Pay Less. Own More.

The Ontario NDP's Plan to Cut Hydro Prices

ONTARIO NDP NPD

Introduction

Hydro bills in Ontario are too high. It is hurting families, businesses, the public and non-governmental sector and organizations across Ontario. New Democrats have a plan to reduce hydro bills by as much as 30 per cent which is based on the fact that the only way to deliver real, long-term reductions in bills is to fix the system itself.

This plan is based on increasing public ownership of transmission and generation, moving away from expensive and inflexible private contracts, eliminating costs which come from oversupply, and protecting reliability and renewable energy. The end goal is a timely and responsible restoration of public ownership and management of the hydro system.

For over 100 years, affordable, public electricity helped build Ontario into an economic powerhouse and a province whose opportunity attracted people from across Canada and the world. This has allowed each successive generation to build new opportunities. However, since Conservative and Liberal governments privatized Ontario's hydro system, the system has come to include healthy profit margins for private and foreign companies but high costs for Ontario businesses and families.

An NDP government will take the landmark step of returning Hydro One to public ownership and oversight. The goal is to bring Hydro One back to public ownership within four years, which will be fully financed through existing dividends over a period of eight years or less.[1] Ten years after beginning this process, a publicly owned Hydro One will increase provincial revenues by a total of $1.6 billion**;** 20 years later it would translate into $4.3 billion in additional revenues; and, 30 years later it would put over $7 billion[2] back into serving the people of Ontario.

New Democrats have identified a series of immediate steps as well as substantial changes to the system which will bring down hydro bills by 20 to 30 per cent.

A series of immediate steps will **deliver up to 17 per cent savings on average residential bills, and as much 32 per cent savings for rural residential bills**. People with steady usage during the day could see additional savings from the elimination of Time of Use (TOU) pricing, so that an urban senior, using electricity through the day, could see immediate savings reaching 30 per cent. Businesses, depending on their size will see initial savings from eliminating TOU pricing, and will see savings targeted at 20 per cent through addressing systemic issues such as oversupply and privatization.

[1] Based on increasing Ontario's ownership of Hydro One from 70% to 100%
[2] Value of dividends lost to privatization: 30% of $700 million dividend ($210 million) and additional revenues from PIL-based tax structure ($60 million) over six, 16, and 26 years

In addition to a series of immediate steps, an NDP government will address long-term systemic issues by working together with an independent panel of energy experts and planners, businesses, labour, watchdogs, public administrators, and consumer and environmental advocates.

Savings can be created based **on moving away from inflexible expensive private contracts and toward reliable and affordable public ownership; dealing with an oversupplied system so Ontario ratepayers aren't subsidizing electricity sold to our neighbours; and putting ratepayers at the centre of the hydro system**.

Reducing bills by as much as 30 per cent is an ambitious but realistic goal.

Affordable Hydro – Fixing the system

First government bill - Hydro for Ontarians

The first bill tabled by an NDP government would return Hydro One to provincial ownership and control.

A first government bill will:

