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Seeking an outlet for Ontario's power woes

The province's inept energy policy means shocks ahead for taxpayers, businesses and Canadian autonomy, warn hydro veterans ROD ANDERSON, RON BARTHOLOMEW and TOM CAMPBELL

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For a century, Ontario's industrial strength was based on reliable electric power at rates cheaper than in the adjacent U.S. states. The rates were set at the cost of power: no profit margin, no taxes, and the cheapest financing cost through public debt. But in the last 15 years, Ontario governments of all stripes have created a crisis, one with implications for all of Canada. Through gross mismanagement and, most recently, a failed experiment in deregulation and privatization, the province faces higher electricity costs, billions of dollars in increased debt with nothing to show for it, and 10 years of lost opportunity.

The province's new Liberal government promised corrective action. The Minister of Energy confirmed that existing assets of Ontario Power Generation and Hydro One would remain in the public's hands. He admitted that full market deregulation had not worked anywhere. He proposed a new Ontario Power Authority to take charge of future system planning. And he committed to an arm's-length separation of the electricity sector from potential government interference.

This sounded good. But the most recent legislation has contradicted that policy direction. The new legislation has five big problems.

First, it will lead to more privately-owned generation and high-priced electricity. True, the government hasn't privatized any existing generation assets as the previous government had been doing. But letting publicly-owned generating stations end their useful lives while adding new generation predominantly from the private sector will accomplish the same dangerous objective.

Private-sector generation tends to concentrate on fast-payback gas-fired plants -- the most costly to consumers and most insecure, because of uncertain availability of natural gas. Customers of private electricity providers usually pay higher rates than those of public providers. Supporters of the new legislation argue that hefty public debt is bad -- but that debt is not bad when used to finance revenue-generating electricity assets. Which would you rather pay for in your electricity rates: the cost of low public-debt interest, or the much higher cost of equity financing, including taxes? Ontario's new legislation maintains a hybrid "partially re-regulated" open wholesale market. Electricity deregulation was a bad idea -- it doesn't get any better in a hybrid arrangement.

Second, by inviting private generation owners into the market, Ontario is sleepwalking into a North American free-trade agreement noose. Under NAFTA and recent World Trade Organization initiatives, a private-sector owner of electricity generation in Ontario could choose to sell its output, or its fuel-supply contract, into the U.S. market even if Ontario faced a supply shortage. Another NAFTA danger is the growing activism of the U.S. Federal Energy Regulatory Commission, which seeks to control electricity systems across the continent. If this goes unchallenged, decisions on our system's reliability, cost and integrity will be made in the United States. Independence is assured only through public ownership of our main electricity resources. If we give up control, under NAFTA rules we won't get it back. Yet the Ontario government seems unaware of the pitfalls.

The legislation's third problem is that it proposes a fragmented planning system. Five different agencies will attempt to plan for future electricity needs -- a recipe for dysfunction. A single, arm's-length agency must be given the tools and authority to do the comprehensive planning and implementation necessary to keep the lights on.

Fourth, present trends will increase the way electricity ratepayers subsidize taxpayers, primarily wealthier ones. This subsidization takes the form of water rentals, bond-guarantee charges, legislated dividends and "in lieu" taxes from OPG and Hydro One, on an investment made by the ratepayers. Over the years, the net subsidy paid by some ratepayers to all taxpayers has totalled more than $3-billion. This is regressive and unfair: Low-income families are often proportionately higher users of electricity (for example, a high proportion of low-rent buildings use electric heat). Thanks to this misguided policy, Ontario's poor subsidize the rich through their hydro bills.

Perhaps the policy's worst aspect is its impact on industrial electricity rates, which are higher than they need to be. Many companies say they plan to close up shop in Ontario because of high electricity rates. We'll see an erosion of industrial competitiveness and the loss of jobs -- Ontario as "rust belt north."

Fifth, the legislation's detailed regulations show more government meddling of the sort that has created much of the past decade's electricity crisis (and more than 50 per cent of the outstanding hydro debt). Electricity planning requires a long-term view, because new, urgently needed plants will take 10 or 15 years from planning to completion. Yet for politicians, long-term planning is at most four years, to the next election. That's why John Manley, chair of the recent OPG review committee, called for an arm's-length relationship. The new Ontario Power Authority needs this so that it can act for the good of the electricity consumer and Ontario's prosperity with a longer-range view than most politicians seem to have.

The policies being pursued by the Ontario government now were aggressively promoted by energy brokers like Enron to the previous government. Those brokers lied that their energy schemes would lower electricity prices to the public. Now Enron is bankrupt, having lost billions of dollars in investors' life savings and employees' pensions, and its top executives are facing prosecution. Except for a few municipally owned utilities that resisted deregulation, California's utility rates will remain among America's highest for years.

The lie that deregulation and private power will lower prices must be challenged. Ontario must rethink its strategy before irreparable harm is done to the our economy and to the public.

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