

OEA DISCUSSION PAPER

THE NEED FOR GOVERNANCE REFORM OF ELECTRICITY PLANNING IN ONTARIO

May 17, 2017



THESE SLIDES ARE PART OF AN ONTARIO ENERGY ASSOCIATION
PRESENTATION AND ARE INCOMPLETE WITHOUT ACCOMPANYING ORAL
COMMENTARY

AGENDA

- Review history of electricity planning
- Summarize examples of political interventions
- Discuss options for reforming governance
- Discuss strategic options for achieving successful lasting reform

**Historical Context:
Electricity Planning Greatest Hits (or
misses)**

Founding Ontario Electricity Culture

- “The water power of Niagara should be as free as the air”

- James Whitney, 1905

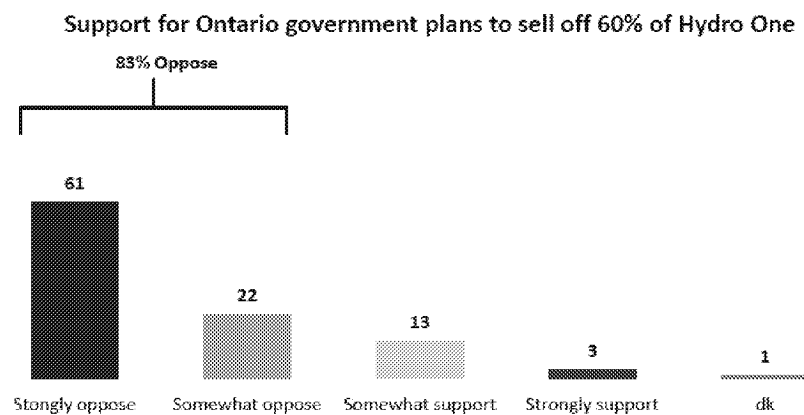


- “Nothing is too big for us. Nothing is too expensive to imagine. Nothing is too visionary”

- Adam Beck, 1906



Over 8 in 10 Ontarians oppose Hydro One privatization with 61% “strongly opposed”



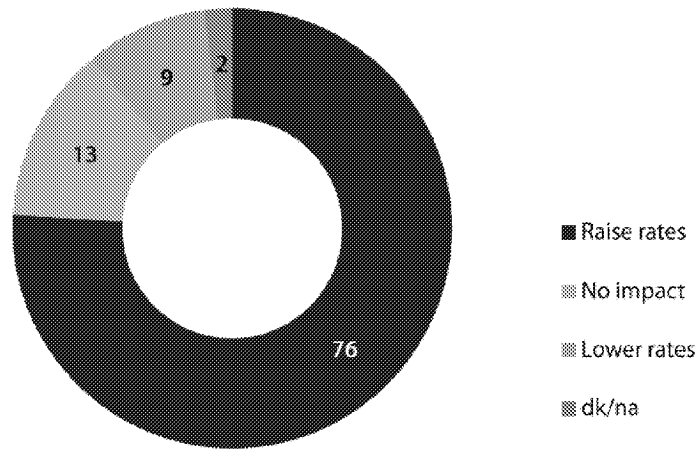
How do you feel about the Ontario Liberal government's plan to sell off 60% of Hydro One?

ENVIRONICS
RESEARCH GROUP

Keep Hydro Public – Ontario Hydro Privatization Survey – September 2015

Vast majority of Ontarians think that selling off most of Hydro One will increase electricity rates

Expected impact of Hydro One privatization on electricity rates



What impact do you think selling off 60% of Hydro One will have on electricity rates?

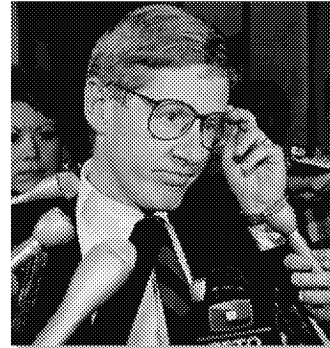
1980s

- Darlington construction begins
 - Series of political starts and stops that drive up costs
 - Perceived mismanagement by Ontario Hydro
- Ontario Hydro begins to be seen as
 - Bloated
 - Inefficient
 - Unresponsive and unaccountable
 - Lacking transparency
 - “Corporation in crisis” [Maurice Strong]
- Select Committee of Legislature
 - Concern about Ontario Hydro’s nuclear fixation
 - Proposes smaller generation and more conservation