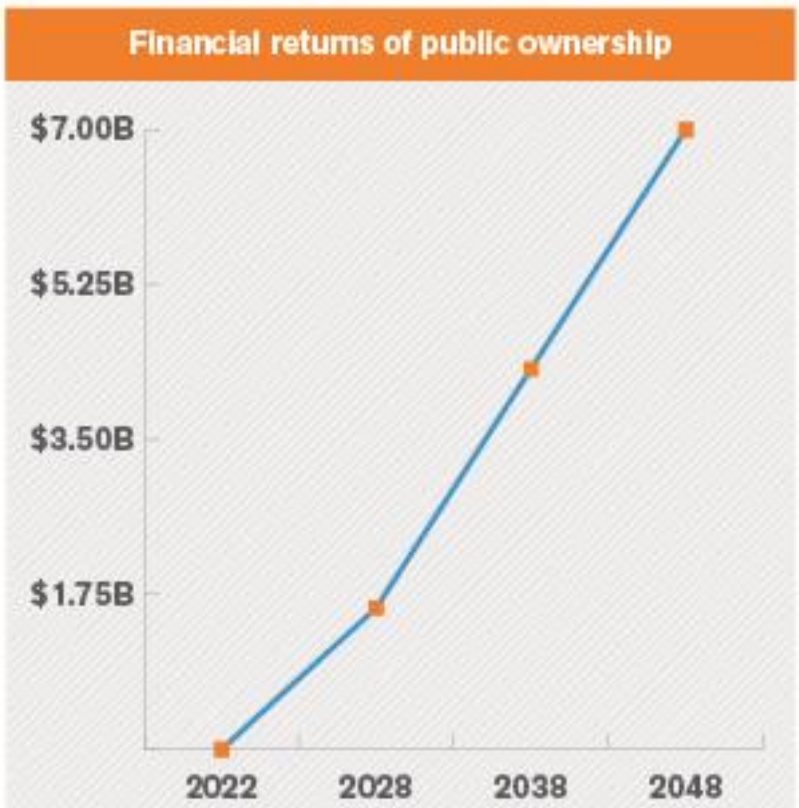
- Begin the process of returning Hydro One to public ownership and control, ensuring it serves the public interest;
- Direct the hydro system to provide reliable low-cost, environmentally responsible power for all Ontarians instead of profits for private companies;
- Re-establish independent, transparent, public oversight of Hydro One, including from the Auditor General, Financial Accountability Officer, Information and Privacy Commissioner, Ombudsman, Integrity Commissioner and French Language Services Commissioner;
- Protect hydro assets so future governments can never again sell off Hydro One without the permission of the public through a referendum; and
- Establish an expert advisory panel tasked with providing advice for the responsible, expedient return of Hydro One to public ownership and control.

As of February 2017, 30 per cent of Hydro One has been sold and the February 2017 market price is $24 per share. Assuming a reasonable 10 per cent variable in price, the cost of repurchasing privatized shares will be between $3.3 billion and $4.1 billion. Financed by the province's share of its profit from Hydro One, this will be fully repaid in no more than eight years[3] and no rate increase would be required to finance the return

[3] Assuming 70% of a $700-million dividend.

of Hydro One to public ownership. Upon returning it to public ownership, reinstituting its previous PIL-based[4] tax structure would increase provincial tax revenues by recapturing the federal corporate tax payments from Hydro One by an estimated $60 million annually.[5]

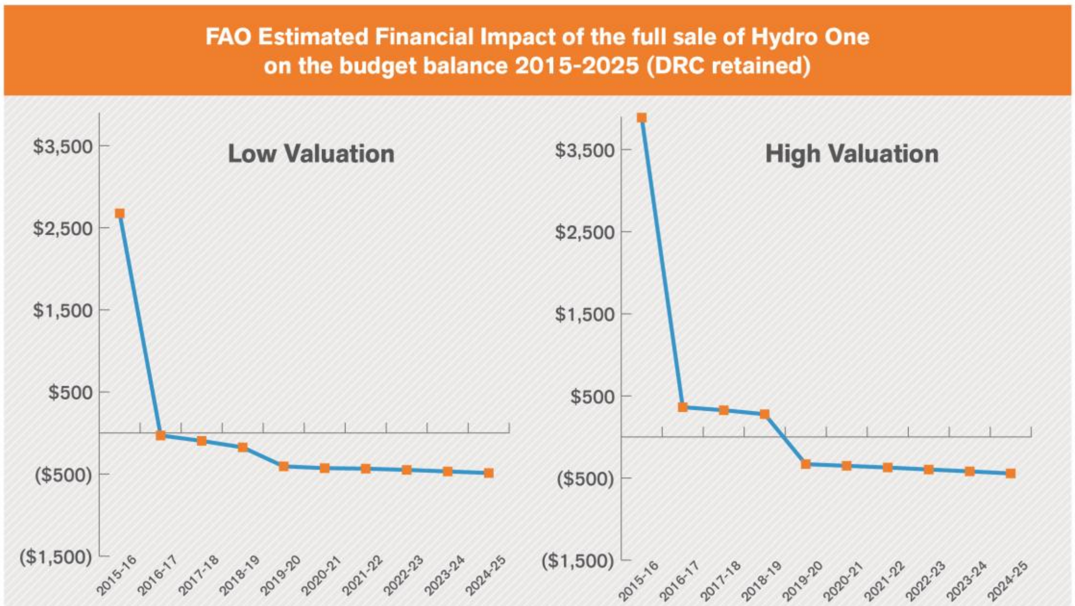
Assuming the company was publically owned within four years, 10 years after starting this process, Ontario would have $1.6 billion more from dividends and PILs to invest in Ontarians than if the current structure had been maintained; 20 years later that would translate into $4.3 billion in additional revenues; 30 years later it would put over $7 billion back into serving the people of Ontario.[6]



