

Intelligence MEMOS



From: Benjamin Dachis

To: Minister Glenn Thibeault

Date: December 15th, 2016

Re: **THE GOOD, THE BAD, AND THE UGLY OF ONTARIO'S ELECTRICITY**

You recently gave a speech in which you laid out your proposed direction for Ontario's electricity sector. Like any change, the time will come one day for the inevitable showdown with those who oppose changes. So, in deciding which ideas to fight for, it is important to distinguish between the good, the bad, and the ugly ones.

First, the good. Your support of reforms to renew the electricity market – especially a capacity market – is an important step in the right direction. A capacity market provides more flexibility than Ontario's current model of long-term contracts. A capacity market is the right way forward to reduce costs for Ontario electricity consumers while also providing incentives for electricity generators to build the future generation capacity we need. Indeed, Alberta is planning to make a similar move with its electricity market.

The bad? You said that local electricity providers “ought to face increased competition from new entrants, nimble service providers and perhaps even other LDC's (Local Distribution Companies).” Competition is a good idea. However, the market needs the right kind of competitors.

Adding a layer of new wires to compete with the existing network of wires isn't going to be a cost-effective way of promoting competition. Without change to the operating model of the companies that currently own the wires – almost all are government-owned – the costs of infrastructure will likely stay high.

The real solution to the problem of high-cost distribution is to remove the current taxes that prevent private operators from kick-starting consolidation of municipally owned distributors. Merging the smallest municipal-owned local companies would likely mean lower operating costs, and savings for consumers. Cities will be thankful too. Cities could sell their local electricity companies to pay for new infrastructure or pay down debt. In a similar vein, the province should also follow through on its planned Hydro One sale.

Now, the ugly. You said “it's hard to believe that the young professional condo-dweller in Mississauga is on the same pricing plan as the retired couple living in a bungalow in Sudbury.” Certainly, the price of electricity that a consumer faces might look ugly to them.

However, lowering the retail price for one group of consumers means that other consumers are going to pay more than their share of the cost of the system. This could make electricity costs even uglier for many at the expense of lowering electricity bills for the few favoured by the government. Like past attempts at cross-subsidies, such as the Ontario Electricity Support Program for low-income households, lower bills for some mean other electricity users pay higher costs. Similarly, the government's latest plan to remove the cost of the HST on electricity bills puts the cost onto taxpayers and doesn't lower the cost of the system. If your government is concerned about those with lower incomes, they way to go is to seek ways to boost their disposable income independently of how much electricity they use.

A gun-slinging match is dawning in Ontario electricity – you should back the good ideas in the shootout.

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