

Solutions  
(part of the "Ontario Power Bill Rip-off" series)

Tom Adams

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Since the Green Energy Act was introduced, Ontario's power system has undergone a massive but largely unseen change in its administrative, financial, and technical character. I anticipate that power rates for households will rise by \$350 per year by the end of 2011. If natural gas prices rise, the increase will be greater. If no new government contracts were issued for long term power purchase agreements as of today, power rates would continue rising until 2015 and then plateau, barring other events such as higher natural gas prices. Only irresponsible policies -- ripping up contracts or paying ongoing power bills with borrowed money -- could change the near term rate outlook substantially. As noted recently in the Globe and Mail, average household rates in Ontario are just now blowing past falling U.S. average household rates.

In response to much higher prices, a big consumer-driven conservation push is coming. Demand is likely to continue dropping, even as the economy recovers. The near-term impact of this coming conservation push will be to shift responsibility for paying overall electricity costs between consumers. The overall power bill for many years into the future is mostly already locked in and will not be reduced significantly by conservation. Conservation now can mitigate rate increases in 2016 and beyond but not before.

A total of at least 5,000 megawatts of wind and solar power is likely to be committed before the end of the current government's term. As the ongoing experience in Texas demonstrates, the technical challenges this procurement will create, once implemented, will be very substantial. Negative pricing events in Texas and Ontario indicate chaotic operational conditions. Note that Texas now has a similar wind penetration to our trajectory but enjoys a far more flexible power system than Ontario's, making our challenge much greater.

At the operational level, Ontario's power system is showing clear and urgent warning signs. In March '10, both the maximum and minimum on-peak values of power were lower than the respective off-peak values. April saw 5 days with negative hourly values, with the lowest price at a stunning minus \$128.15/MWh. Against this reality, Ontario's Time-Of Use pricing program for households and small businesses, with its fixed pricing periods, may well worsen our power system's efficiency.

The recent expansion of renewable energy in Ontario is not entirely wasteful. Our new wind and solar capacity provides some insurance against the ever-present risk of supply interruption from our aging nuclear fleet. However, this insurance policy has been ill-timed, needlessly costly, and carelessly procured as discussed previously in the "Power Bill Rip-off" series.

The expiry of a significant number of non-utility generation (NUG) contracts in the near term creates added risk to consumers, particularly in light of the recent and outrageously profligate hydro-electric contracting initiative administered by the Ontario Power Authority (OPA).

The coming power rate crisis is likely to attract political debate. Electricity dilettantes may even take to shouting about rate freezes, reorganizing the “alphabet soup” of power agencies, eliminating the hourly market, rolling back executive compensation, and demanding blood. The resulting disruption is unlikely to provide lasting benefits for consumers.

Ontario’s power system is in uncharted waters. Yanking on the tiller is unlikely to help.

Instead, Ontario’s power system needs a holiday from government intervention, as former Energy Minister Dwight Duncan promised in April 2004. What is needed now is a period of calm analysis and assessment. Now is not the time for government to sign new generation contracts. Consumers would be best served by steady-as-she-goes operations of existing electricity institutions and businesses, sweeping planning and data disclosure, and absorption of the changes already committed.

Here are nine proposals for solutions to the growing rate crisis. None of these proposals magically put the cost tooth paste back in the tube, but the proposals do minimize the scale of the mess.

1. No major new generation programs or supply contracts should be contemplated and all wires company Green Energy plans must be shelved until the OPA can produce an updated Integrated Power System Plan and defend it publicly in front of the Ontario Energy Board (OEB). In addition, the OEB must have adequate time to provide its judgment on the plan.
2. Ontario Electricity Financial Corporation must be required to issue quarterly statements at a much deeper level detail than found in its historic annual statements. Data on the volumes and prices of power purchased and sold must be provided. Annually, a detailed accounting of the disposition of funds received from the Debt Reduction Charge since 2002 must be provided along with the OEFC’s latest plan for eliminating the Stranded Debt.
3. The OPA should issue detailed quarterly statements on the Global Adjustment Mechanism explaining all components. Redesign of the rates for recovery of Global Adjustment costs is also required. Whereas Global Adjustment is now recovered in a charge on all electricity consumed, even during periods of surplus supply, thereby punishing conservation efforts, the priority for rate redesign should be on enhancing long term price signals and system efficiency.
4. Sweeping disclosure is needed for the Ministry of Energy’s Renewable Energy Facilitation Office, including its organizational and spending plans.
5. The Time Of Use (TOU) rate program for households and small businesses should be scrapped in favour of a Real-Time Price plan designed to signal customers during shortage and surplus power conditions whenever they occur.
6. The OEB’s regulatory independence must be strengthened by government forbearing from issuing fresh directives.
7. The IESO should be commissioned to estimate and report on spilled power.
8. An independent expert review panel along the lines of the 1995 Macdonald Commission should be convened. Among those who should be provided an opportunity to contribute are the so-called Dumb Old Utility Guys (DOUGs) who have used Ontario’s dumb grid to deliver one of the highest standards of power delivery reliability in the world.
9. Following the release of the independent expert panel, a government White Paper should be produced outlining the overall policy direction for the power system. Until a clear policy program is in place, no major institutional restructuring should be undertaken.