Cumulative Financial Impact

[4] As a public entity Hydro One was not subject to corporate taxes. Instead it made Payments-in-Lieu to the Province of Ontario equivalent to combined federal and provincial taxes if it were subject to corporate tax. As a private entity, it pays taxes to the provincial and federal governments.
[5] Pg 16 http://www.fao-on.org/web/default/files/publications/FAO%20Hydro%20One%20EN.pdf
[6] 2017 dollars, not accounting for inflation.

By investing in a public system the province can generate long-term revenues and benefits for people and businesses across Ontario. Through public ownership of Hydro One, Ontario can reverse what Ontario's Financial Accountability Officer calls "an ongoing negative impact on budget balance from foregone net income and payments-in-lieu of taxes from Hydro One."[7]



Annual Financial Impact
(Source: Figure 3:1 Financial Accountability Office Report: An Assessment of the Financial Impact of the Partial Sale of Hydro One)

In the interim, the province, as the majority shareholder, would seek lower overall transmission and delivery rates, greater public accountability and transparency, and lower executive compensation. Hydro One currently has the lowest efficiency ranking according to the annual scorecard produced by the Ontario Energy Board, and Ontarians deserve better.

Immediate Actions

Fixing unfair delivery costs

According to Ontario Energy Board data, rural Hydro One customers pay delivery costs that are significantly higher than urban customers. That unfairness is compounded by

[7] Ibid. Pg 4

the fact that many people paying higher delivery costs are the same people without access to natural gas for heating, and are forced to use electric heat. An NDP government will change the system so rural and seasonal Hydro One distribution customers pay the same delivery costs as current Hydro One urban customers, as well as ensuring people and businesses pay delivery only for power they use.

These costs would be offset by reducing Ontario Power Generation's (OPG) water rental rates. These are fees currently paid by OPG to the province for water flowing through dams.

Savings: Rural Hydro One customers will save approximately 15 per cent. Urban customers would not see increases.

Ending mandatory Time of Use

Time-of-use pricing (TOU) was meant to incentivize people and businesses to shift their consumption to "off-peak" hours. The promise was that TOU pricing would shift demand and help businesses and people save money by using electricity at off-peak times. Data shows it is not working.

The government planned TOU to shift 308 MW in residential consumption; data shows a province-wide residential peak demand reduction of only 55 MW. Instead, there are more effective ways to reduce peak demand, such as Peaksaver Plus or industrial conservation programs.[8]

As noted by an independent report prepared for the IESO, "General service class [non-residential] customers show little evidence of load shifting behavior and are less responsive to the TOU prices than residential customers."[9]

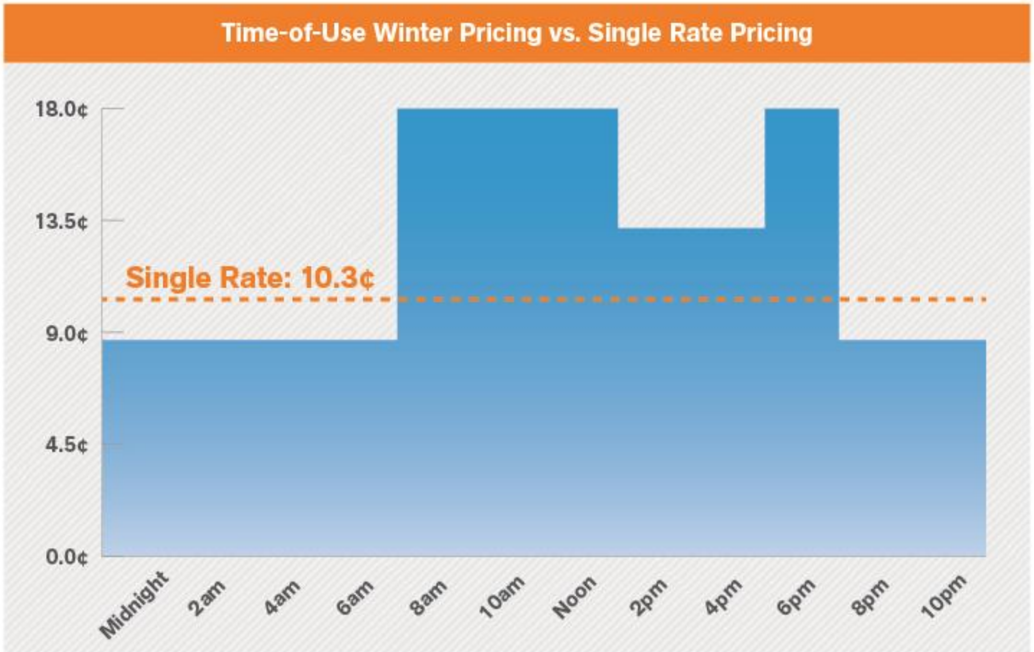
Anecdotally, TOU billing is a source of stress for Ontarians, especially those who are unable to shift their use to off-peak times such as seniors living at home, people at home during the day caring for children, or people with specific needs that cannot be shifted to off-peak hours.

