

A Matter Of Economic Prudence

Review of the Integrated Power System Plan
EB-2007-0707

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Mr. Chairman and Members of the Ontario Energy Board,

The Concise Oxford Dictionary defines prudent as careful to avoid undesired consequences. Economically prudent means careful to avoid undesired economic consequences. I'm sure that's what was meant in the Electricity Act.

The Board shall review each integrated power system plan submitted by the OPA to ensure it complies with any directions issued by the Minister and is economically prudent and cost effective. (Section 25.30, Electricity Act)

Ontario has the highest priced industrial power in Canada, 79% higher than Quebec, 129% higher than Manitoba (2007 Comparison of Electricity Prices in Major North American Cities, Hydro Quebec). (See attached map.)

Weyerhaeuser, a forestry products company, made it clear that Ontario power costs have risen 36% since deregulation. Their testimony mirrors the Hydro Quebec report when they say that of the four provinces and five states they operate in, Ontario has the most expensive power.

Weyerhaeuser

The second piece of the equation is power. I'm going to say, a little bit later, that this is one of the areas we would like you to consider to assist the industry. What we've seen, from a power perspective, **since deregulation is a 36% increase in power costs.** That's what our electrical bill is. That 36% is outstanding enough when you hear that number, but I tell you that our electrical bill is \$20 million per year, so it's a very significant input into our business

The next major area of input is energy costs. I can make pretty well the same statement around energy. We operate right across North America. When we chart our energy costs in our mills, with the five states and four provinces we conduct business in with pulp and paper operations, the end of the cost curve that we come out on is the absolute wrong end. **We are the highest-cost jurisdiction from an energy perspective**

The third recommendation is to deal with the energy piece. We would ask for two things there. We would ask the government to impose a revenue cap until there truly is a competitive market in Ontario from an energy perspective. We're talking about a revenue cap. The second piece around energy is that **we would ask that the move to close down the lower-cost facilities be looked at again and put on hold until there are viable low-cost energy-producing alternatives**

(Standing Committee on Finance and Economic Affairs, 25 January 2006)

In the 2007 fall session of the legislature it was mentioned by Howard Hampton that Inco was moving its copper smelting operations from Sudbury to Montreal, because the electricity is much cheaper there.

Howard Hampton

...as paper mills have shut down in northern Ontario, paper mill after paper mill has transferred production and jobs to Quebec. When Abitibi made the decision to close the paper mill in Kenora and put over 400 people out of work, they announced that production would be moving to a mill in Quebec. When Cascades shut down their paper mill in Thunder Bay and put 400 people out of work, they announced that production would be moving to Quebec and the jobs would be moving to Quebec. When Abitibi closed their Abitibi Mission mill in Thunder Bay, they announced that production and jobs would be moving to Quebec. When Inco made the decision a year and a half ago to shut down the copper refinery in Sudbury, when you asked—you didn't have to dig very deep before they simply said, **"Look, it's cheaper for us to send our copper to a smelter in Montreal and have it processed there than it is to reinvest in the smelter in Sudbury and pay much higher electricity rates."** That is going to continue to happen. We're now starting to see it in the auto parts sector. Any auto parts that are involved in casting, stamping or plastics moulding are looking at moving production out of Ontario, simply because they recognize that their cost structure in a province like Quebec or a province like Manitoba is much lower. Hydro rates are a big part of that.

(Ontario Hansard, December 5, 2008)

The auto industry is being devastated, and in Hansard, it's revealed they are complaining about the high cost of power.

Howard Hampton

But I want to ask this question of the Premier. About four weeks ago, we met with the auto manufacturers of Ontario. **One of the points they made to us, something that is within provincial control, is the escalating cost of industrial hydroelectricity for manufacturers in Ontario.** Yet the McGuinty government is set to announce huge, big nuclear plants. Can the Premier assure us that these nuclear plants will come in as budgeted and not cost manufacturers even more on their hydro bills? (Ontario Hansard, June 11, 2008)

The current cost of power is driving business out of Ontario. The most recent one, Norampac, simply transferred production to its two Quebec plants. What will happen if the price of power rises further? How much of Ontario's remaining industries will simply fold up and leave?

An undesired consequence would be the loss of more plants and jobs. Higher power prices would cause the loss of more plants and jobs, because it is not cost effective for them to operate in this province.

