

Ontario Re-Regulates: California Redux

Presentation to CAMPUT

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Presentation Outline

- Thumbnail of Ontario Hydro's collapse
- Deregulation period (May-Nov. 2002)
- Premier Eves re-regulates 2002 Nov. 11 (11/11)
- Lessons, implications and questions

Historic Drivers for Change

- Macdonald Committee pro-competition policy breakthrough '96
- 1995-1998 40% of nuclear capacity closed
- Oct. 1997 Ont. Hydro declares insolvency
- Nov. 1997 White Paper promising deregulation in 2000 (later 2002)
- April '99 Ont. Hydro net bankruptcy: \$19 B

Price Deregulation

May-Nov. 2002

- No major technical problems with market
 - Independent Market Operator cleared the market effectively
 - Customer billing went fairly smoothly
 - Imports were available when required
- Structural flaws (e.g. OPG's dominance, conflicted government interests, dumb meters)

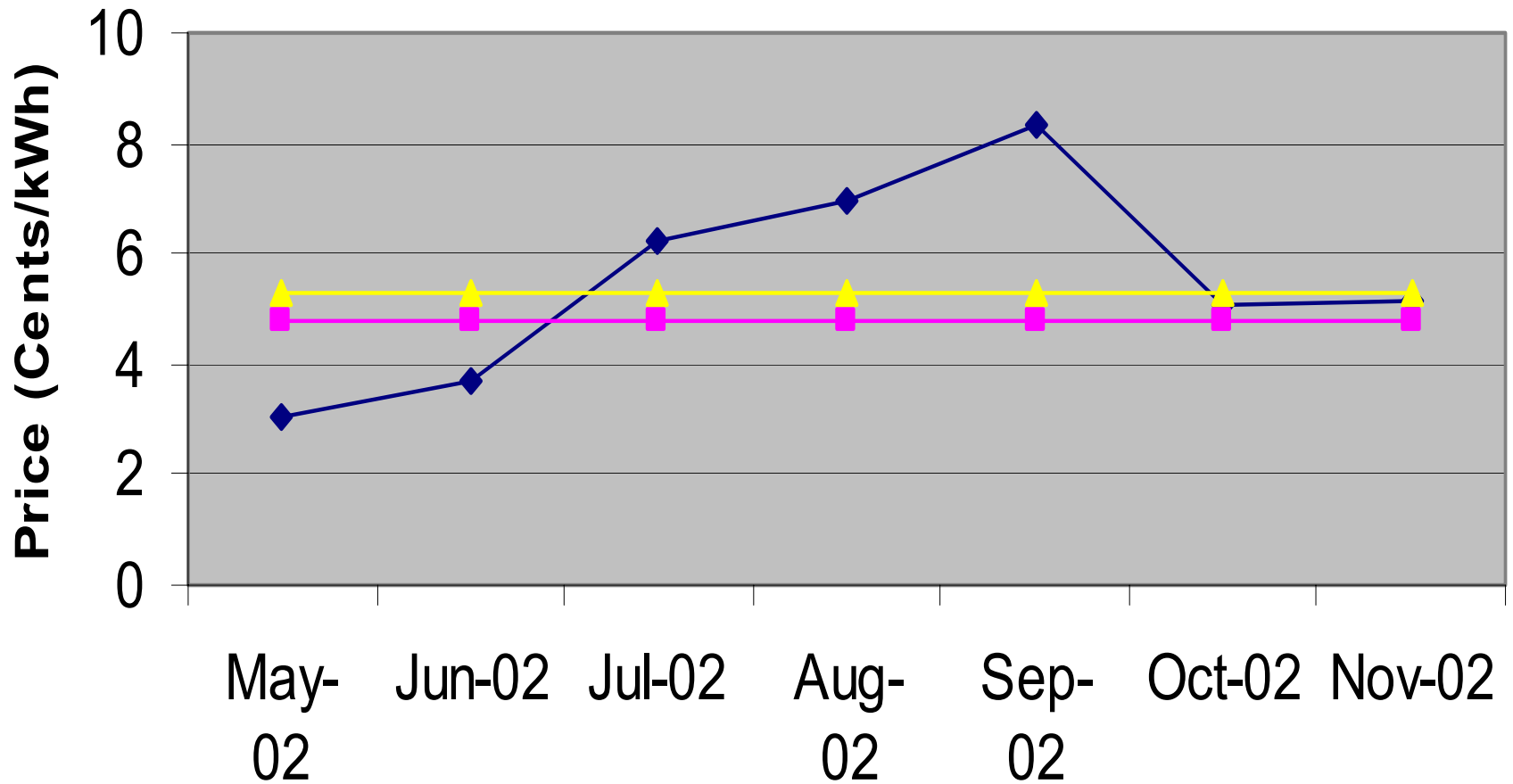
Public interest deficiencies of the market and associated reforms pre-11/1

