FAIR HYDRO ACT FAILS MAJOR PART OF BUSINESS SECTOR IN ONTARIO

Flawed plan means there is a major problem on the horizon for electricity customers

By: John Kiemele, Vice President and COO

Ontario's Fair Hydro Act has only been applied to certain market sectors – It has not been applied equitably within those sectors, and, it has left the entire mid-market exposed to rising costs with no protection.

When the Ontario government introduced the Ontario Fair Hydro plan in the spring of 2017, the intent was to provide a 25% reduction on the total electricity bill for an eligible regulated rate consumer (residential, multi-residential, and small commercial accounts, including farms), which are referred to as "specified customers." That rate relief consists of a reduction to the actual regulated prices as well as the previously announced 8% provincial sales tax rebate, which together would total 25%. This was achieved by re-financing a portion of the Global Adjustment (GA) – You know the GA, that mammoth extra piece of the total electricity bill in Ontario that taxpayers are paying out to the various generators including solar and wind projects. **As reported by the Auditor General in October 2017, this was nothing more than the government borrowing to provide below-cost electricity while developing their own accounting rules so they would not have to show the borrowing cost in their annual deficit**. In essence, this provides relief today, but only for some because eventually we will all be paying for it 10 years down the road.

Many specified customers were paying Smart Metered time-of-use (TOU) rates or the two-tiered regulated price plan (RPP) rates and those consumers received a direct reduction in their actual billed rates last July.

The actual reduction in the TOU or RPP supply rates was about 28.6% (not applied to distribution and other charges) and was achieved by establishing what the new TOU/RPP rates should have been by July 1, 2017. Those July 1 rates were estimates by Navigant Consulting of what the actual cost of supply would be for the period May 1, 2017 to April 30, 2018. The 28.6% reduction was then applied to those rates. The rate relief applied was as follows:

	Old Rate/kWh	New Rate/kWh
TOU-Peak	18.5 cents	13.2 cents
TOU-Mid-Peak	13.3 cents	9.5 cents
TOU-Off-Peak	9.1 cents	6.5 cents
RPP Tier 1	10.7 cents	7.7 cents
RPP Tier 2	12.5 cents	9.0 cents

There are a large number of specified customers eligible for regulated rates that either choose or had previously chosen to pay market-based rates – this is known as the Hourly Ontario Electricity Price, or HOEP plus the GA, either through a retail supply agreement or through their local utility. In order to give those customers the same rate relief they are entitled to under the Fair Hydro Act, they received a credit in their GA charges. This credit is called the Global Adjustment Modifier

(GA Modifier) and was set at $0.0329 per kilowatt-hour. That amount was based on the same percentage reduction applied to the HOEP plus the GA that was projected by Navigant Consulting that was used to establish what the TOU and RPP rates should have been on July 1.

But herein lies a very big problem.

The TOU and RPP rates are now set and tied to the rate of inflation and will be adjusted May 1, 2018 and each year after that for the next four years. **The specified customers paying HOEP plus the GA receive the GA Modifier credit but the HOEP plus the GA has continued to rise since July 1, 2017. In fact, it has risen by so much, the initial 28.7% credit they were to receive has only actually netted them 20.8% as of January 2018 and it's likely to get worse!**

In the coming months, an enormous natural gas generator will be built in Napanee that will be paid higher than market contracted rates, and we will be paying higher contracted rates to OPG, that will most certainly see the GA rise further.

As this happens it will have a big impact on the market-based specified customers but will have no impact on the specified customers who opt for TOU or RPP rates. In fact, the only way around this will be a major adjustment in the GA Modifier credit; and considering the fact it has been about a penny shy thus far, **the government needs to ensure that this shortfall is made up in the new GA Modifier to be announced for May**. Otherwise those specified consumers on market-based rates will not be receiving the 25% overall reduction they are entitled to.

Then there is the mid market customers – who are receiving no benefit and who stand to see even higher costs moving forward.

Putting the specified customers aside, and looking to the broader market, **this Fair Hydro Act is proving to be anything but fair, and extremely costly.** The GA charges will continue to rise as new generation comes onstream and the price contracts with those generators will be well above what the market actually pays them. This shortfall is picked up by the future GA charges and as the specified customers have rates tied to inflation they won't see the impact. In fact, neither will many of the large manufacturers as they are able to take advantage of the Industrial Conservation Initiative. This is a program that enables them to pay their GA charges based on their contribution to the five highest provincial peak hours in the year, potentially enabling them to reduce their GA charges to nil by curtailing production during the five highest peak demand hours. It's the remaining consumers in the market who are left to pay the bill.

Who are these customers? Let's take a look:

- **Any customers who are not "specified customers" i.e., not a residential, multi-residential, or small commercial customer)**
- **Manufacturers with power demands lower than 500 kilowatts (under ~$500,000 in annual expense)**
- **Non-manufacturing customers with power demands lower than 1,000 kilowatts (under $1,000,000 in annual expense), i.e. warehouses, commercial facilities, office buildings, schools, etc.**

In summary, what was touted a fair hydro plan, to certain consumers, is not being provided equitably, and there is an entire

segment of non-specified customers who will be paying much more than their share as we move forward.

To make it worse, everyone in the province will be left to pay for this extreme measure down the road due to the GA refinancing methodology and provincial debt increase.

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