

# Ontario's Power Trip: Prices up, profits down

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**By Parker Gallant**

*Industry giants issue grim numbers — less volume, lower revenues and profits — that are largely ignored*

Like a tree falling in a forest, what happens when major companies release financial information and nobody pays any attention? That's become the pattern with the big players in Ontario's electricity market. On Aug. 12, Hydro One — the transmission giant — issued a press release and on Aug. 24 Ontario Power Generation announced 2nd Quarter results. The media let them go unreported. There have been dozens of articles surrounding the state of Ontario's electricity sector over the last three months but the financial results of these two Crown corps goes mostly unreported.

Combined revenue for the two companies during the three months ended June 30, 2010, declined \$111-million or 4.7% to \$2.4-billion while net income dropped 80% to \$76-million. Administration costs were flat at \$1-billion but as a percentage of revenue increased from 41.9% to 43.9%. Power generated by OPG fell again by 5.7% from 20.9 Terawatt hours to 19.7 and Hydro One distributed 3% less power during the quarter.

Debt grew by \$1-billion as both OPG and Hydro One spend on capital projects. OPG spending includes the cost-overrun Big Becky Niagara tunnel, Mattagami and the Hound Chute. Hydro One's capital projects include transmission lines to hook up wind and solar. As a result dividend payments to the province were down by \$22-million or 81%.

This means the electricity system's stranded debt probably didn't see a reduction at all this quarter. In fact, it probably grew as OPG renegotiated their line of credit with the Ontario Electricity Financial Corp. to cover the cost of Big Becky, now at \$1.6-billion, up from \$900-million. Hydro One is still able to tap outside debt providers but maintaining their ratio of net worth to debt results in reduced payments to the province and a continued appetite for rate increases.

Hydro One has applied for a 15.7% rate increase for 2011 and another 9.8% increase for 2012. Likewise OPG, lamenting that their "regulated" power has not seen a rate increase since 2008, has applied to the OEB. A quick read of the OEB filings didn't disclose what they are seeking. OPG's loss for the quarter was \$29-million after a tax recovery of \$118-million. The sale price for generated electricity was up from 4.2 cents per kWh to 4.6 cents.

All this is not good. The decline in Ontario's Crown-owned electricity sector comes as electricity rates continue to rise and concessions are demanded. For example, the Association of Major Power Consumers received a new deal on off-peak power prices.

The Canadian Federation of Independent Business is calling for the creation of an Office of the Provincial Electricity Auditor. And numerous rural communities are challenging the Green Energy Act as well as the Ontario Energy Board. They want a rumoured \$450-million support function for low income families and seniors who will have to choose between food and heat.

The McGuinty legacy in electricity continues to build.

*Parker Gallant is a retired Canadian banker who looked at his Ontario electricity bill and didn't like what he was seeing.*