

ONTARIO EXPANDS TAXPAYER SUBSIDY OF ELECTRICITY PRICES

The rising cost of electricity has been a political issue in Ontario for many years. The previous Liberal government attempted to reduce residential, small business and farm prices by 25% through eliminating the provincial sales tax and a dubious legislated deferral mechanism that would burden future generations of consumers with the cost of subsidizing the costs of electricity. The Ontario auditor general strongly objected to the legislated deferral accounting mechanism as not conforming to public sector accounting standards.¹

Following the 2018 election, the new Progressive Conservative government eliminated the deferral mechanism and absorbed the cost of the residential, small business and farm subsidy as a government (taxpayer-funded) expenditure. The government also eliminated the sales tax on electricity. At the time the government said that it was exploring options for a further reduction in prices. In 2019/20 the taxpayer subsidy totalled \$5.4 billion.²

New Subsidy for Commercial and Industrial Users

In its 5 November 2020 budget, the Ontario government announced a new electricity rate subsidy for commercial and industrial users. The government justified the new subsidies, which would reduce commercial and industrial rates by between 14% and 16%, to assist the economic recovery and enhance competitiveness: “It is the Ontario government’s job to help create the conditions necessary for growth — and sometimes that means getting out of the way. For example, employers choose to locate somewhere other than Ontario because of the province’s high and rising electricity prices for industrial and commercial users. The government is acting to address these jobs killing electricity rates once and for all.”³

The government may be using the economic downturn caused by the pandemic as cover to realign electricity prices. The rates for commercial and industrial users were higher than the Canadian average and higher than many US jurisdictions.

The subsidy is designed to offset the high cost of some 33,000 contracts for low carbon generation, including wind, solar and bioenergy generators which comprise

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https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_ont_govt_agrees_with_ag_21_sept_2018/pdf/commentary_ont_govt_agrees_with_ag_21_sept_2018.pdf

² <https://www.fao-on.org/en/Blog/Publications/2021-commercial-industrial-electricity> Footnote 9.

³ <https://budget.ontario.ca/2020/chapter-1c.html>

approximately 12% of Ontario's electricity supply. The program will see the taxpayer fund the higher marginal cost of these contracts until they expire over the next two decades. The residential, small business and farm ratepayers will have their current subsidy reduced and rolled into the new program.

The Ontario Financial Accountability Officer estimates that over the approximate 19-year duration of the program the subsidy will cost the taxpayer \$15.2 billion.⁴

In total, the FAO estimates that industrial and large commercial ratepayers will receive a \$16.1 billion reduction in the cost of electricity from 2020-21 to 2039-40. Approximately 1,400 industrial ratepayers (such as auto parts manufacturers and pulp and paper mills) will receive a \$6.3 billion subsidy through 2039-40, while large commercial ratepayers (such as hotels and office buildings) will receive a \$9.8 billion subsidy.⁵

Mr. Weltman, the province's Financial Accountability Officer, summarized the program as: "The costs are being moved from the ratepayers ... over to the taxpayers," he said. "That is what's happening."⁶

The Politicization of Electricity Rates

Across Canada governments of various stripes have sought to gain political advantage from directing major energy generation projects, or by attempting to keep electricity prices as low as possible. Quebec and Manitoba have sought to use low priced hydro electricity as a tool for economic activity. Major failures, such as Ontario's push for "green" generation, the Muskrat Falls dam and the Keeyask dam projects are examples of government-initiated projects that resulted in much higher total project costs.

These projects will have a significant impact on the eventual cost of electricity, or the cost will be subsidized. The Ontario subsidy, and the federal support for the Muskrat Falls project are examples of the latter approach.

The massive increase in the forecast for the Site C dam project in this province will likely result in a significant increase in BC Hydro's average cost of electricity, even with a 70-year amortization period. In my 1 November 2020 paper, I speculated that

⁴ <https://www.fao-on.org/en/Blog/Publications/2021-commercial-industrial-electricity> The annual net cost of the program will decline over time due to a combination of the expiry of green energy contracts, largely beginning in 2028, and projected increases in the market price of electricity.

⁵ Ibid. By lowering the residential subsidy, the government moderated the actual net additional cost to the taxpayer.

⁶ <https://www.cbc.ca/news/canada/toronto/fao-report-hydro-subsidies-1.5954872>

BC Hydro would incur significant operating losses for at least the first decade after Site C comes online.⁷ This loss was based on an eventual total cost of \$12.6 billion.

The latest estimate is now \$16.0 billion, and this total was not supported with any financial summary or assumptions. The government suggested that the project would result in a 3% average increase in electricity rates, but it is unclear whether this refers to the total cost or the marginal cost.⁸ What does seem clear is that the current financing plan would defer the dam’s operating losses of the early years to future generations through yet another deferral account. The resort to a deferral account will raise serious questions about inter-generational equity.

Taxpayer Support?

The BC government has maintained close control over the finances of BC Hydro to ensure a high annual net income (which is treated as provincial revenue), and relatively low rates.⁹ It has been able to accomplish this feat through extensive use of deferral accounts (called rate regulated accounting) which transfers the difference between budgeted and actual costs and revenue shortfalls to future ratepayers, thereby creating accounting assets.

Table 1 shows that the net balance in BC Hydro’s deferred assets exceeded the corporation’s equity in two of the last five years.

Table 1 –NET REGULATORY ASSETS TO EQUITY (\$=million)

	2015/16	2016/17	2017/18	2018/19	2019/20
Reported Equity	4,500	4,909	5,446	4,946	5,654
Net Regulatory Assets	5,908	5,597	5,204	4,257	5,005
Ratio	131.3	114.0	95.6	86.1	88.5

Source: BC Hydro annual reports.

Table 2 shows compares the ratio of the net deferral assets for FortisBC, Manitoba Hydro and Hydro Quebec compared to BC Hydro. This clearly shows that BC Hydro is

⁷ https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_cost_of_site_c_1_november_2020/pdf/commentary_cost_of_site_c_1_november_2020.pdf

⁸ <https://biv.com/article/2021/02/damn-cost-and-dam-peace-river> and <https://www.timescolonist.com/opinion/columnists/les-leyne-site-c-stumbles-and-ndp-s-resentful-indifference-1.24287863>

⁹ https://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_75_bch_roe_7_january_2021/pdf/occasional_paper_no_75_bch_roe_7_january_2021.pdf

the outlier, relying (generally with the approval of the regulator) much more on the deferral accounts to keep rates low.

Table 2 – RATIOS OF NET REGULATORY ASSETS TO EQUITY

	2018/19	2019/20	Sept 2020
BC Hydro	86.1	88.5	100.8
FortisBC	42.0	45.3	44.4
Manitoba Hydro	28.9	30.1	27.9
Hydro Quebec	14.8	21.5	19.8

Source: Company annual and quarterly reports.

The massive initial operating losses expected for Site C may force the government to adopt a taxpayer subsidy, similar to that announced by the government of Ontario. Expecting future generations of ratepayers to cover some \$5.0 to \$6.0 billion in losses for the first decade of operation through another deferral account is probably asking too much from the BC Utilities Commission, which must approve the deferral.

The additional revenue generated by planned increases to the provincial carbon tax could form the basis of this subsidy.

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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 was an intervener in the BC Utilities Commission's recent reviews of ICBC's and B.C. Hydro's rate requests.