Ending mandatory time-of-use will take significant stress off families and save money for people unable to shift demand to off-peak hours.

Ontario would eliminate peak prices, and move to the lowest fixed rate. Based on current OEB rates, this is 10.3 cents kW/h

[8] http://docs.assets.eco.on.ca/reports/energy/2015-2016/ECO_lets_get_serious_report_Appendix_B.pdf p 176

[9] Pp iv http://www.ieso.ca/Documents/reports/Final-Analysis-of-Ontarios-Full-Scale-Roll-Out-of-TOU-Rates.pdf



For example a senior unable to move consumption off peak because they are at home during the day, their home-help service helps with laundry and dishes during a day visit, consuming 50 per cent of their electricity during peak and mid-peak hours, would see 10 per cent savings based on eliminating TOU prices.[10]

Small businesses on TOU would also realize savings which would be based on their usage.

Capping private profit margins

When the Ontario Energy Board (OEB) approves rate increases for privatized companies it builds in a profit margin. It allows a company to increase rates to cover costs for new investments that include their cost of borrowing plus a 5.5 per cent return on equity.[11] In contrast, Manitoba's regulator allows its public hydro utility to increase rates to cover their cost of borrowing, plus three per cent.[12]

An NDP government would direct the OEB to cap private profit margins at cost plus three per cent.

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[10] OEB rate calculator – Comparison of first-Tiered price vs 50% off-peak, 25% mid-peak, 25% peak

[11] http://www.ontarioenergyboard.ca/oeb/_Documents/EB-2009-0084/CostofCapital_Report_20091211.pdf

[12] http://www.pub.gov.mb.ca/nfat/pdf/economic_evaluation_harper.pdf

Bringing real oversight to electricity prices

An NDP government will give the OEB a renewed mandate to stand up for the public and push for lower bills.

In 2015, the Auditor General reported specifically that the OEB was often unable to meet its mandate to protect consumers because:

- The OEB is not authorized to review government ministry policy plans;
- It does not have the ability to review 65 per cent of generation; and
- It was not permitted to review the sell-off of Hydro One.[13]

Perhaps most troubling is that the auditor confirmed that claims made in OEB applications were inaccurate. While in testimony before committees, the chair of the OEB has acknowledged that it doesn't verify or audit documentation submitted to the board.[14]

An NDP government will expand the role of the Ontario Energy Board and, as recommended by the Auditor, give it the mandate to more effectively protect consumers. The OEB will have seats reserved for ratepayers as well as members with expertise in consumer advocacy.

The Ontario Energy Board's guiding principle will be: is this the best deal for affordable, reliable, and environmentally responsible power, and is it best for ratepayers?

Using tax benefits to help ratepayers

When the Liberal government began the process of privatizing Hydro One, they provided the company with a one-time $2.6-billion tax benefit.[15] This benefit should be used to subsidize bills for all Hydro One customers as the company is transitioned back to public ownership. Over a four-year period, this would result in $650 million per year in rate subsidies – a drop of about 3.2 per cent on each power bill in Ontario.

In 2016, Ontario Power Generation paid nearly $330 million to the province for water flowing through their dams. New Democrats would reduce OPG's water rental rates in order to offset costs from eliminating rural delivery rates.

