

Intelligence MEMOS



From: George Vegh
To: Ontario Electricity Consumers
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Re: **ENDING THE CYCLE OF ELECTRICITY PRICE INTERVENTIONS IN ONTARIO**

Every decade the government of Ontario freezes or cuts electricity prices because the costs of an ambitious energy policy prove to be politically unacceptable. This leaves future electricity customers paying for the cost of a failed experiment from a previous generation. We should learn from this experience and implement a governance model for the sector that reviews and mitigates costs before a policy is adopted, not after.

In 1993, the government froze prices because the costs of Ontario Hydro's massive nuclear expansion were leading to double-digit rate increases. In 2002 the government froze prices because the electricity market opening resulted in higher and more volatile prices. In 2017, the government cut prices because of the cost of the green energy and economy ambitions. In each case, the underlying cost pressures of the policy were obvious and the resulting escalation of prices was entirely predictable, as were the consequences of the price interventions; future generations were made financially responsible for their parents' policy choices.

Why is Ontario prone to these cycles and what can be done to stop repeating them?

The best explanation for this is the weakness in the governance structure of our electricity system. The government of the day faces virtually no restrictions on its ability to develop ambitious and costly experiments. The costs of these initiatives are outside of the tax base and are realized years after the plans are launched. So the government is virtually always in the position of developing ambitious plans with costs for which they are unaccountable.

In most North American jurisdictions there are constraints on governments' ability to do this. These constraints are found in the checks and balances provided by independent energy regulatory agencies that are required to approve expenditures of ratepayer money. In these jurisdictions, public utility regulators oversee generation procurements (whether by system operators or utilities). This review requires a demonstration that the procurements are needed and economically rational. Equally important, they are conducted through a transparent and deliberative process that forms a check on the impulsive short-term tendencies of governments.

In Ontario, there is no such oversight.

Generation procurements are determined entirely by the government. The system operator - the Independent Electricity System Operator (IESO) - implements government directives. Neither the Ontario Energy Board nor any other independent regulator reviews these procurements. There are no independent criteria, no cost benefit analysis, no consideration of the need for the procurements, and no review of alternatives. In short, there is virtually no check on the power to procure supply.

Nor is there any reason to expect this will change. Under legislation passed in 2016, a key responsibility of our energy agencies will be required to demonstrate to the government how they implement government directions. Far from providing checks and balances as they do in other jurisdictions, our energy agencies will be directly accountable to the government.

Without structural changes to Ontario's regulatory governance model, the cycle of financially unsustainable energy policy initiatives will continue.

George Vegh is head of McCarthy Tétrault's Toronto energy regulation practice and teaches energy regulation at the University of Toronto. He is the former General Counsel of the Ontario Energy Board and the author of the C.D. Howe Institute study [Learning from Mistakes: Improving Governance in the Ontario Electricity Sector](#).