Power Dealing Needs Transparency

By Tom Adams

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The existing Ontario hydro-electric operations of the international investment giant Brookfield have effectively become a public utility, although without the scrutiny and independent rate making authority normally applied to similar businesses granted the privilege of an exclusive franchise.

In late 2008, three representatives of the Brookfield Asset Management empire, formerly Brascan, appeared on the Ontario government's Lobbyist Registry. They reported their interest as influencing government policy about "Transmission, distribution and electricity generation issues under the Ontario Green Energy Act."

A Brookfield affiliate, Great Lakes Power, later restructured into Brookfield Renewable Power Fund, holds a large portfolio of hydro-electric and wind generators in Ontario. Some of the hydro-electric assets had been recently acquired from Ontario Power Generation. In 2002, Great Lakes had bought 488 MW of low energy output, peaking capacity built between 1950 and 1970 on the Mississagi River in an auction, paying $340 million.

Although Brookfield had secured long term contracts for all its wind generation, much of its hydro-electric production in Ontario was being sold into the market at the floating wholesale market rate. The McGuinty government's power procurement policies have diluted the wholesale power market, hiding higher costs in the "Provincial Benefit" charge. As a result, wholesale market prices are less and less reflective of the actual value of power. With Ontario's wholesale power market prices plunging, Brookfield was at risk.

On May 7, 2009, then Ontario Energy and Infrastructure Minister George Smitherman issued a directive to the Ontario Power Authority (OPA), ordering the agency to enter into new contracts or to revise existing contracts with hydro-electric generators located in Ontario and operated by parties other than OPG whose output was not subject to an OPA contract. The Minister's directive stipulated that the terms were to "reflect a reasonable cost for Ontario electricity consumers and a reasonable balancing of risk and reward for the Facility Party". (ref: http://www.powerauthority.on.ca/Storage/100/9573_May_7_2009_Negotiating_New_Contracts_Hydro-Electric.pdf)

Press reports indicate that Brookfield then signed a 20-year contract with the OPA with terms that include a base price in the first year of 6.9 cents per kWh, with extra payments for peak demand periods and inflation protection adjustments. In public statements, the OPA argues that the richer pricing is justified to ensure the continued operation of Brookfield's hydro-electric assets and assets like them.

From the time the Minister's directive became public, Brookfield Renewable Power Fund's stock price has been on a tear -- up 27% -- although many business factors other than Ontario hydro-electric rates are clearly implicated in the rise.

How fair are the terms of Brookfield's new deal? Did the OPA ensure Brookfield's continued operation or are Ontario power consumers funding a windfall for Brookfield? (Note that Brookfield made a capital investment in the Mississagi system in 2008, suggesting some confidence in the future prior to the new deal.)

If the public at large, including both generator interests and consumer interests, could have confidence in the independence and fairness of the Ontario Energy Board, then the OEB would be well suited to conduct a public review of the circumstances surrounding Brookfield's new deal with the Ontario government and its outcome. However, for reasons I will present in an upcoming post, I presently do not have confidence in the OEB and therefore suggest that the provincial auditor be asked to review and report on the Brookfield deal.