NDP Inherits a Mess

- Darlington comes online during a major recession
- Electricity rates rise by 40%
- NDP government freezes rates at 4.3 ¢/kWh
- Rates not high enough to recover costs
- Bloated debt continues to expand
- NDP contemplates privatization before nixing
- No planning for new capacity needs

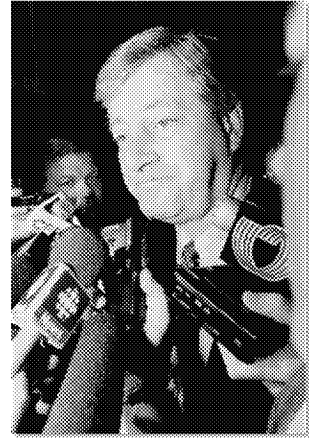


“I’m not singling out any one political party, but collectively and individually, these government interferences have slowly added to the cost of electricity through programs or policies designed to achieve objectives that were not really related to the delivery of electrical power. It’s our opinion that if Ontario Hydro is allowed to get back to the basics of wholesale electricity supply, instead of being used as an agent of social policy, we’d all be a lot better off.”

- Keith Matthews, President
Municipal Electric Association, 1993

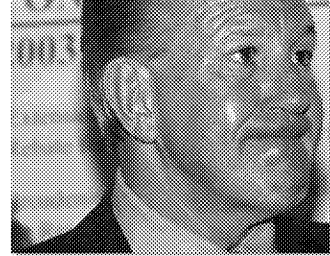
PCs Inherit a Mess

- Macdonald Committee
- Independent Integrated Performance Assessment finds Ontario Hydro nuclear reactors “minimally acceptable”
- *Direction for Change: Charting a Course for Competitive Electricity and Jobs in Ontario*
- Market Design Committee
- OPG Market Power Mitigation Agreement
- Market opens May 2002 (delayed twice)



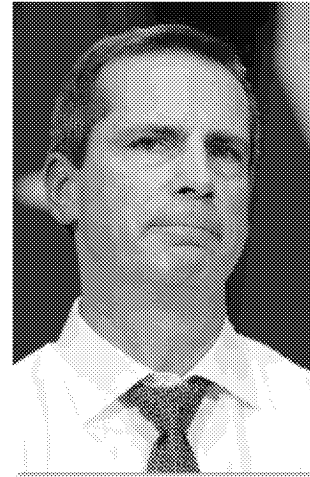
2002 Price Freeze

- Market opens May 2002
 - Price jumps from 3 ¢/kWh to 6.2 ¢/kWh
- New Premier Ernie Eves freezes prices on Nov. 11 at 4.3 ¢/kWh until May 1, 2006
 - Huge monthly cost financed by debt at OEFC
- Eves criticizes OEB: "...sometimes seemed to protect producers more than they have consumers"
 - Chair of OEB resigns
- Jake Epp appointed to review ongoing cost over-runs at Pickering Station



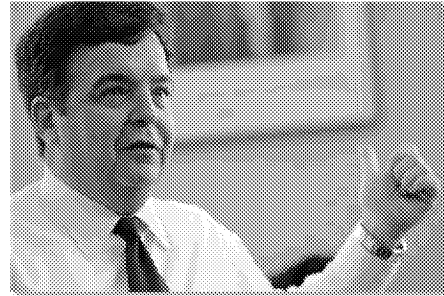
Liberals Inherit a Mess

- Price frozen well below cost
- No planning has taken place for new generation
- *Energy Conservation & Supply Task Force* created
 - To deal with supply, conservation, etc...
 - Report a “looming shortfall” in supply
- Price cap lift in attempt to move to cost pricing
- **2004: OPA created with mandate for long-term supply planning**
 - 20 year IPSP (technical plan) regularly
 - OEB mandated to review and approve plan



“We cannot see our energy policies continue to be tossed around like political footballs, as they were under the previous government... It's simply too important to be continually subjected to political whims and whatever opinion polls show to be popular on any given day... This plan will take the politics and politicians out of electricity pricing and give that responsibility to an independent regulator.”

