ensure that 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 abovemarket 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 cleanenergy 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 high costs were fully visible to consumers. The **OEB**'s job was to simply ensure that 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 that consumers pay. It performed that job even as the **public** grew increasingly wary of price hikes.

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 "different 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** as he sees fit, 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 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 (CPI), a division of **Energy** Probe Research Foundation.

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