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Sent: 2017-11-09 6:28:47 AM
Subject: Today's News - Thursday, November 9, 2017

Today's News

powered by:

Date: Thursday, November 9, 2017
Edited by: John Cannella (John.Cannella@ieso.ca)

Contact Editor

Industry News

News - 5 Results

Ontario's regulation of electricity has lost its spark; Price consumers pay for power is now a political decision, says Brady Yauch

Ottawa Citizen - Thu Nov 9 2017
Byline: Brady Yauch.
Page: A10

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Waterloo Region Record - Thu Nov 9 2017
Byline: Ross McKitrick;and Elmira Aliakbari
Page: A8

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The Globe and Mail - Thu Nov 9 2017
Byline:GLEN HODGSON
Page: B4

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Back to Top

Industry News

Full Articles

Ontario's regulation of electricity has lost its spark; Price consumers pay for power is now a political decision, says Brady Yauch

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Page: A10

The price consumers pay for power in Ontario is now a political decision, rather than an economic one. That's the result of new measures introduced in the Fair Hydro Act, which will allow the minister of energy to arbitrarily set electricity rates as he sees fit.

Much of the public debate around the Fair Hydro Act has neglected this aspect of the legislation, although it amounts to eliminating one of the last areas of independence at the Ontario Energy Board (OEB). It also caps off a decade-long march by the province to wrest decisionmaking away from the OEB. With the passing of the Fair Hydro Act, nearly every decision in the energy sector is now being made behind closed doors by Queen's Park through the energy minister.

Prior to the Fair Hydro Act, the method for setting electricity rates by OEB was in line with standard regulatory principles that have been in place in Ontario for decades. The OEB would forecast the cost of generating electricity, then set electricity rates accordingly, ensuring those rates fully recovered all costs. Under that method, consumers paid the "real" cost of generating power.

Having the OEB set rates based on the cost of generating power was beneficial because it helped customers make smart economic decisions and smart political decisions.

Cost-based prices ensure that decisions made by electricity consumers are appropriate to the cost of generation. If the province needs higher-cost sources of generation to meet new demand, it makes sense for customers to pay higher prices, providing them with the right incentives to avoid wasting electricity.

Cost-based prices also ensure the public is fully aware of the province's decision to sign abovemarket contracts with generators, particularly those related to clean energy, which it says is the main reason for its 25-per-cent rebate. As the province signed more contracts with cleanenergy generators - as well as natural gas generators, needed to maintain reliability - the OEB repeatedly raised rates to ensure those generators were fully compensated for their output.

The government, then, was held to account for its decision to sign lucrative contracts with new generators, as those high costs were fully visible to consumers. The OEB's job was to simply ensure that all generating costs - whether incurred through the purchasing of power in competitive wholesale markets (as was initially intended) or through provincially determined contracting (the current reality) - were fully accounted for in the prices that consumers pay. It performed that job even as the public grew increasingly wary of price hikes.

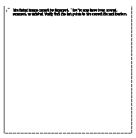
The Fair Hydro Plan breaks the relationship between the cost of generating power and the price consumers pay for it and makes the OEB largely irrelevant in the process. It allows the energy minister to apply any range of "different methodologies" and "different periods of time" when setting electricity rates. Making those rates fully recover costs is no longer a necessary precondition.

By granting the minister of energy the power to set rates as he sees fit, the Fair Hydro Act turns the price of power paid by consumers each month into a smokescreen, where the price only reflects what Queen's Park determines is a desirable amount, lacking any concrete relationship to the actual cost of generating power.

Worse still, not only does the minister determine how long today's costs are kicked to the future, but he also decides who will be left holding the can when the day of reckoning comes. While the minister may decide that all customers should equally bear the costs of paying back today's rebate, he may just as easily embark on another round of pick-the-winner, politically motivated policies and exempt certain customers from those costs.

Suddenly, the actual cost of generating power has little impact on prices compared to the minister of energy's power to decide who pays how much and for how long. The province's energy regulator, which by law is tasked to "promote economic efficiency" and maintain a "financially viable" electricity industry, has been stripped of those duties. Electricity customers will be the worse for it. Brady Yauch is an economist and Executive Director of the Consumer Policy Institute (CPI), a division of Energy Probe Research Foundation.

Back to Top



Time to pull the plug on Ontario's unduly painful electricity policies

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Page: A8

Ontario manufacturers are feeling the pinch from high electricity prices. But how high are the province's industrial electricity rates relative to other jurisdictions?

Ontario has the highest residential electricity costs of all Canadian provinces. Ontario electricity prices increased twice as fast as the national average over the past decade, and the average Toronto resident in 2016 paid $60 more a month than the average Canadian.

