A new debt retirement charge for Ontario electricity customers

Brady Yauch, Special to Financial Post
Wednesday, Apr. 27, 2016

At the start of the year, many Ontario electricity customers were offered a reprieve from the much-maligned “Debt Retirement Charge” – a monthly reminder of the economic follies of the old Ontario Hydro that added about 8 per cent to residential bills.

Using realistic figures, the real cost of the Darlington nuclear plant refurbishment could be $16.7 billion or $22.2 billion (3 per cent of the province’s entire GDP). Wayne Cuddington/Ottawa Citizen/Postmedia News files

That reprieve is likely to be short-lived, since customers can expect a new charge to mask the real cost of the province’s energy policies. The reasons for the original debt retirement charge – a massive overbuilding of the electricity grid that went significantly over-budget and left the province with “dead” assets that no reasonable rate increase could ever salvage – are back.

Except this time, rather than pointing the finger at Ontario Hydro engineers and executives who overstated future demand and their ability to contain costs on megaprojects, the fault lies almost completely with the province and the energy agencies now responsible for almost all power decision-making.enu

The severity of the province's electricity overbuild is most evident in the province's wholesale electricity market. Last month, for example, there were more than 200 hours where the average price of wholesale power was negative. Because Ontario often sells its power to neighbouring states and provinces at the wholesale rate, Ontarians are paying customers outside the province to import the province's excess power.

The number of hours where the price of power could have gone negative actually exceeds 200, since generators are increasingly being told – and paid – to curtail their output.

Ontario Power Generation (OPG), a successor to Ontario Hydro and the province's largest generator, now "spills" power – it lets water flow through its dams without producing power – in an effort to limit the power. But ratepayers are nevertheless on the hook, since OPG can recoup the "lost revenue" in its rates. The company's "spilled" power has increased by 88 per cent between 2013 and 2015, enough to power 330,000 homes last year.

A primary reason for the surplus: Since 2007, electricity demand in Ontario has fallen nearly 10 per cent as businesses flee the province's high rates. Yet the province keeps adding very questionable generation capacity.

A case in point is OPG's refurbishment of the Darlington nuclear plant. OPG – its reputation still dinged from the nearly $500 million, or 50 per cent, cost overrun on its Niagara tunnel project – says it can refurbish the entire plant at a cost of $12.8 billion – or about 7.9 cents per kilowatt hour (kWh).

Unfortunately, the track record of cost overruns on nuclear projects is extensive and well-documented, with every single one in Ontario going significantly over budget (on average more than double). OPG has added a 15 per cent – or $1.7 billion – "contingency" amount in the $12.8 billion cost estimate. But a more realistic figure would be anywhere between a 50 per cent contingency fund of $5.5 billion, or even a 100 per cent contingency fund of $11.1 billion.

Using realistic figures, the real cost of the Darlington refurbishment could be $16.7

billion or $22.2 billion (3 per cent of the province's entire GDP).

Breaking those figures down into rates means the real cost to electricity customers will be 11.85 cents to 15.8 cents per kWh for power from a refurbished Darlington – nearly triple the cost of power from the province's fleet of natural gas plants, which currently operate below their generating capacity.

Tying it all together: Demand for power in Ontario continues to decline, high-priced generators continue to be added to the grid, the province's surplus of power is growing larger and Queen's Park has used the legislature, rather than an economic test, to push through the refurbishment of the Darlington nuclear plant that will – if history is an indicator – go wildly over budget. The result will be a leveraged electricity sector pumping out vast amounts of expensive electricity that isn't needed or, conversely, the system will be paying generators to sit idle.

Ontario's ratepayers – who have already experienced the fastest bill increases of any electricity customers in North America over the last decade – will be left picking up the tab. Whatever it's eventually called, the result will be the same: a new charge to pay off those "dead" assets.

Brady Yauch is an economist and the executive director of Consumer Policy Institute.