Savings: Potential 3.2 per cent savings

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[13] http://www.auditor.on.ca/en/content/annualreports/arreports/en15/2015AR_en_final.pdf
[14] Committee Documents: Standing Committee on Public Accounts - 2016-Mar-23 - 2015 Annual Report, Auditor General: Ministry of Energy, Hydro One, Ontario Energy Board
[15] Pg 20 http://www.fao-on.org/web/default/files/publications/FAO%20Hydro%20One%20EN.pdf

HST

Prior to 2010, electricity had no provincial sales tax, but in 2010, the Liberal government of Dalton McGuinty and Kathleen Wynne negotiated with the federal Conservative government to add eight per cent to bills with the HST. In 2016, the government agreed to an HST rebate. An NDP government would permanently remove the provincial portion of the HST.

An NDP government would enter into negotiations with the federal government to remove the federal portion of the HST from hydro bills.

Savings: eight per cent permanent savings, five per cent potential new savings.

These initial steps will create savings reaching as much as 17 per cent[16] *for residential customers. Rural customers could see savings reaching 32 per cent. Urban customers who had been unable to shift demand could see savings reaching 30 per cent. Small business consumers currently on TOU prices would see savings based on their usage patterns. Large consumers would see greater savings as the government begins to address systemic issues.*

Fixing the system

New Democrats will work with an independent panel of energy experts and planners, businesses, labour, watchdogs, public power administrators, and consumer and environmental advocates to create systemic changes that will allow the government to meet or exceed the goal of 20 to 30 per cent in permanent savings in a way that's responsible and reflects the reality of Ontario's electricity needs.

Some of the areas that the panel will be asked to examine are:

Fixing the oversupply problem

In 1997, Ontario imported 3.8 TWh of electricity and exported 6.4 TWh. In 2015, Ontario imported 5.8 TWh and exported 22.6 TWh. Imports increased by 52 per cent, while exports have increased 289 per cent.

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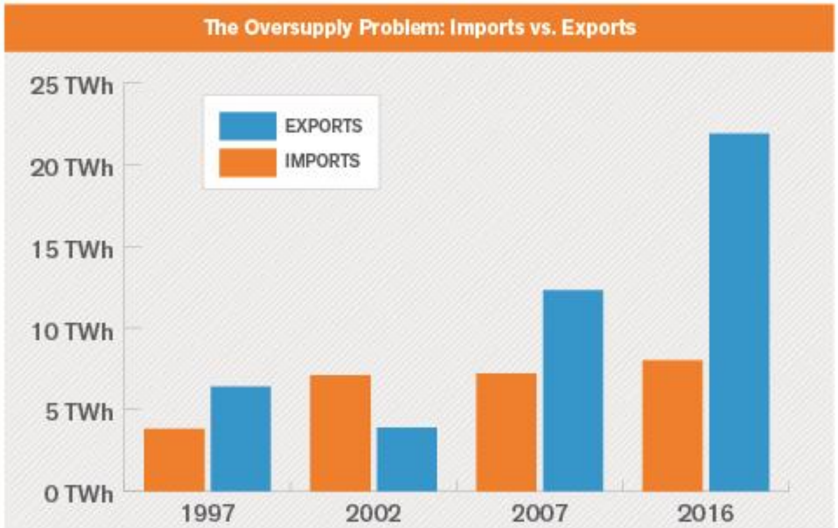
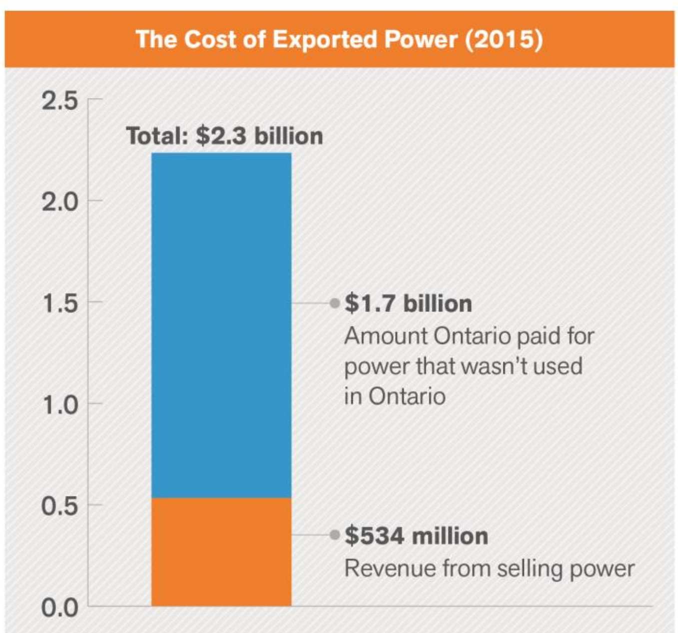
[16] Minimum of a permanent 8% HST reduction, and potentially also including 5% federal HST reduction, a 3.2% reduction from Hydro One's deferred asset tax benefit, and a conservative estimate of 0.8% savings through capping private profits, a more robust OEB and minimal TOU savings (17%). Customers paying rural delivery rates would see an additional 15% from lowered delivery rates.