The IPSP shows an upper bound increase of 36% in 2015, the intended first year of no coal-fired power. The price of natural gas has risen well above what they were expecting, and in June it was in the \$12-14/MMBtu range. CIBC World Markets has predicted natural gas would be \$12-14 by the time coal was phased out, and that because of it, the generation cost would be 8 cents/kwh. Using that price in the IPSP makes a 46% increase. (See attached IPSP page.)

Under the three requirements of the Electricity Act there is no notwithstanding clause. If the IPSP fails one of them, it fails.

Ontario lost 45,000 jobs in June, and has been losing tens of thousands of manufacturing jobs over the past couple of years, which was offset largely by government hiring. Some financial institutions are predicting we will be a have not province by 2010. It is clear that the IPSP fails the test of being economically prudent. It is deceptive, foolish, and unreasonable to think that the plan would not cause undesirable consequences. If you approve the IPSP, you will have signed the economic death warrant of this province.

Sincerely,

Grant Church

Table 14: Range of Unit Cost Estimates (\$/MWh)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Upper	103	104	109	110	112	115	116	121	122	123	125	128	129	126	124	123	124	124	126	127
Lower	85	87	89	90	93	96	96	101	102	102	102	103	105	99	97	96	97	97	98	98
Median	93	94	97	98	100	102	103	108	109	110	110	112	113	108	107	106	106	106	107	108

Source: OPA

Q. What is the cost to customer for the Plan period?

A. Table 15 below provides the cost per MWh for each cost category of the cost to customer model for the range of estimates. As illustrated in Table 15, the Debt Retirement Charge is assumed to no longer be a cost to customers as the stranded debt is estimated to be eliminated by 2021.

Table 15: Contribution to Unit Costs (2007 \$/MWh)

	UNIT RATES (\$2007/MWh)								
	2003	2004	2005	2006	2010	2015	2020	2025	
MEDIAN									
Conservation (*)					\$3.29	\$3.90	\$2.65	\$2.20	
Transmission	\$9.27	\$8.93	\$8.87	\$8.87	\$8.72	\$9.43	\$10.63	\$9.95	
Wholesale & net settlement	\$5.47	\$5.57	\$6.85	\$5.28	\$4.34	\$4.48	\$4.53	\$4.44	
Debt Retirement Charge	\$7.43	\$7.28	\$7.14	\$7.00	\$6.47	\$5.86	\$5.31	\$0.00	
Distribution	\$16.70	\$16.00	\$16.08	\$18.57	\$20.43	\$22.84	\$23.31	\$23.22	
Generation	\$47.99	\$46.17	\$57.76	\$48.42	\$53.52	\$61.80	\$66.63	\$65.95	
UPPER BOUND									
Conservation					\$3.62	\$4.29	\$2.91	\$2.42	
Transmission					\$9.59	\$10.37	\$11.69	\$10.94	
Wholesale					\$4.34	\$4.48	\$4.53	\$4.44	
Debt Retirement Charge					\$6.47	\$5.86	\$5.31	\$0.00	
Distribution					\$21.26	\$24.97	\$26.80	\$28.05	
Generation					\$63.94	\$71.14	\$78.20	\$78.22	
LOWER BOUND									
Conservation					\$2.96	\$3.51	\$2.38	\$1.98	
Transmission					\$7.85	\$8.48	\$9.57	\$8.95	
Wholesale					\$4.34	\$4.48	\$4.53	\$4.44	
Debt Retirement Charge					\$6.86	\$6.22	\$5.63	\$0.00	
Distribution					\$20.43	\$22.84	\$23.31	\$23.22	
Generation					\$46.93	\$55.81	\$59.15	\$58.00	
* Historically, conservation costs are included in the Distribution costs									
Total Cost to Customer - Lower					\$89	13% \$101	\$105	9% \$97	
Total Cost to Customer - MEDIAN		\$87	\$84	\$97	\$88	\$97	21% \$108	\$113	19% \$106
Total Cost to Customer - UPPER						\$109	36% \$121	\$129	37% \$124

Source: OPA

* Conservation costs prior to 2007 are included within Distribution costs

BASE 2003-2006 \$89/MWh
 CIBC PROTECTION OF \$80/MWH FOR GENERATION COST FACTORED IN
 FOR 2015 IF COAL IS PHASED OUT
 MEDIAN: \$126.51 42%
 UPPER: \$129.97 46%

Major North American Cities

Average Prices for Large-Power Customers¹
(in ¢/kWh)²



1) For a monthly consumption of 3,060,000 kWh and a power demand of 5,000 kW; rates in effect April 1, 2007.

2) In Canadian dollars.