

Intelligence MEMOS



From: Benjamin Dachis
To: Ontario Electricity Consumers
Date: June 4, 2018
Re: **SEVEN WAYS TO REALLY REDUCE THE COST OF ELECTRICITY**

There's been lots of talk about cutting electricity costs for Ontario consumers this election, without a lot of specific ideas. Here are seven tangible ways that a new or re-elected government can cut the cost of electricity without relying on taxpayers or [hope that future ratepayers](#) can foot the bill.

The first step is to cut the portion of electricity bills that support subsidies for residential consumers to purchase smart thermostats and other energy-efficiency devices. These programs cost ratepayers [\\$600 million](#) in 2016. As with direct government spending on such programs, these programs often do not [pass a cost-benefit test](#), and should be scrapped entirely. Similar programs funded from [cap-and-trade](#) revenues should be scrapped too.

Second, the province should follow through on its planned Hydro One sale. If the government retains its 49.9 percent stake in Hydro One, the province will face [the risk](#) of owning long-distance electricity lines when the future of electricity might be in locally sourced generation. Best to cash out now. The benefit of sales to taxpayers will offset part of the [recent taxpayer](#) supports to ratepayers. Further sales won't affect ratepayers because the Ontario Energy Board will exercise the exact same rate regulation.

Third, the province should scrap a tax on utility sales that's similar to the Land Transfer Tax, but is [much higher and only applies to cities](#) if they sell their local electricity company. The tax is so high that sales don't happen. Removing that barrier would kick-start privately led consolidation of municipally owned distributors. Merging the smallest municipal-owned local companies would likely mean lower operating costs, and savings for consumers. The province could even add a sweetener of rebating the proceeds from sales to consumers, in addition [to cities reaping a cash windfall](#) from sales.

Fourth, the province [should follow through on a commitment](#) to reform how it signs contracts with generators. Right now, the province [signs long-term contracts](#) with electricity generators. Instead, the province should make generators [compete in auctions](#) for the right to hold short-term contracts to generate electricity.

The fifth thing to do to reduce electricity prices is delegate the purchasing power from the centralized Independent Electricity System Operator to local buying groups across the province. These local buying groups, known as [load-serving entities](#), would be made up of regional local distribution companies and have the ability to purchase electricity that suits local needs. Large businesses, currently limited to buying electricity from the IESO and paying a share of the Global Adjustment, which pays for capacity investments, could form their own load-serving entities and contract directly with generators.

Sixth, such a move would allow the province to drop its [byzantine electricity support](#) program for large industrial consumers. Industrial consumers save money if they slash electricity use during the five highest Ontario-wide demand hours of the year. It's an [arbitrary](#) and [expensive](#) way to cut electricity costs for some. Small businesses and residents pay higher bills because of the policy. Instead, the province should let innovative companies provide the incentive to save based on electricity prices.

Finally, the province needs to [set limits on how much](#) control over the electricity system it can try to grasp. The government should end the cycle of government price interventions, specific directives, and decisions on procurement. It should require that the Ontario Energy Board review all major decisions in the energy market with a mandate to approve actions only if they [increase economic efficiency](#).

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