

COMMENTARY

POPULIST PROMISES AND THE COST OF ELECTRICITY IN ONTARIO

Given the results of the latest opinion polls it seems likely that the Liberal government of Ontario, which has been in power for the last 15 years, will be defeated in on June 7th. The rapid increase in electricity rates will in the last few years be one of the reasons for the government's defeat.

Led by Doug Ford, the Ontario Progressive Conservatives are using the cost of electricity as a major component in its election campaign. Reducing the cost of electricity (as well as the cost of gasoline), and controlling government expenditure in general, are part of Mr. Ford's affordability agenda.

The Wynn Liberals attempted to defuse the public anger over what David Reevely terms as the cost of a "litany of high-minded screwups"¹ through the "Fair Hydro" plan. By transferring sales tax costs to the taxpayer, and deferring other costs to future generations, the government reduced short-term electricity bills by some 25 per cent. As Kelly McParland of the *National Post* stated:

Ontario's rates are the result of previous Liberal decisions to "invest" in the utility's infrastructure and shut down the coal-fired power plants blamed for hindering the government's climate change aspirations. Stuff like that costs money, and the costs were passed on to consumers — at least until those consumers got mighty angry and Liberal electoral fortunes began looking bleak, whereupon Wynne unveiled a plan to "reduce" household bills by borrowing billions of dollars and pushing the costs into the future for other generations to pay.²

The partial privatization of Hydro One (the electricity distributor) was an attempt to provide the government with funds to invest in other infrastructure projects without adding to the government's debt. Unfortunately, the new governing board proved politically inept in agreeing to a remuneration package of \$6.2 million for the corporation's president, and in voting themselves a \$25,000 annual increase in compensation (to \$185,000), with the board chair receiving a \$70,000 lift (to \$330,000).³

¹ <http://nationalpost.com/news/local-news/reevely-doug-fords-pledge-to-cut-gas-taxes-the-latest-in-ontarios-climate-change-omnishambles/wcm/41c50c5f-aed9-4e14-91d3-db658c808cdd>

² <http://nationalpost.com/opinion/kelly-mcparland-hydro-one-the-best-gift-kathleen-wynne-ever-gave-doug-ford>

³ The president of BC Hydro salary in 2016/17 was \$390,618: see PDF page 97 in <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/openness-accountability/financial-information-act-return-march-31-2016.pdf>

Doug Ford capitalized on the public anger by declaring that, if elected, he would fire Hydro One's \$6 million-dollar man and the board as well.⁴

Mr. Ford has also pledged to reduce electricity rates by 12% and to continue with the Liberal's planned 25% "Fair Hydro" reduction. The 12% reduction would be achieved by foregoing the government's dividend from Hydro One, transferring the cost of energy conservation to the taxpayers, and by re-negotiating contracts with independent power producers.⁵

Mr. Ford has not said how much this promise will add to the government's annual deficit and debt.

The New Democratic Party has promised to repurchase the 53 per cent of Hydro One, and to cut electricity rates by 30 per cent, as part of its attempt to convince voters that deficits are a good thing.⁶ The NDP also pledged to eliminate the Hydro One dividend but have not explained what this loss of revenue will mean to the government's bottom line.

The promises to re-distribute the cost of services extend to non-government services including privately delivered auto insurance. The Ontario Liberals now promise to make insurance cheaper for those living around Toronto.⁷

THE BC APPROACH

Businesses and residents of British Columbia have been protected from paying the full cost of BC Hydro's electricity for a number of years. Through the abuse of regulatory (deferral) accounting the annual rates have been suppressed while BC Hydro has recorded record profits and supplied a dividend to the government.

The Ontario Liberal government used a legislated deferral to bring about the 25% rate reduction, which was strongly criticized by the Ontario Auditor General. The previous BC government side-lined the BC Utilities Commission in 2012 and used cabinet orders to set electricity rates.

In late 2017 the new NDP government attempted to defer the 3% rate increase planned for April 2018, but it allowed the Commission to rule on the matter and it rejected the request.⁸

⁴ In 2014, when Hydro One was a Crown corporation, the former president was paid approximately \$741,000.

⁵ https://www.effie.ca/reduce_hydro_rates

⁶ <https://ipolitics.ca/2018/04/16/taxing-the-rich-cutting-hydro-rates-cash-for-hospitals-among-ontario-ndp-plans/>

⁷ <https://www.theglobeandmail.com/canada/article-ontario-liberals-take-aim-at-auto-insurance-rates-on-campaign-trail/>

⁸ <http://www.bcpolicyperspectives.com/blog/posts/bcuc-rejects-proposed-bc-hydro-rate-freeze-march-2>

The BC Auditor General has stated that the regulatory accounting at BC Hydro does not conform to public sector accounting standards, and cited this as a reason for her qualification of the government's 2016/17 financial statements.⁹

Through drastically depleting ICBC policyholders' capital reserves BC governments have kept Basic auto rates well below the correct level to sustainably fund the operations.

LESSENING ACCOUNTABILITY?

Are politicians feeling less restrained by the truth when they make promises about the cost of publicly generated and distributed electricity? The media, which is too often captivated by transitory or sensational stories, has not been requiring aspirants to public office to explain how their spending promises will be financed, which allows the political parties to offer certain groups financial inducements which must be paid by others, or by future generations of ratepayers or taxpayers.

In the debate over the potential 3% rate freeze at BC Hydro, for example, the public was not informed that the 2018 rates were already 6% lower than what was required to cover BC Hydro's costs; the lower rates will be enjoyed by current ratepayers at the expense of higher costs for future ratepayers.

Promising financial benefits that are not affordable leads to growing public suspicion and cynicism about the current democratic process when their expectations are not fulfilled. Changing how our representatives are elected from a first past the post system to something that may be more representative of public opinion at a point in time will not improve the result if the parties believe they can promise a chicken in every pot and escape public censure.

The public must become more educated and more demanding of their representatives.

Richard McCandless May 18, 2018. <http://www.bcpolicyperspectives.com/>

The writer is a retired senior BC government public servant whose paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He has been an intervener in the BC Utilities Commission's recent reviews of both ICBC's and BC Hydro's rate requests.

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http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_44_26_october_2017/pdf/occasional_paper_no_44_26_october_2017.pdf

