Intelligence MEMOS

From: G. Kent Fellows

To: Nathan Neudorf, Alberta Minister of Affordability and Utilities

Date: August 21, 2023

Re: **Renewables Moratorium Risks Harming Alberta's Investment Climate**

Your government's move last week to pause approvals for new renewable electricity investments sends a strong signal: The free-market fundamentals underpinning the province's approach to electricity are no longer as strong as the past few decades might suggest.

In 1996, then-premier Ralph Klein's Progressive Conservative government decided to let market forces govern electricity investment and generation decisions. The *Electric Utilities Act* established a competitive and open market with a goal of attracting private investment in generation capacity to deliver low-cost electricity to Alberta consumers.

In the 27 years since, it has worked. Private companies invested in coal and natural gas plants, cogeneration and biomass generators, hydroelectric facilities, and wind and solar generation. Mostly without any direct subsidies. (The largest solar farm in Alberta, the $700-million Travers project, was built with no public money and no government procurement contract. It has contracted a private agreement with online retail giant Amazon.) Anyone who felt they could make a profit could apply to connect to the grid and sell power.

Alberta's market structure is specifically designed to avoid bias for or against any specific technology (other existing and future Federal policies notwithstanding). Generators that can commit to forward contracts are allowed to presell electricity to specific industrial buyers ("I will gladly pay you today, for a MWh on Tuesday"). Otherwise, everyone selling onto the grid at a given hour gets the same price. That price changes hour to hour based on supply and demand fluctuations, but any generator willing to take that hourly price can sell to the grid.

If you went looking for a poster child for a free-market approach to electricity generation, you would be hard pressed to find a better example. Most capacity (including renewables) represents private investments made on private land: decentralized decisions by individuals and companies.

The renewable generation approval pause – made with no prior notice or consultation with the renewables industry – is exactly what the free market does not like because it introduces a signal of regulatory risk and uncertainty. It creates a complete, if temporary, barrier to entry for a specific type of investment, and it will cost investors money (just as delays on the Northern Gateway, Keystone XL, Energy East and Trans Mountain pipeline proposals did over the past decade).

Proponents of the renewables pause have pointed to certain issues that need addressing. They note the correlation between renewable investments and rising prices in the province, the loss of agricultural land, and supply adequacy and impact on grid reliability of projects that depend on the elements. But there are solutions to these concerns that are in line with Alberta's open market approach.

On the price front, correlation does not equal causation. Recent research by economists David Brown, Andrew Eckert and Blake Shaffer has shown that recent electricity price increases are the result of market power exercised by few large generators, not the increased share of renewable generation. This is particularly evident considering that the Alberta Electric Systems Operator will buy electricity from anyone willing to sell at or below the spot price.

On the land-use issue, Rural Municipalities of Alberta members have expressed concerns about reclamation costs and displacement of agricultural operations.

The reclamation cost issue is critical and deserving of attention. But it seems inconsistent to announce a pause on renewables to resolve this while simultaneously continuing to approve new conventional oil and gas infrastructure, which carries the same reclamation issues, only more pronounced.

Moreover, when considering the displacement of agriculture, it is worth noting that renewables projects generally locate on private land. As such, the government should contemplate the implications of policy changes that infringe on individual property rights. If a solar farm is a more profitable use of land, the market is telling us that is a better use of land.

Finally, on supply adequacy: It's a fact that wind farms only generate when the wind blows, and solar farms only generate when the sun shines. But how you react to this truth depends on how much trust you put in free markets. Consider the difference between the supply adequacy approaches taken under the previous two Alberta governments.

Before the 2019 election, then-premier Rachel Notley's NDP government began planning a "capacity market." The capacity market would have facilitated payments to "dispatchable" generators (those not subject to the whims of the Earth's air currents and celestial movements) to be on call to back up wind and solar.

After that election, premier Jason Kenney's UCP government cancelled this plan in favour of maintaining the existing system. At the time, the expectation was that a free market could deal with renewable generation just fine: The energy-only approach would maintain incentives for a proper generation mix, as it has done since the days of Mr. Klein. At the time of writing, there are more than a dozen natural gas generation projects (over 5500MW total capacity) in Alberta's grid interconnection queue.

The structure of an electricity market is an ideological choice – that is inescapable. Will Alberta continue down the free-market path, restoring investor confidence and allowing for decentralized decisions, or will it move toward an interventionist approach? Between now and February, we will find out.

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