That takes us back to industrial electricity rates, which are paid by industries including manufacturing (automakers, for example) and mining around the province. A recent Fraser Institute study showed that, in 2016, out of 16 major cities, Toronto and Ottawa ranked third and fourth behind only New York and Boston.

Small industrial consumers (with a power demand of one megawatt and monthly consumption of up to 400 megawatt hours) in the Toronto area paid, on average, 16.27 cents per kilowatt hour (kWh, a common unit for measuring power), nearly double what comparable-sized firms paid in Montreal (9.11 cents) and Vancouver (9.49 cents), and nearly three times what they paid in Calgary (6.53 cents).

And although industrial electricity costs in New York and Boston remain higher than those in Ontario cities, the differential is shrinking over time as Ontario cities experience faster increases. In 2010, for example, electricity costs for small industrial users in Toronto were 85 per cent lower than in New York. By 2016, the differential had shrunk to 51 per cent.

The same pattern exists with large industrial consumers. In 2016, large users (with a power demand of five megawatts and monthly consumption of 3,060 megawatt hours) in Toronto and Ottawa paid almost three times more than consumers in Montreal and Calgary and almost twice what large consumers in Vancouver paid.

Even some select large industrial consumers (class A) that were granted rate reductions from the provincial government still paid higher rates than large users in Quebec, Alberta and British Columbia.

Between 2010 and 2016, electricity costs paid by large industrial consumers rose 53 per cent in Ottawa and 46 per cent in Toronto compared to 14 per cent in the rest of Canada. Montreal saw a modest increase of 10 per cent, while costs dropped in Edmonton (-7 per cent), Calgary (-5 per cent) and Chicago (-19 per cent).

Out of 16 cities examined, the fastest rates of increase were in Portland and Seattle. But even with their rapid growth, their electricity costs for large industrial consumers were significantly lower than Toronto's in 2016 (71 per cent lower in Portland and 62 per cent Seattle).

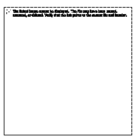
So what's caused surging electricity prices for residents and industries in Ontario?

Government policy choices are to blame, in particular the province's aggressive promotion of renewable energy sources (solar, wind and biomass). Other policy decisions - including poor structuring of long-term contracts with generators and phasing out coal - have also contributed to the pain.

To finally lower electricity bills for current and future ratepayers, the government should look at electricity costs in other jurisdictions and pursue meaningful policy reform.

Ross McKitrick is a senior fellow, Elmira Aliakbari is a policy analyst, at the Fraser Institute. They authored the recent study Rising Electricity Costs and Declining Employment in Ontario's Manufacturing Sector available at www.fraserinstitute.org. Distributed by Troy Media.

Back to Top



Low-carbon economy will not be made by policy alone

The Globe and Mail - Thu Nov 9 2017
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Page: B4

The transformation to a low-carbon economy has begun.

Much of the public debate has been about the policy framework and instruments for shaping a low-carbon economy.

Some of the basic economic fundamentals, such as the role of consumption and investment, and the impact on growth and wealth, have been largely skipped over. Let's consider more deeply the interlinked roles of public policy and decisions by individual consumers and businesses.

The most obvious policy options for reducing greenhouse gas emissions are carbon pricing and complementary regulations.

Climate change is already having an impact on things such as the severity of floods, infrastructure adequacy and urban design, and thus policy will evolve on the mitigation front as well. Even if the United States is backing off climate-change commitments, Europe and China are not, so doing nothing or reversing course is unlikely to be wise policy for Canada.

Research by a number of analysts, including Canada's Ecofiscal Commission, has indicated that carbon pricing is more effective than alternative rigid regulations in terms of reducing greenhouse gas emissions while minimizing the impact on GDP and the underlying economy. Changing price signals, via a price on carbon, will create incentives for businesses to innovate and consumers to alter their behaviour. The federal and many provincial governments are introducing carbon pricing and other complementary policies, but so far with limited alignment and co-ordination.

Consumers are the backbone of the economy, representing 60 per cent of GDP, and vote every day with their wallets. Some consumers are led by green values, but most consumers will decide how they spend based on the usual factors - a combination of price, quality, specific attributes, service, availability and convenience. Once consumers make a decision, it may last for years or decades - at least for durable goods such as vehicles and fridges, or services such as home heating.

Putting a price on carbon will help to nudge consumers toward buying goods and services with lower embedded carbon costs.

That said, we expect there will be limits to what consumers (and voters) will accept as an initial level of carbon pricing, the pace of adjustment over time and the relationship to other fiscal adjustments (such as cuts to other taxes, or targeted spending in their interest). Ontario's recent attempt to rein in rising electricity rates shows the importance of reading correctly the mood of consumers/voters and their willingness and ability to adapt.

