

WE'RE IN FOR A \$HOCK! with ONTARIO HYDRO

They tell us that *Ontario Hydro* is "out of control."

Out of who's control? "Out of control of the legislature," they say.

But the premier appoints its Board of Directors, its chairman, and its chief executive --- and the premier is responsible to the legislature. Isn't *that* "control by the legislature"?

Technically, of course, *Hydro* is *not* out of control of the legislature. But politicians have no direct incentive to control their crown corporations because they're not the ones who lose money if the corporations lose money --- *you* are.

In reality, *Hydro* is out of control of (a) *the consumer*, because of its statutory monopoly, and (b) *the taxpayer*, because it borrows almost unlimited amounts of money using Ontario's tax base as collateral.

Hydro is out of control because the taxpayer takes the risks for its ambitious and speculative expansion of electrical supply and the consumer cannot shop elsewhere for its product.

THE REAL COSTS

The capital costs to *Hydro* of expanding its system in order to supply *one* additional all-electrically heated home is about \$35,000-\$40,000. (This estimate is based on the capital cost of the Darlington nuclear plant now under construction: \$12 billion for 3400 MW of power; 10% extra for transmission lines; and a conservative assumption of a home heating load of 10 Kilowatts.)

Amortized over 30 to 40 year period at 10-11% annual interest rates (*Hydro's* weighted average bond coupon rates), annual heating bills would have to be between \$3500 and \$4600 to pay it off --- which doesn't even include the cost of fuel, maintenance, and administration.

Hydro maintains that nuclear plants are the cheapest means of generating electricity available to it. Yet plans for cheaper hydraulic stations have been cancelled despite their cost advantages. Still, *Hydro* is taking out half-page newspaper ads promoting the advantages of electric heating!

If it was up-front with the real cost of electric heating no one would every buy it. The reasons that electric home heating is cheaper now than its marginal cost, is because *Hydro* averages the costs of its older, cheaper hydraulic stations with those of its newer nuclear units (much like the "made-in-Canada" blended oil price). The units under construction are *not* averaged in however, so when, in five years or so, the system becomes heavily nuclear, the price of electricity will rise drastically. Consider that cost overruns for *Hydro's* latest set of three nuclear generating stations represent two doublings and a tripling --- for a grand total of \$12 billion!

Those homeowners who got wired in for today's prices will discover that they were just being used as loss-leaders. In the near future, having an electrically-heated home could be worse than having urea-formaldehyde foam insulation in your home.

THE REAL DEBT VS THE REAL ASSETS

Hydro's debt amounts to a mortgage representing between 80-85% of the *book value* of its assets, of which more will be said following. Few companies have such a high debt ratio, and all such companies, except banks, are considered by the financial community to be very risky investments. The slightest change in conditions (such as, in *Hydro's* case, a crippling reactor accident, a precipitous fall in the Canadian dollar, a sharp rise in interest rates, or a sluggish power demand) can bankrupt such a company almost overnight. This is exactly what happened to *Dome Petroleum* --- and *Hydro's* debt is more than three times what *Dome's* was before it slid over the brink.

Moreover, the value of *Hydro's* assets is only a *book value* based on the cost of construction and an arbitrary depreciation period, which is "subject to review" --- by *Hydro*. (*Hydro* recently raised the expected life of its nuclear plants to 40 years, although only one has lasted longer than 17 years.) The Douglas Point reactor was abandoned after 17 years in May 1984 because it was not worth repairing. Shutdown and repair costs at Pickering Units 1 and 2 have already totalled more than their original construction costs after only 13 years.

But there is no way for anyone, not even *Hydro*, to know the value of everything it owns on a particular day. *Hydro's* "book value" says nothing about the *true* wear and tear on its plants since they were built, nothing about their resale or replacement values, and nothing about their present and future usefulness.

Because *Hydro* has captive investors, it can say whatever it likes about the value of its assets.

No Canadian or U.S. oil company has a debt as large as *Hydro's*. The utilities which do have comparable debts, such as *Hydro Quebec* or the *Tennessee Valley Authority*, have the same problems as *Hydro*, though not as severe.

Several nuclear utilities in the U.S. are considered to be on the verge of bankruptcy, and a consortium of utilities in Washington State recently suffered the largest bond default in U.S. history as a result of cost escalations on nuclear plants at a time when power demand was sluggish.

Were it not for *Hydro's* shotgun marriage to the Ontario taxpayer, it would find itself in a similar situation.

BAD PLANNING

Hydro prefers to make big mistakes rather than little ones. Its reliance on large generating stations when other utilities are turning to smaller ones make it vulnerable, like a dinosaur, to abrupt (i.e., less than 5-10 years) changes in the economy.

As highlighted by Lawrence Solomon in his book, ***Power at What Cost:***

*The mistakes in planning all have a common tendency --- they all err on the side of creating an empire for **Hydro's** bureaucracy, a tendency that is not unique to **Hydro**: it is present in all bureaucracies.*

But most bureaucracies are controlled. Privately owned utilities have shareholders who provide a check on poor management. Publicly owned utilities --- as a rule --- feel the restraint of their political masters.

To help disguise its bad planning, *Hydro* employs a public relations staff of about 100 with a budget of \$30 million (1983), much larger than other corporation in Ontario --- except the provincial government. *Hydro* routinely uses state-of-the-art propaganda techniques (with feedback from its own opinion polls) to influence the public's perception of itself and to influence government policy. Because of *Hydro's* monopolistic position, this is a travesty.

Hydro claims that building one too few power plants would cause blackouts and industries to shut down. Not true! Having one too few is no worse than having one too many. Both situations may cause the price of electricity to be higher than it otherwise would be, the former because *Hydro* would have to import electricity from Quebec, Manitoba, or the U.S., and the latter because of carrying charges on unused or uneconomic plants.

Threats of power blackouts are no excuse for *Hydro's* bad planning decisions.

Someone will have to pay for *Hydro's* mistakes, and that someone probably lives somewhere in Ontario.

UNFAIR COMPETITION

Hydro has unfair advantages when it competes with other sources of energy to perform the same functions:

- (1) *Hydro* does not have to make a profit;
- (2) *Hydro* does not pay the usual rate of corporate income tax;
- (3) *Hydro* has exclusive rights to all the running water in the province for the purpose of generating electricity except federally-owned land;
- (4) *Hydro's* borrowing costs are lower because its debts are backed by the taxpayers of this province;
- (5) About \$3 billion in federal money has been used to subsidize the development of the nuclear program, of which *Hydro* is the major user. That cost has been written off.

Hydro operates basically like a construction company without economic restraint: no more construction equals massive layoffs, no more promotions, and a lot less glory. If *Hydro* were reduced to a maintenance staff, a good number of its higher paid employees would be sacked. During the recession of 1981-82, when most private businesses were severely punished for over-expanding, *Hydro* kept on expanding at the rate of \$2 billion per year.

The discipline of the market does not apply to *Hydro*. It rewards itself by expanding at taxpayer risk and expense, but does not consider its surplus capacity (between 40 and 50 per cent of demand) as an economic problem.

Hence, it has become a *political* one.

Freedom Party believes that the *purpose of government* is to *protect* our freedom of choice, *not* to restrict it.

The only way to solve the political problem created by *Ontario Hydro* is to end the corporation's monopoly, sell its shares to individual investors, or divest its shares to the taxpayers who have been supporting the corporation till now.

**Get Involved With
Freedom Party Today!**

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Freedom Party

After all, freedom of choice is what we're all about!

Freedom Party is founded on the principle that: Every individual, in the peaceful pursuit of personal fulfillment, has an absolute right to his or her own life, liberty, and property.