

## Ontario power risk

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### Hydro One: Rising debt, higher costs, falling income

**By Parker Gallant**

**O**n Feb. 11, Hydro One, Ontario's electricity transmission giant, released the company's annual report along with a statement from CEO Laura Formosa announcing that all was well. In 2009, Hydro One "met its net income target and made important progress on a number of strategic fronts."

End of story, apparently. No major media reported on Hydro One's annual statement to "investors," as the company puts it, even though the report is a dog's breakfast of warning signs and bizarre trends that spell trouble.

As a retired banker, I had a look at the financial information in Hydro One's annual report. Comparing results from one year to the next gives clues on where a company is headed and what that means for investors, in this case electricity consumers and Ontario taxpayers. Hydro One's numbers should alarm both of the affected parties.

Net income in 2009 of \$470-million may have "met target," but it is down 6% or \$28-million from the previous year, even though revenue rose \$147-million to \$4.7-billion. Why the drop in net income? Rising costs, with operations, maintenance and administration up by 9.5% or \$93-million, reflecting increases in salaries and benefits.

The cost of power also rose by 6.6%, or \$145-million. Wind and solar power costs are higher and other producers that supply nuclear and other forms of power are presumably being paid more.

Then there's the debt, up 18.7% to \$10.4-billion, as Hydro One borrowed \$1.6-billion to pay for new transmission lines to hook wind and solar power to the grid and to purchase a fleet of smart meters. More debt is on the way.

As debt rises, Hydro One's debt-to-equity ratio weakened from 1.71:1 to 1.91:1. It borrows money to pay for capital costs surrounding the province's Green Energy Act and puts the company at risk of a debt ratings downgrade, which will drive borrowing costs up.

Return on equity is down to 8.7% from 9.7% in 2008, indicating an overall decline in the value of the company. Return on assets fell to 3% from 3.5%. As a result, the dividend payment to the province was \$188-million, down 27.4%. But the CEO says the company is "on target."

Even though revenues and costs are rising, and profit falling, Hydro One handles less

electricity — 139.2 terawatts, a decline of 6.4%. The cost of distribution per terawatt was up by 14.9%. Operations and maintenance costs keep rising as power transmitted declines. The number of employees rose 7.7%. Since 2002, when the company had 3,933 employees to distribute 153.2 terawatts, total employment has jumped 38% to 4,400 to distribute 9% less power. Are these additional 1500 staff working in the field or at head office working on rate increase applications?

If you review the notes in Hydro One's report you find that they installed 433,000 smart meters in 2009. Hydro One must install those meters, as required by the Energy Conservation Responsibility Act passed in 2006 by Dalton McGuinty's Liberal government. The notes disclosed that it cost the taxpayers approximately \$332-million or over \$750 for each smart meter installed during 2009. Hydro One will be levying a charge each and every month to recover those costs as soon as the meters are activated.

Some Ontario power consumers are already being billed for smart meters and Hydro One has submitted applications to the Ontario Energy Board to increase the monthly fees for smart meters to approximately \$2.50 per month this year and \$4.50 per month in 2011. With 1.2 million meters already installed, that will increase their revenues by over \$65-million in 2011. At those rates it will take them approximately 13 years to recover the costs. Anyone in business will tell you that this length of payback time is not a smart investment. Ontario power consumers should get ready for more increases to cover off these costs.

This is only the tip of the iceberg. As expensive electricity coming from wind and solar power slowly works its way through the system, many more rate increases will follow.

For some reason, none of this was news when Hydro One released its annual report earlier this month. At the corporate level within Hydro One, everything is apparently on target. But they don't tell us what the target is, not just at Hydro One but throughout the whole Ontario power system. Soon, Ontario will have the highest electricity rates in North America.

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*Parker Gallant is a retired Canadian banker who developed an interest in his monthly electricity bill and didn't like what he was seeing.*