

Intelligence MEMOS



From: Joel Balyk and Benjamin Dachis

To: Ontario Energy Minister Greg Rickford

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Re: **IMPROVING REGULATORY EMPOWERMENT IN ONTARIO ELECTRICITY POLICY**

The Ontario government is undertaking a [review of its energy](#) planning and regulatory process. Rising costs have burdened the provincial electricity system for well over a decade and yet there remains no end in sight. Ontario had the highest [normalized system costs](#) among the provinces in 2018. Taxpayer subsidies to keep rates down are now an eye-watering \$6.5 billion per year.

Fixing the regulatory review process can help curb price rises in the future.

The Ontario government should provide sound policy direction that focuses on empowering and resourcing the regulator, the Ontario Energy Board (OEB), to oversee decisions on procuring electricity. It should then move electricity procurement decisions to local buying groups.

The Ontario government's hands-on approach to energy procurement with little restraint has long been the center of controversy. In 2004, the province established the Ontario Power Authority (OPA), which had a broad mandate in which it was responsible for forecasting supply and demand, assessing long-term adequacy, procuring capacity for the province, and overseeing conservation programs. The OPA signed contracts – only a few of which underwent a competitive process – with natural gas generators, and, increasingly, renewables, which lead to the high cost of these generating facilities today.

Between 2005 and 2015, the Ministry of Energy issued more than 100 directives to the OPA and its successor, the Independent Electric System Operator (IESO) to procure energy without regulatory review.

The trend towards increasing ministerial powers continued with the enactment of the *Green Energy Act* in 2009, which granted additional powers to the Ministry of Energy. The *Act* is best known for the introduction of the feed-in-tariff which allowed all renewable power the right – up to a fixed total capacity – to connect to the grid and receive a generous fixed rate for their power. This led to an influx of renewables, with commensurate high costs, while system planning and regulatory oversight took a back seat.

By the time it was merged into the IESO in 2015, the OPA had already signed more than 33,000 contracts for generation with most contracts containing 20-year terms. The bulk of these contracts were for renewables, but also included other sources of power such as natural gas generation.

The *Green Energy Act* was repealed in 2019, but ministerial directives still shape the grid while largely being void of regulatory oversight. Unfortunately, the burden of these short-sighted ways of producing power falls not on policymakers, but on future ratepayers and taxpayers.

Renewable energy is not to blame for the cost increases, but rather the framework that was used to procure it. Alberta has [shown a better way](#) to reduce renewable costs through better design of long-term contracts. A strong regulator in Ontario could have steered the province in that direction.

One remedy to mitigate costly policy errors going forward is to limit political interference in specific system planning and energy procurement choices.

Governments often make choices on a broad set of criteria in their overall policy goals. Legislation is the right forum for socio-economic goals. Implementation should then be left to independent agencies. That should leave regulators with the [sole priority](#) of seeking economic efficiency.

The IESO, if its process is subject to regulatory oversight by the OEB, is far better equipped to decide how to procure electricity cheaply than the government. However, the OEB does not currently have the power to review the IESO procurement process or government decisions. Such review powers could reduce the risk of Ontario repeating past mistakes of its own in procurement and those of other provinces, such as [Site C in B.C.](#) or [Muskrat Falls in Newfoundland and Labrador](#) where regulators were sidelined.

The Ontario government can also mitigate risk onto ratepayers by creating a [competitive group of buyers](#) of electricity, not just relying on the IESO. In such a system, local electricity distribution companies would take part in buying groups that each forecast demand in areas they serve. Such load-serving entities would reduce the aggregate risk of contracting and supply on ratepayers. Risks would be shared with the shareholders of companies serving customers. These load-serving entities could take part in an IESO-operated, and OEB-regulated, [contract market](#).

As the Ontario government completes its review of the Ontario electricity planning process, it should focus on empowering – but limiting the scope of – the Ontario Energy Board to have a robust lens of economic efficiency on energy projects.

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