- Higher distribution charges
- Retailer scams prior to market opening based on comparing historic bundled bills with unbundled offers
- Hydro One executives overreached on salary/perks
- OPG's Pickering A (2 GW) nuclear restart ~ 200% over budget and 3 yrs off schedule, scared off investment and increased stranded debt
- Little independent investment in new gen. (TransAlta only major)

Spot Price Pass-through: Popular Canard to Explain Collapse

- Ontario's retail market was based on Spot Price Pass-through (SPP)
- Some commercial interests fought unsuccessfully to replace SPP with LDC commodity fixed price/fixed term portfolios
- LDC contracting would have exacerbated spot spikes, like rate freeze
- Ontario's natural gas market continues to evolve toward SPP because SPP outperforms portfolios: better customer mobility, better conservation signals, less risk to LDCs, lower cost for customers, less second guessing of regulators

**What Premier Eves faced in November:
Spot vs. Average with rebate (pink squares) vs.
"Old Hydro" commodity only (yellow triangles)**



Highlights of 11/11

- Freezes retail commodity: 4.3 ¢/kWh until 2006
- Promises to cut stranded debt caused by “mismanagement ... under previous governments”
- Continues attack on independence of OEB
- “Commitment” (meaning subsidies) to new supply, conservation, renewable sources of power

Bill 210, Associated Regulations and Policies

- Price freeze households, farms, MUSH: 2002-06
- Price freeze distribution and IMO charges
- Initiated and then cancelled price freeze for businesses <50 workers
- “100 Days Review” of OEB (not yet released)
- Pickering A inquiry promised (not yet started)
- Hydro One privatization cancelled
- IMO and OEB independence impaired

Bill 210 Taxpayer Impact

- Tax hit to 2003/02/28 (net of OPG rebate funds, excluding impact of 2003/03 freeze expansion):
 - For energy only: (at least) \$358 million
 - For “IMO Uplift”: ~\$50 million (my guess)
 - Ministry of Finance has not confirmed these figures
- Additional taxpayer hit from Hydro One and OPG losses: perhaps \$100 million for F2003
- Ont. Electricity Financial Corp. (aka: Taxpayers) estimated stranded debt up \$652 million in first 3 years of “New Hydro” (i.e. prior to rate freeze)

March Brings More Freezing

- Expands rate freeze from 150 MWh/yr to 250 MWh/yr
- New rate freeze also retroactive to May 1, 2003
- Freezes rebate percentage for >250 MWh/yr at 50% (thereby wiping out prospects for competition through further OPG “decontrol”)

Results Post 11/11: Operations

- Severe financial problems for distribution utilities (one utility collapsed 03/02/28)
- \$ freeze ► demand ↑ ► wholesale \$ ↑
 - all-time winter peak demand record Jan. 27
 - all-time record daily energy during Feb.

Lessons

- Politics and electricity don't mix, political support for competition crumbled under mild pressure
- Good politics \neq power system efficiency
- Hydrocrats pursued diversification, acquisitions, nuke expansion with tax \$\$ and chaotic political supervision
- OEB's performance hurt market's reputation
 - distrib. costs \uparrow ~20% but rates \uparrow ~100%
 - Scams by door-to-door, OEB-licensed marketers
- Default for governments/regulators: Central Planning

What comes next?

Bankruptcies, municipal/provincial tax increases

- LDC financial distress hitting municipalities
- Subsidized demand ► subsidized supply/DSM

Increasing risks to reliability

- 10 public warnings/appeals to cut load since '02/July, problems both on and off demand peaks
- 3 old nukes scheduled back in '03/Spring, if late or don't work well or other nuke problems develop, harsh weather could bring rotational load shedding

Weakened regulatory institutions