

Summary of the Fraser Institute Report: Electricity Price Growth in Ontario

July 2017

On July 20, the Fraser Institute released the report, *Evaluating Electricity Price Growth in Ontario* highlighting significant increases in Ontario electricity prices over the last decade. This briefing note is a summary of the report.

Trends in Electricity Prices

The report findings are based on two sources of electricity price information: Statistics Canada's CANSIM database and Hydro Quebec's *Comparison of Electricity Prices in Major North American Cities* annual reports. The year 2008 was used as a baseline when comparing trends in electricity prices since, a) price increases were modest in previous years, and b) it aligns with the introduction of public policies that impacted Ontario's electricity sector.

- Statistics Canada's data shows that electricity prices in Ontario increased 71 percent between 2008 and 2016, about double the national average. In the same period, growth in Ontario electricity prices was at least twice as high as other economic indicators such as GDP, disposable income, and CPI (excluding energy component).
- Data from Hydro Quebec's reports shows that on average, monthly electricity bills in Toronto were the highest (followed by Ottawa) and grew more quickly relative to the other Canadian cities. Electricity bills in Toronto and Ottawa increased \$77 and \$67 respectively between 2010 and 2016, almost double the increase observed in other major Canadian cities.

Why have prices increased in Ontario?

The report highlights three policy decisions over the past ten years that have led to the rapidly increasing electricity prices in Ontario. The decisions include:

- a) *Long-term Contracts to Renewables* - New renewables on the system have led to large additional costs to consumers. The Feed-in-Tariffs that resulted from the Green Energy and Green Economy Act of 2009 provided long-term guarantees at above-market rates for eligible renewable projects. In 2016, renewables made up almost 30 percent of the total GA, but only accounted for 7 percent of electricity generation.
- b) *Phase-out of coal* - Ontario's decision to phase-out the coal plants led to increases in the GA since coal represents one of least expensive sources of generation. The report also questions whether the environmental and health benefits (although well-intentioned) have been fully realized.
- c) *Growing supply/demand imbalance* - The report suggests that "poor governance" in the electricity sector has led to over spending on supply (higher rates and excess quantity). Over the past eight years, total electricity generation and imports have exceeded Ontario electricity demand leading to significant volumes of electricity exports (or curtailments) at a "large loss" to Ontario consumers.

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Conclusion

The report concludes that based on the growth of electricity prices Ontario over the past ten years, the government needs to examine how their policy choices are impacting electricity rates and policy reforms should be pursued to lower electricity bills. The recently implemented Fair Hydro Plan will provide short term relief for consumers, but will increase electricity rates in the long term.

Initial Insights from the IESO Economic and Policy Analysis Group

With regard to the Fraser Institute's reasons for Ontario price increases:

- a) *Long-term Contracts to Renewables* - The information cited is consistent with IESO public data.
- b) *Phase-out of coal* - It may be difficult to substantiate the claim of cheaper energy from coal-fired resources. With low natural gas prices and more efficient gas generators, coal-fired generators have been less competitive in U.S. energy markets and driving some to retirement.
- c) *Growing supply/demand imbalance* - The supply/demand imbalance occurs in two ways. First, sufficient supply capacity on the system is planned for to ensure peak demand is met and additional reserve margin is available for reliability. Second, with flat load growth and increases to embedded resources, there can be periods of excess baseload supply. Exports during these instances help to pay for the fixed costs incurred by baseload resources regardless of the supply/demand imbalance.

Other initial IESO thoughts on the Fraser Institute report include:

- The *Market Metrics* report presented to the IESO Board in April 2017 highlights similar residential rate increases. One contributing factor to the 2016 increase not mentioned in the Fraser Institute report was the increase in the delivery cost component. The delivery component of the residential bill in Toronto increased in 2016 as Toronto Hydro incurred significant capital investment costs as part of their five-year plan to improve Toronto's delivery infrastructure.
- The report focusses on the level and growth of electricity prices in Toronto and Ottawa relative to other Canadian cities but does not compare the rates of other major cities across North America. For instance, data from the Hydro Quebec reports indicate higher prices in Detroit, Boston, San Francisco, and New York City.
- When describing the growing supply/demand imbalance, the presence of exports are characterized as negative because the contracted prices paid to the supplying resources are higher than the energy market prices received from exports. The report does not acknowledge that investments have already been made for the new resources online and consumers would pay even more if exports were not permitted.
- The report does not consider the impact of the existing supply mix on the level and growth of electricity prices in each province. For example, Quebec and Manitoba have lower prices because they already have large hydro-electric resource fleets to leverage from.

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