

Alberta did it right



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Beat Ontario in bringing competition to power markets

Beyond Premier Dalton McGuinty's resignation and the partisan jousting that puts the public cost of relocating two Ontario generating stations as high as \$1.4-billion lies both irony and a serious systemic problem. The irony: the Ontario government shot itself in the foot due to an election campaign decision involving contracts that only existed due to similarly poor marksmanship of a previous government preparing for an earlier election campaign.

That was when Premier Ernie Eves froze electricity prices, which destroyed investor confidence and led directly to looming electricity shortages in the summers of 2006-07. He lost the next election and resigned as party leader. A healthy investment climate was restored in 2004 by reducing the risk to generation owners through contracts that guaranteed their income for the next 20 years.

But reduced risk for investors implies higher risks for electricity consumers and the plant-relocation costs are the embodiment of those risks. At least they are because governments can make binding commercial decisions in the heat of election campaigns. And that is the systemic problem that Ontario has in its electricity sector. It is a governance problem.

"Governance problem" is a fancy way of saying that the chain of authority and accountability is poorly arranged between the government, its various specialist electricity sector agencies and the owners and operators of power system infrastructure.

Ontario's governments have progressively dug themselves into holes of ever greater detail in the electricity sector and in so doing have neutered the ability of the sector's agencies to contribute their skills to the public good.

Alberta's electricity system provides a useful contrast. The Alberta governance structure has government set policy and assigns authority and responsibility for its implementation to expert agencies and investors working through the competitive marketplace. The results are impressive.

Ontario and Alberta started out on very similar tracks when in 1998-2002 both provinces replaced their century-old monopoly electricity arrangements by introducing customer choice and requiring generators to compete. The competition required each generator, once per hour, to submit binding hourly prices to a publicly accountable independent agency operating at arm's length from government. Those offering the lowest prices then met customer requirements in that hour.

Ontario allowed the incumbent monopoly generator to compete directly with newcomers, whereas Alberta required the incumbent generators to auction off their production for the next 20 years and prohibits them from offering into the hourly market. The successful buyers of those 20-year "Power Purchase Arrangements" are allowed to offer into the hourly market.

With this arrangement, Alberta levelled the competitive playing field between



An Alberta power plant owned by the widely held Postmedia TransAlta Corp.

incumbent owners and new investors in generation, which encouraged both new technology and innovative efficiencies. Not only did this result in more robust competition and better pricing for consumers, but it also buoyed the confidence of investors by continuing the guaranteed pricing to incumbent generators expected when they first decided to invest in them.

Of course there are other significant differences: the Ontario government owns the generating company, Ontario Power Generation, and the grid company, Hydro One. The combination of direct government ownership and a less-than-level competitive playing field increased government involvement, beginning with freezing prices to counter high and erratic prices created by feeble competition. Each fix created more problems than it solved, leading to ever more prescriptions, each involving ever

greater detail.

In contrast, during the 14 years Alberta has had its governance structure, investment levels in new electricity generation have consistently provided reliable electricity service to support the fastest-growing provincial economy in Canada. And it has done so without contracts that legislatively guarantee returns to investors and put consumers at risk.

A 2011 report prepared for the Independent Power Producers Society of Alberta predicted total rate increases for residential consumers of less than 1% between 2009-2015 in Alberta and about 20% for Ontario. Meanwhile Ontario's government itself predicted a 46% increase over the shorter period of 2010-2015. Forecasts are usually wrong in absolute terms, but Albertans should be pleased that the relative price trends in Alberta and Ontario are clearly worlds apart.

The Alberta market structure has also allowed it to lead the country in incorporating renewable wind power into its electricity supply. Today, wind power provides Albertans with some 6% of their electricity, compared with Ontario's 4.8%. And in both provinces, around half of new generators waiting for authority to connect to the grid use wind and other renewables.

As well, Alberta has created thousands of electricity-sector jobs. Most of Canada's independent electricity generating companies are headquartered and operate out of Calgary. They own and operate generating plants of all types including wind, hydro, coal, gas, and nuclear, not only in Alberta but across Canada, in the U.S. and around the world so their commercial success effectively earns export income for the provincial economy.

Alberta has become the hub of Canada's commercial electricity business and the country's biggest embracer of wind power without detailed government prescriptions like the targets for job creation or subsidies for particular renewable technologies which typify Ontario's approach. In fact, Alberta's success largely stems from government's continued focus on its exclusive mandate for translating society's visions into policies and putting laws and regulations in place that enable the commercial world to implement the necessary nuts and bolts.

Significant challenges lie ahead for Alberta electricity, including the scheduled phase out of coal-fired plants and the wind-up of the Power Purchase Arrangements as they reach the end of their 20-year lives. Ontario too faces challenges with the approaching end-of-life of many of the nuclear generators which together account for half of the electricity supply. Experience to date indicates that Albertans can be more confident than Ontarians that their governance arrangements for electricity won't let them down in facing these challenges.

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