



No relief for household energy users

As rates rise, expect industrial users to bring their case for rate relief to OEB

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In "The province's bright energy future" (on this page Oct. 9), Cherise Burda of the Pembina Institute would have us believe that investing in cleaner coal power will increase our power rates whereas investing in renewable power, mostly from wind, combined with cogeneration and conservation, can eliminate both coal and nuclear power in Ontario while delivering lower bills.

Last week's Ontario election provided a reasonable test for her theories. All of Ontario's major political parties adopted the conservation and renewables message, although not going as far as Burda advises.

The Conservatives and the NDP were demanding more conservation and renewable power than the Liberals were prepared to order. The Liberals' Dalton McGuinty stuck to his latest sliding target for coal closure of 2014, overwhelmingly relying on conservation programs, renewable energy and natural gas, and only secondarily on nuclear power between now and the coal closure date to replace its output.

Burda's theory that conservation and renewable energy are going to bring consumer costs down appears far-fetched.

While old-fashioned unscrubbed coal power costs you about 3 cents per kilowatt-hour and Ontario's smog-free scrubbed coal power costs you about 4 cents per kilowatt-hour, McGuinty's government started buying wind power at 8 cents and later 8.6 cents from auctions. Then, as it has done in contracting for nuclear and some gas-fired generation, the McGuinty government abandoned competitive power procurement in favour of sole-sourcing. Now McGuinty is committing consumers to buy wind power at 11 cents, biomass power at 11 to 14 cents, and solar electricity at 42 cents, all without any need for producers to compete against each other.

Wind power is not only costly to buy. Wind power productivity is low and what little is produced is highly intermittent. Production is especially poor during periods when we need power most -- throughout the summer, during the coldest winter days and mornings. Costly backup power is therefore needed. Storing power is theoretically possible but would drive the costs even higher.

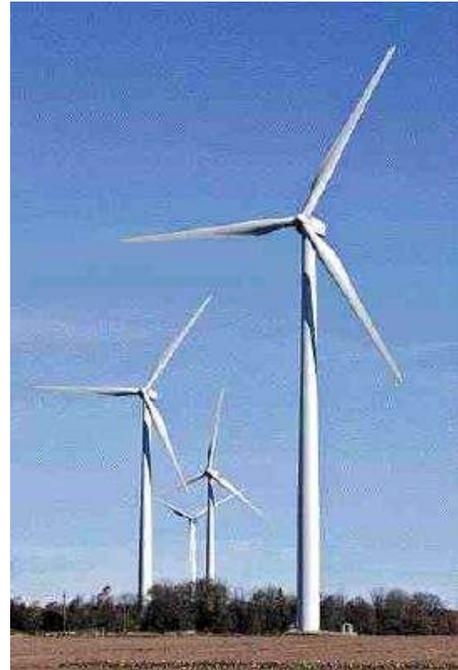
Connecting new renewable generators to consumers is costly, too. A new transmission line is proposed from Lake Huron to Milton, mostly to carry wind-generated power. The currently estimated cost is over \$635 million. Transmission lines serving wind generation must be built large enough to carry the full output, although full output is rarely actually produced, forcing consumers to pay for vast idle transmission capacity.

Not surprisingly, countries around the world with higher dependence on decentralized electricity supplies tend to have higher power prices. Every 10 per cent increase in decentralized supply tends to result in prices 3 per cent higher on residential rates.

Conservation programs are costly, too, but the costs are hidden in regulatory charges. Arcane Ontario Energy Board rules for utility-provided conservation programs, like Christmas light giveaways, allow utilities to recover the cost of lights plus administration, distribution, lost revenue, and an incentive equal to 5 per cent of the overall savings the lights are supposed to provide to society relative to some other lights the regulator assumes you will replace. No allowance is made for cases where consumers leave the new lights on longer than the old ones, add lights they didn't used to have, or any one of dozens of reasons why the new lights might not decrease power usage as planned.

Although opposition parties and environmental organizations, including Burda's group, complain that it is just not enough, under McGuinty's guidance, a massive conservation and renewables push is already underway. However, the government deferred the accompanying rate increases, along with increases for many other power sector programs mostly targeting aging infrastructure, until after the election.

During the election only the Green Party recognized the rate implications for consumers and had the honesty to call for higher power prices. The Conservatives claimed they would provide "affordable" power. The NDP promised a deep rate cut for industrial customers but claimed other customers will not see higher rates.



David Cooper, Toronto Star

Wind-generated power is not just costly, but its productivity is low, says Adams.

As costs for conservation and renewable energy programs start to hit rates, today's practice of spreading costs to all users will be under attack. Industrial customers, who use about 30 per cent of Ontario's power, will resist picking up the tab for the costly programs voters have demanded.

Denmark has the world's most decentralized electricity system. Its high reliance on wind power and biomass is paid for by residential, not industrial customers. Household power prices in 2006 averaged over 30 cents per kilowatt hour -- some of the highest rates in the world -- whereas industrial rates averaged about one third that. In Ontario, households pay rates close to Danish industrial prices, and industrial rates average about two thirds of the household rate.

As rates rise, expect industrial users to bring their case for rate relief to the Ontario Energy Board. If they marshal the international experience, the accountability principle of assigning costs where costs are caused, and the economic logic of vulnerable industrial jobs competing in international markets, expect the industrial users to win.

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