- Honourable Dwight Duncan
Minister of Energy, 2003



Political Directives Replace Planning

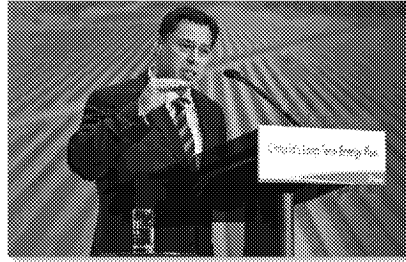
- Smart meter directives (2004)
- Supply mix directives (2006, 2008, 2009, 2011)
- First technical plan (2007)
 - Ministerial directive to OPA to revise plan on supply mix
 - OEB suspends review of technical plan
- Green Energy Act (2009)
 - FIT Program with above market rates
 - Industrial strategy to create “50,000 jobs”
 - “We 1% per year of additional rate increases associated with the Bill’s implementation”
- Oakville gas plan relocated (2010)
- Sole-sourcing of significant procurements
- 2011 technical plan does not go to OEB for review
- Mississauga gas plan relocated (2011)
- 2015: OPA merges with IESO (Bill 194)
- 2016: Bill 135 eliminates independent IESO and OEB roles in electricity planning



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More subsidized rates

- Rates steadily rise after 2003 and attract negative political attention
- OCEB introduced (2011)
 - Until December 2015
- Debt retirement charge eliminated
 - To coincide with end of OCEB
- OESP introduced (2016)
- Fair Hydro Plan (2017)



Conclusion

- All three major political parties in Ontario have contributed questionable governance and intervention
 - Consumers have paid a high price as a result



Poll #1 & #2



Types of Planning Issues that Might Be Addressed by Better Governance

Lack of Competition

- FIT and other renewable generation procurements
- Nuclear refurbishments
- Quebec Hydro side deal
- No open competition and associated cost/benefit analysis associated with any of these decisions
- No public comparison of alternatives

Lack of Transparency

- Inadequate disclosure of information used to formulate policies
- Inability of stakeholders to analyze and respond to unilateral government decisions
- 2011 Example:
 - OPA submits draft updated IPSP to Ministry of Energy
 - IPSP never submitted to OEB for public review

Ignoring Legislative Requirements

- Legislative requirement for OPA to table regular IPSP with the OEB is ignored
- OEB review of IPSP suspended and never restarted
- OEB governance requirements not seen through

Mega-Project Focus

- Persistent focus on mega-projects as the solution in Ontario
- No comparison of pros and cons of alternative strategies
- Using electricity infrastructure and captive ratepayers to achieve other public policy goals (e.g., economic development)
- Risk is when they fail, they fail big
- Ratepayers/taxpayers bear cost overruns

What Do We Do?

Framing The Discussion

- Government will intervene in electricity markets
 - They will always intervene
- How can we manage the way that they intervene?
- What is the framework that will allow
 - Governments to set policy within proper limits
 - Implementation by professional planners
 - Review by regulator
 - Real stakeholder input into the process?

1) Independent Planning Agencies

- Restore the system planning function to the IESO
- Restore OEB review of plan and procurement process
- Require IPSPs every 3 years
 - Must include full cost benefit analysis
- IPSPs must be reviewed by the OEB
 - And subject to public consultation
- Alternative Process: IESO required to obtain OEB approval of procurements on an as required basis
 - Avoids large and drawn out IPSP-style hearing
- Ensure that rules governing development and review of plan/procurements are set out clearly in legislation

Poll #3



2) Government Role Defined

- Legislation clearly articulates government role to set social and environmental policy
- U.K. example
 - *Gas Act, 1986; Electricity Act, 1989*
 - Sets out how Secretary of State can issue guidance for the attainment of social and economic goals
 - Consultation required with stakeholders prior to introducing to Parliament
 - The Authority “shall have regard to any guidance issued under this section”
- Frames the government’s role as setting broad goals and targets
- Implementation left to independent authorities

Poll #4



3) Competition for All New Capacity

- Competition should be required for all new capacity
 - Sole-source procurements should be avoided and, if needed, require additional level of review
- Cost benefit analysis should be compiled by the IESO comparing the alternatives

Poll #5



4) Adherence to Legal Requirements

- Ontario has a history of ignoring legislative requirements
- For governance and market reform to be successful, government must have the political will to abide by legislative requirements
- In the absence of political will, investors will lack confidence in investing in Ontario
 - This will raise costs for Ontario consumers

Poll #6



GR Strategy

GR Strategy

- Goal: influence policies/platform in lead up to 2018 election
- Release separate OEA paper to start discussion
 - Provide a detailed prescription for reform as possible
- Build a broad coalition supporting reform
 - Consumer groups
 - Business groups
 - OEA
 - APPrO
 - Anyone else who wants to support
- Approach all three parties with coalition position

Poll #7



Levels of Governance

Level	Current Status
Electricity Planning & Procurement	Directed by Cabinet and sheltered from review by independent agency
Rate setting	Currently being moved from the OEB to government
IESO Programs	Currently not reviewed by could be
IESO Engagement Principles	OEB rates case

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