

## Hydro royalty raises fears over rates



**PETER HADEKEL**

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**O**K, so we're not exactly Alberta, where the whole province is soaking in a gusher of oil money.

But Quebec does have energy riches of its own, in the form of hydro power, that help to fund public services.

Provincially owned Hydro-Québec has paid out the tidy sum of \$6.4 billion in dividends to the government since 1998, and there's much more to come.

The question now is whether there's too much of a cash squeeze on the corporation and whether consumers will wind up paying for it.

Hydro-Québec's official status as a cash cow was confirmed in the recent provincial budget.

## B2 BUSINESS

# HADEKEL No effect on rates: Hydro CEO

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Finance Minister Michel Audet announced the corporation will pay an annual royalty on the water it uses to generate power.

That royalty, expected to reach \$500 million by 2008, will go into something called the Generations Fund — a pool of money to be invested in financial markets and used to pay down Quebec's staggering \$118-billion debt.

A good idea in principle. But the royalty comes on top of an annual dividend paid to Quebec that already equals 50 per cent of operating profit.

The dividend for 2005, announced yesterday, amounts to a hefty \$1.1 billion.

All this money will look good in the government's pocket. But it comes at a time when the utility faces unprecedented challenges in squaring energy supply with demand.

How will it affect Hydro-Québec's rate structure, investment program and debt management? Chief executive officer Thierry Vandal addressed those questions yesterday as he unveiled financial results for 2005.

In a speech to Montreal's Board of Trade, Vandal tried to assuage concerns that the royalty will have an impact on electricity rates.

"The answer is no," he said flatly. Royalties will be paid by Hydro's production division, which has no authority to raise prices.

That can only be done by the distribution side of the business, he explained. "There is no way around it."

Even so, Hydro has been authorized to boost electricity rates in Quebec by 5.3 per cent, as of April 1, and the corporation will seek an even bigger increase next year.

"There will surely be rate increases over the next few years," Vandal said. "But they will be the same as they would be if royalties weren't charged to Hydro-Québec."

So, where will the \$500 million royalty come from? Vandal in-

sisted it will come from two sources: future growth, especially from export sales, and energy efficiency.

Last year, the corporation profited from a market in which energy prices soared. It earned export revenues of \$830 million, up from \$384 million in 2004.

Export prices averaged 9.5 cents a kilowatt-hour last year, up from 7.5 cents in 2004 — although prices have softened in the first part of this year, said executive vice-president of finance Daniel Garant.

What's striking, though, is the amount of leverage Hydro got from the export market. On just four per cent of the corporation's total sales volume, it made a clear profit of about \$600 million, Vandal estimated.

That's a pretty neat trick. But to continue it, Vandal made clear Hydro will have to get the approval it needs to build new dams.

There can be "no delays" in commissioning new facilities, he warned, including the controversial Eastmain-1-A-Rupert project in northern Quebec, which will be considered by regulators this year.

Vandal conceded that without the royalty, Hydro could pay down more of its own debt and have more cash to invest in energy generation.

But he doesn't think there will be a problem satisfying the government's financial requests and meeting Quebec's rising energy demand at the same time.

Hydro has cut its debt by \$6 billion since 2001, to a level of \$31.2 billion, so its financial position is solid.

And, said Vandal, "we're generating enough cash flow to maintain our investment program," which will approach \$4 billion in 2006.

Hydro's mandate is "the creation of wealth" for Quebecers, he said.

The blue-eyed sheiks of hydro power seem ready to spread more of that wealth around.

phadekel@videotron.ca