

Watt – a change in power

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The deregulation of Ontario Hydro has left many of us feeling a little.... shocked. Originally passed through legislation by the Province in 1998, most of the restructuring and many of the operational changes have already taken place. These changes will require new tactics in the way Municipalities acquire both the power and the services for their streetlights and traffic signals.

The Electricity Act and the Ontario Energy Board Act were established for Ontario in 1998 to deregulate the Ontario Hydro monopoly. Essentially, these changes apply to both ends of the wire.

Companies can now establish businesses in the generation of hydro and market their power to Ontario consumers. To the customer, it means they may be able to get better rates, purchase electricity from sources they support or package their electricity with their telephone, cable, etc. It will undoubtedly give Ontario customers flexibility and choice in selecting whom they purchase electricity from. These new generating and marketing companies will use the Ontario Hydro power grid (now operated by Hydro One) to deliver their power to Ontario consumers.

The new regulations are designed to protect Ontario consumers and ensure they always have power. If customers do not select a specific electrical marketer, they will be provided power through the Standard Supply Service (SSS). Hydro One provides this service and the rates charged by this service will fluctuate with the market. Doing nothing, in this situation, is selecting a marketer by default and this approach contravenes most Municipal purchasing bylaws.

The purchasing bylaws for most Municipalities are based on acquiring the products or services from the lowest qualified bidder. When it comes to purchasing power for traffic signals and streetlights, Municipalities may save money over current power rates by going through this kind of a competitive process. However, this “opportunity” may also create a political problem for Municipalities.

On May 1, 2002 we will see the electricity market “open for business”. Although electricity marketers have been able to sign up customers since May 2000, the next few months will likely see a flurry of marketing activity as the open market draws closer. These aggressive marketing campaigns will attempt to “educate” the customers and offer a wide variety of power generation sources. Some examples of choice will certainly include environmentally friendly alternatives (such as wind, solar and biomass generators instead of, say, coal or nuclear generation). The Province is already promoting “Green Power” – see their website at

http://www.est.gov.on.ca/english/en/en_consume_fact6.html

In accordance with the terms of Municipal purchasing bylaws (established to ensure responsible purchases on behalf of tax payers), Municipalities should select the “lowest” qualified electricity rate. It is both likely and probable that the lowest tendered price may not be the most popular for any given community. Armed with their marketing material, residents may lobby the Municipalities to purchase the power from specific sources rather than the lowest bidder. The result will be some politically difficult decisions.

Perhaps even more confusing than the generation end of the wire is the privatization of Hydro services. Again, the legislative changes are intended to provide the Ontario customer with more choice. Ontarians can now select from competing companies for the rental of their hot water heater for example. But with the privatization of the service companies comes another quandary for Municipalities.

The magnitude of the change in the industry is summarized nicely in a letter I recently received from the Chairman of the Ontario Energy Board. The letter quotes Section 71 of the Ontario Energy Board Act, which defines the change in responsibilities as a result of the deregulation. According to this Section, local Power Distribution Companies can no longer provide “Non-Distribution Related Activities”. The very first item on this “non-distribution related activities” list is streetlights. No confusion there.

To conduct streetlight maintenance (and other non-distribution activities), local Power Distribution Companies must have a privatized affiliate, which is usually referred to as a Services Company. According to the Ontario Energy Board Act, the Service Company and the parent Hydro Distribution Company cannot share any assets including fleets, property and buildings. As of January 1, 2002, subsidizing from the public half of the company to these Service Companies is illegal.

Many Ontario Municipalities have historical arrangements with their local Power Distribution Companies to service the streetlights. To be sure, the municipalities have paid for this service, but it was never historically an issue because these local companies were also publicly owned and operated. Despite the rather sole source arrangement, there was no direct violation of the purchasing bylaw.

This privatized arrangement now means that Municipalities may be in violation of their purchasing bylaws. They must now tender for this service or maintain the streetlights themselves. Because these Municipalities have never been in this business before, there was never a need for them to keep records, plans, inventories or even maintenance specifications for their streetlight network. Many of the local Hydro Distribution Companies have some form of the required records and information, but they seem reluctant and slow in passing them over to the Municipalities. As a result, many of these Municipalities will have to develop their policies, procedures and/or tenders from scratch.

The City of Toronto has taken matters into their own hands. They obtained approval from their Council to continue the maintenance arrangements with Toronto Hydro while they assess contracted streetlight maintenance services through a pilot project. As a result, they are attempting to obtain whatever records, plans or inventories are available and develop a competitive tender. I understand the City of Brampton and the City of Oshawa are virtually doing the same thing.

I believe the deregulation of Ontario Hydro will provide Ontario customers with more choices and the potential for better rates. However, few seem to have recognized that the Province has dropped a burden on many Ontario Municipalities and, for most of the affected Municipal staff, it has come as a shock.