Exported power sold at spot prices which are below the costs of generating the power in the first place costs Ontario ratepayers. In 2015, Ontario's neighbours were able to buy Ontario's exported electricity at 20 per cent of the cost to produce energy, leaving Ontario ratepayers paying 80 per cent of the cost for electricity that was sold outside the province. 22.6 TWh generated at a cost of 10.14 cents/kWh and exported at a cost of 2.36 cents/kWh means that Ontario sold electricity that cost $2.3 billion to produce for $534 million, leaving Ontario ratepayers to pay the $1.7 billion loss.



Ontario has shifted from being a net importer to a net exporter because it has more power than it needs.

Ontarians are paying for more electricity than it needs because of inflexible and expensive private contracts. An excess of power paid for at contract prices which are above market prices, is a large part of what constitutes the Global Adjustment. Industrial consumers pay this as a line item while residential consumers pay for it in their electricity charges. Reducing oversupply, and moving away from expensive and inflexible private contracts will help to reduce the Global Adjustment.

The Auditor General noted that

> "From 2009 to 2014, Ontario's electricity supply on average exceeded the peak demand and operating reserve by over 3,600 MW per year; when allowing for greater planning reserve, Ontario still has a surplus of about 2,500 MW per year on average." And that "…[a]lthough surplus generation is projected to decrease, between the years 2021 and 2032 surplus generation would still be about 2.8 million MWh on average per year, after taking into consideration the shutdown of Pickering and the refurbishment of Darlington and Bruce nuclear units."[17]

A key part of addressing oversupply will include an independent, fact-based evaluation of when to take Pickering offline and begin creating jobs for the decommissioning of the plant. Once timelines are confirmed, an NDP government would explore doubling the number of immediate decommissioning jobs by proceeding with the International Atomic Energy Agency's preferred "direct decommissioning" model for Pickering, protecting skilled nuclear industry jobs in Durham region.[18]

It is important to recognize that as Ontario makes further strides in implementing the policy objectives of "conservation first" impacts on demand will be real and must be taken into account.

An NDP government will bring accountability to planning so that Ontario has the power it needs, and Ontarians are not paying for guaranteed profits on power that nobody needs.

Discontinuing, renegotiating, and cancelling bad contracts

For 20 years, successive Liberal and Conservative governments have signed long-term private contracts that are making investors wealthy, and leaving Ontarians paying for electricity that cannot be used.

The end goal is to responsibly return Ontario's generation system to public ownership and management.

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[17] http://www.auditor.on.ca/en/content/annualreports/arreports/en15/3.05en15.pdf
[18] Pg 3-4 http://www.cleanairalliance.org/wp-content/uploads/2016/03/decomfinal.pdf

Approximately 550 MW of Non-Utility Generator gas contracts, which are broadly acknowledged to be expensive and often paid to sit idle, will expire between 2017 and 2022.[19] These contracts can lapse without cost.

The independent panel will conduct a cost-benefit analysis for cancelling the most egregious existing contracts. For those private contracts not up for renewal, the government will enter aggressive negotiations for better terms until the expiry of the contract.

There are also questions about the costs to refurbish the Bruce and Darlington reactors. Given the history of nuclear cost-overruns, these need greater public scrutiny and a clear examination of alternatives. The NDP government will ask the independent panel to provide public reporting about the cost, reliability and environmental impacts of refurbishments versus alternatives before making final decisions.

