

Ontario's Power Trip — The gas bungle: \$800M?



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Cancellation costs could have paid for five recent hospital projects

Decisions to relocate two Ontario electricity generating stations from the Toronto suburbs of Mississauga and Oakville to locations further afield in Sarnia and Lennox were driven by partisan political attempts to win at the polls. The relocations have a cost, however.

The exact costs are unknown, mainly because the provincial government has released only limited amounts of information, despite the highly publicized production of 56,000 pages of documents. The documents cover a period of time prior to the end of 2011, while the deals to relocate the plants were finalized in 2012. With the Ontario legislature prorogued, there are no legal channels to force publication of the final numbers.

The government has announced a \$40-million “cost to taxpayers” for relocating the TransCanada Energy (TCE) plant from Oakville to Lennox and a “total cost” of \$180-million for relocating the Eastern Power (EP) Mississauga plant to Sarnia. The credibility of these figures was first undermined by the discovery of an additional \$10-million paid to EP related to a 1998 dispute over a different power plant contract. The long settlement delay indicates that the unannounced \$10-million was negotiated as part of the current plant relocation agreement, bringing the total Mississauga cost to \$190-million.

The nuanced distinction between taxpayer and ratepayer, however, raises credibility questions. While taxpayers and ratepayers share differently in bearing costs, they are the same individuals or companies. In the present context it is reasonable to ignore the distinction and talk instead about “public” costs. Given the government’s precision in identifying only “taxpayer” costs with respect to Oakville, electricity cognoscenti concluded that all the costs to be paid by ratepayers via the Ontario Power Authority (OPA) and Hydro One are additional and had not been made public.

Scrutiny began in earnest. Consulting engineer Bruce Sharp, writing on this page in October, put the public cost at \$733-million for Oakville alone. Energy analyst Tom Adams, working from the 56,000 pages of information released by the government, has found evidence supporting a total of \$1.2-billion.

But because the public document record is incomplete, assumptions are necessary and estimates will differ. My estimate, based on my own business judgment and understanding of the issues, puts the cost numbers well above those provided by the government — without relying on the 56,000 pages of released documents.

Firstly, much of the preliminary work such as engineering design, community relations, environmental and other permitting is site-specific. The rework necessary when relocating is roughly equivalent to the original bid preparation costs plus the costs associated with now-redundant real estate and a new site. The memorandum of understanding (MOU) on the OPA website indicates that for TCE's Oakville-Lennox plant this total is \$40-million. The corresponding payment for EP's Mississauga-Sarnia plant is \$190-million.

As well, TCE will now receive a \$210-million lump-sum payment on signing to cover the cost of their turbines, a sum that was originally to be recovered from the series of 240 monthly payments over the 20-year life of the contract. Just as compound interest results in annual deposits in a savings account yielding a balance bigger than the sum of the deposits, so annual payments to be received over the life of a 20-year contract have a value today of less than their lifetime total.

Assuming a discount rate of 5%, had OPA paid this out monthly as originally intended it would have a present value of \$130-million, so ratepayers are paying \$80-million extra. Similar considerations apply to the lump sum payment to EP but absent a breakdown of the \$190-million, it is only possible to guess \$30-million based on the relative size of the plants.

Then there are some costs at each of the new sites to connect to gas pipelines and the electricity grid. For EP, these appear to be included in the \$190-million payment. But the MOU for TCE makes it clear that these are extra costs to ratepayers. The additional cost of gas piping at Lennox will be relatively small because existing infrastructure already supports two large gas-fired generating stations and industrial plants nearby. But the grid there operates at 500,000 volts (500 kV) and is part of the top-level backbone for the whole provincial transmission system. In a 500-kV switchyard, \$1-million doesn't go far, so an allowance of \$15-million is not unreasonable.

Perhaps the biggest unannounced cost that ratepayers will bear relates to the gas management and delivery costs which have been changed from being the responsibility of TCE to being the responsibility of OPA, the government's own agency. Due to the massive hidden costs, Sharp calls gas management the "iceberg in the relocation water." He puts the gas management cost at \$346-million. To be conservative, I will use \$252-million, a number that Toronto Star reporter John Spears cited in a story last month that quoted an unnamed OPA official as the source.

These gas management costs result primarily from the transfer of responsibility from TCE to OPA, but they are also made bigger because such costs are inevitably higher at Lennox than in Oakville. That's because the pipeline arrangements are different and because Lennox is further from Dawn Township near Sarnia, one of North America's largest gas storage and pipeline hubs and therefore a preferred place to buy and sell gas.

While the corresponding costs will be reduced by moving the EP plant from Mississauga to Sarnia, any savings stay with EP, as gas management costs will apparently not be transferred to OPA. Again, relying only on a government press release and treating the 56,000 pages as incomplete information and therefore inconclusive, the best we can do is assume that savings measured in the millions were left with EP.

And finally, of course, there remains the problem of a weak electricity supply in the southwestern part of the Greater Toronto Area, where the Oakville and Mississauga plants were to be located. Delivering replacement supply capacity into that area will add yet more to electricity bills. The most probable solution would be to increase the capacity of existing transmission lines and transformer stations, which the OPA has previously quoted as costing \$200-million. It is ironic that a transmission solution originally proposed to resolve similar electricity supply reliability issues in York Region, north of Toronto, met with such vigorous public resistance that a generating station was built locally instead.

So toting up these estimates, we get a public cost of \$230-million in immediate cash payments for relocating the plants, plus a minimum of \$577-million additional for transferred costs and to fix the problem that would have been fixed had either of the plants not been relocated. Since these are all based on assumptions and estimates, let's round the total off to \$800-million.

This could have paid for five recently completed hospital projects (in Kingston, Sudbury, Toronto, Windsor and Woodstock), the provincial child-care program for nine months or 137 of Toronto's 204 new streetcars. What Ontarians got instead is two MPPs of a

certain party — which they might have got for free anyway.

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