Consumer choice on energy use at home and on personal transportation are specific areas to watch. For example, consumers can lower their carbon footprint through changing their use of private vehicles, public transit and other options such as cycling or walking. Will consumers adapt quickly to lower-carbon alternatives such as public transit (provided adequate transit is actually available)? Will they opt in large numbers for electric vehicles with still-limited driving range and long charging periods, even if the purchase price is heavily subsidized?

Similarly, business decisions will determine the pace and nature of low-carbon transformation. The Conference Board of Canada's research indicates that massive investment in low-carbon electrification will be required over decades for a low-carbon transition to take place. The combination of public policy and numerous business decisions will determine how quickly electricity production can be decarbonized in all provinces, not to mention the decarbonization of oil and gas production across the value chain.

Underlying business models constantly evolve; innovation, adaptation and long-term investment decisions will shape the decarbonization process. The existing auto industry, based on the internal combustion engine, isn't sitting idle - smart engineers can and will continue to find ways to reduce GHGs at all stages of production and use. Better hybrid- and electric-vehicle options will continue to be introduced. Competitive market forces will ultimately determine the pathways for reducing GHG emissions from the transportation fleet - guided by mandated standards and carbon pricing.

The financial services industry will play a central role in deciding where to make investment capital available in a lowercarbon world. To date, we have seen little evidence in Canada that investors and lenders treat GHG emissions, and a business's ability to adapt to carbon pricing and regulations, as central risk factors. But the game is beginning to change internationally as capital markets and regulators educate themselves on the business impacts and risks of climate change, especially for capital assets with a long expected economic life. Similarly, investors will want to satisfy themselves that all climate-related risks can be managed adequately in status quo and new businesses.

So, who will drive low-carbon economic transformation? The answer is all of us - as consumers, voters and influencers, investors, and decision makers in business, society and government.

Policy alone won't make it happen, but the right policies and incentives will help.

Back to Top

Hydro One employee suffers 'serious injuries' while replacing pole in Thunder Bay

CBC.CA News - Wed Nov 8 2017, 6:30am ET
Byline:CBC News

Ontario's Ministry of Labour has confirmed a Hydro One employee was taken to hospital after being injured on a job site in Thunder Bay, Ont.

The employee was hospitalized after the incident on Oct. 23 during work to replace a hydro pole in the northwestern Ontario city, a ministry spokesperson told CBC News.

"Our investigation will continue," Janet Deline said. "[Further steps] could be anything from examining the incident site, any equipment involved; our inspectors may interview witnesses, so co-workers, supervisors."

Deline added that she's not aware of the worker's current condition

A Hydro One spokesperson confirmed in an email that one of the company's employees suffered a "serious workplace injury," after he contacted a live power line, adding that he has been receiving specialized treatment in a burn unit.

The company would not answer other questions, such as where or when the incident happened, nor provide other details about the nature of the work, but said officials are in contact with the family. The ministry said it can't release any personal information, like a name or where the employee is from, citing privacy legislation.

Training records, policy manuals collected in investigation

The labour ministry and Hydro One both confirmed the incident remains under investigation. The ministry said it has requested training records, qualification certificates and policy and procedure manuals from Hydro One.

An inspector arrived in Thunder Bay on Oct. 26, Deline said.

As of Tuesday afternoon, "17 of those requirements have been complied with," Deline said, adding that the ministry was still waiting on a submission from the utility about its own investigation into the incident.

"Employers are required to … provide a written information to us on what happened, sort of their version, if you will," she said.

Deline said it's too soon to tell how long the investigation will take to complete.

Back to Top

Provincial government freezes BC Hydro rates

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Byline:CBC News

British Columbia's NDP government has announced it will freeze BC Hydro rates effective immediately, fulfilling a key election promise.

Energy, Mines and Petroleum Resources Minister Michelle Mungall says hydro rates have gone up by more than 24 per cent in the last four years and by more than 70 per cent since 2001.

"After years of escalating electricity costs, British Columbians deserve a break on their bills," Mungall said in a news release.

BC Hydro had been approved by the B.C. Utilities Commission to increase the rate by three per cent next year, but Mungall said it will pull back its request in order to comply with the freeze.

In the meantime, the government says it will undertake a comprehensive review of the utility meant to identify cost-savings measures.

The Liberal critic, Tracy Redies, says the one year rate freeze is going to cost BC Hydro, calling it a distraction from the bigger issue of the future of the Site C project.

"A one year rate freeze costs Hydro $150 million," Redies said. "That means there's $150 million less to invest in capital projects and other investments that the utility needs to make."

"This is putting off decisions that should be made today to the future."

Recommendations from the review ? including possible new rates ? will be implemented starting in April 2019.

With files from Megan Thomas

Back to Top