Importing affordable renewable electricity when needed

Although Ontario currently has (and pays for) more electricity than can be used, there may be times when the economy needs more power than the province has for limited periods of time.

System data shows significant import capacity from Quebec, Manitoba and the United States.[20] This includes significant renewable capacity. The Auditor General reported in 2015 that Ontario has consistently preferred building new capacity in the province over lower-cost imported power.

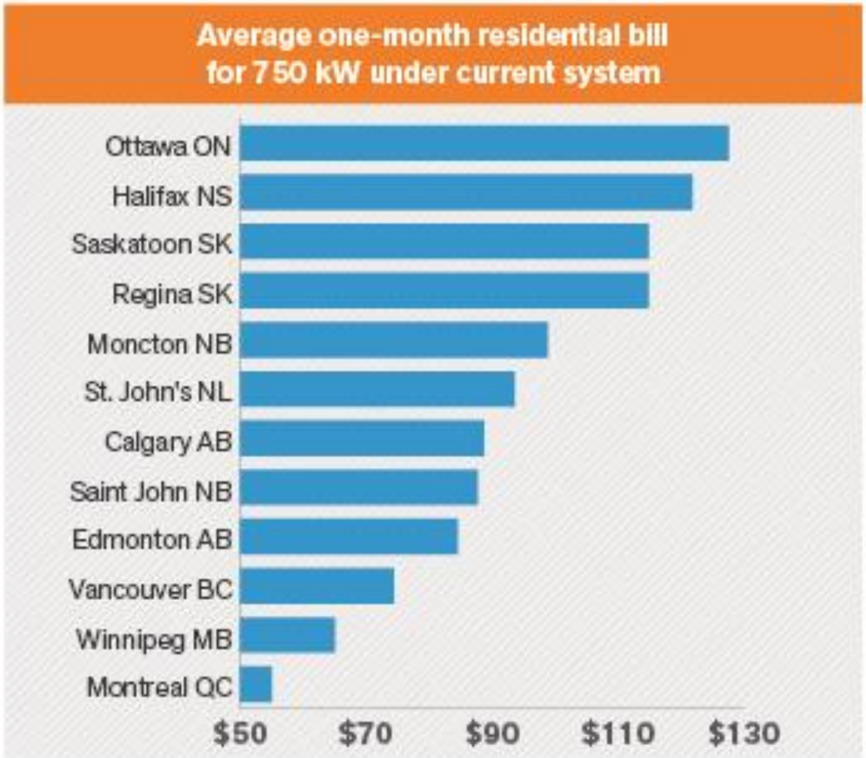
The panel will be directed to examine how imported, affordable, renewable power that meets the province's planning needs can be imported effectively.

Leveraging public power

Public power is essential to a clean, reliable, affordable electricity system, which meets regional and provincial needs.

Data shows that publically owned utilities provide power at lower cost and with greater reliability. Ontarians can look to Manitoba and Quebec to see how public generators are able to build and operate generation at lower costs, regardless of type, than private operations in Ontario.

[19] http://www.ieso.ca/Documents/consult/sac/SAC-20151001-NUG.pdf
[20] http://www.ieso.ca/Documents/IntertieReport-20141014.pdf



(Source: Manitoba Hydro Rate Comparison)

Public power has four key benefits:

- Its shareholders are the people of Ontario, meaning that any profits come back to Ontarians;
- It serves the public interest instead of shareholders, meaning that the province can change contract terms and projects without being sued for lost profits;
- When private companies borrow money to build a generating project, they borrow at market rates, while public companies can access the lowest-cost financing in Ontario; and
- Public power is a powerful public policy tool that can be used to stimulate economic growth, job creation, or help families manage costs.

Increasing public generation and transmission will be the backbone of electricity under an NDP government.

There are options to lower costs across the board for public power which can reduce bills. These can include reducing reliance on duplicated services, such as smart meter data collection, lowering Ontario Power Generation’s water rental costs, and capping executive salaries.

Additional Priorities

An NDP government will also focus on further mechanisms to support low-income Ontarians with the cost of hydro, as well as taking action to improve sustainability in the energy sector and across the economy. These will be part of upcoming announcements.