

Institute of Public Policy and Economy



The Future of Energy Contracts in Ontario

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Institute of Public Policy and Economy

The StrategyCorp Institute of Public Policy and Economy provides thought leadership on important public policy issues facing Canadians and their governments across the country by combining policy expertise with key political insights.

Clients in the energy space commissioned the StrategyCorp Institute of Public Policy and Economy to evaluate the future use of long-term energy contracts in Ontario's electricity procurement system. For questions specifically regarding this document, please contact the authors listed above.

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Executive Summary

Much time and energy has been dedicated by experts inside and outside of government examining the policy actions and initiatives taken by Ontario's provincial regulators and governments over the last three decades in the energy sector. These actions and initiatives were undertaken for various public policy reasons and this paper does not seek to retread ground already well covered by those experts. Instead, this paper focusses on the impact of moving to a policy of procuring electricity supply through the utilization of long-term contracts. We evaluate the impact of long-term contracting on price outcomes to ultimately determine that these long-term contracts should be utilized moving forwards.

Governments benefit from long-term contracts by transferring the risk of cost overruns and delays to the private sector while ensuring an adequate supply mix for years at a time. Private sector operators benefit from the certainty of a long-term contract as it enables them to make significant financial investments to build new generation assets in Ontario over other jurisdictions and secure lower cost financing for those builds. If a short-term contract or a system with a non-guaranteed rate of return was utilized, the benefits would skew too far towards government, making it difficult for private generators to secure financing or make investments and leaving government with fewer, more expensive options to choose from. In essence, long-term contracts ensure a mutual benefit for all parties involved, allowing for generators to make substantial investments to deliver energy while ensuring governments have a source of reliable and affordable electricity to power its homes and businesses.

That said, it is understandable that uncertainty surrounds the future use of long-term contracts due to the fear of repeating the skyrocketing price increases of the past several years. In order to ensure long-term contracts and their benefits for all parties involved are utilized moving forward, we provide six recommendations aimed at creating a competitive procurement process that works for all parties and addresses concerns about future affordability and reliability.

These recommendations account for the political realities of electricity policy and the economic realities of the modern day including the impact of the COVID-19 pandemic. Ultimately, these recommendations aim to strike a proper balance between consumer concerns with increasing electricity rates and the long-term needs of the electricity system to continue operating in a reliable manner. As seen below, these six recommendations focus on refining the design and use of long-term contracts, creating a better electricity planning system, and charting a path forward for both existing assets and new build projects.

Together, these recommendations will help the government and private generators of electricity harness the mutual benefit of long-term contracting while ensuring the terms of these contracts are reasonable and affordable for Ontario consumers. Ultimately, these recommendations can help the Ontario government achieve its goals of a reliable and affordable electricity system in a way that will encourage crucial investments from private sector electricity generators that are currently operating in Ontario and those yet to invest.

This paper focuses on the impact of moving to a policy of procuring electricity supply through the utilization of long-term contracts. We evaluate the impact of long-term contracting on price outcomes to ultimately determine that these longterm contracts should be utilized moving forwards.



Recommendations

Recommendation 1: The Ontario government should ensure that any future generation procurement processes continue to utilize long-term contracts and the benefits that come with them.

Recommendation 2: The Ontario government should ensure that all future power system planning decisions prioritize the needs of the electricity grid (i.e., supply needs including capacity and energy needs, locational geographic needs) and consumer concerns (i.e., affordability, reliability).

Recommendation 3: Given shifts in the province's approach to electricity policy and the impact of the COVID-19 pandemic, the Ontario government should release a new LTEP to inform both industry and consumers about power system needs, a procurement process framework, roles and responsibilities of its agencies (i.e., IESO and OEB), and publicize the framework by which power system planning decisions are made.

Recommendation 4: The Ontario government should ensure that any changes to oversight of IESO's processes are focused upfront on the procurement process itself, that they do not limit the IESO's ability to continue its work unimpeded or to respond to changing circumstances, and that any new processes are expeditious, cost-effective, evidence-based, transparent, and maintain certainty for generators

Recommendation 5: The Ontario government should ensure IESO Capacity Auctions are clearly defined as an optional procurement mechanism to focus on shortterm procurements. Capacity Auctions would not replace long-term contracts for new or existing assets where such contracts are desirable for the generator and the IESO.

Recommendation 6: The Ontario government should consult with relevant stakeholders to determine how a contract price review of procurement contracts could lend itself to a future system where generators have the option to be directly contracted by LDCs or larger commercial and industrial customers and whether that would help address the lack of competition in procurement processes or whether other mechanisms should be explored.



Though this paper does not seek to lay blame for past decisions or provide a step-by-step evolution of electricity procurement policy in Ontario, a brief historical context is important to better understand the need for the six recommendations we suggest.

The logical place to start is the expensive nuclear generation builds of the 1980s and 1990s. These projects ran massively over budget and, when coupled with an economic downturn in 1992 that led to a drop in demand, resulted in a sharp increase in electricity rates of nearly 40 per cent.ⁱ That experience led the government to consider alternatives to publicly owned, publicly built, and publicly operated power. If private operators could build, maintain, and operate assets to produce power in Ontario, the province could simply pay a fixed cost and alleviate itself of the risk that came with cost overruns and delays while securing power for years to come. A contract with longer-term also gave private generators the certainty they needed to cover high startup costs and secure financing for large project builds. To create this mutually beneficial arrangement, a payment mechanism was needed, and the long-term energy contract was born.

The true embrace of private sector generation in addition to publicly owned generation meant a partial deregulation of the market in Ontario was needed. Electricity prices could no longer be controlled by the government directly and would be subject to the rates paid to generators for their power. In cases where Ontario combined the benefits of long-term contracts with a procurement process that included competitive tension – most notably done early on through thermal power contracts for Non-Utility Generatorsⁱⁱ – prices paid to generators were reasonable and comparable to other jurisdictions. Only when long-term contracts were combined with a non-competitive procurement process that did not allow for any form of flexibility, prices paid to generators were often higher than necessary with no recourse for adjustment.

This non-competitive procurement process surfaced during a push to retire all coal-fired generation in Ontario. Additionally, the province was simultaneously in the middle of plans to contract gas-fired generation, refurbishing the province's expensive nuclear generation facilities, and building hundreds of kilometers of transmission infrastructure from far away nuclear plants to the Toronto core. Each of these policies was implemented to support the rapid retirement of coalfired generation, but each of them increased the overall cost of power.

Unfortunately, the government was a victim of poor timing. In 2008, when the government was in the middle of implementing each of these initiatives to help the retire coal-fired generation quickly, the housing bubble burst sending the global economy into a tailspin. The Ontario economy slowed down, resulting in less industrial and commercial economic activity and less electricity demand. By the end of the process, Ontario suddenly found itself paying a premium for power that its customers were not using, which in turn caused higher rates. Unsurprisingly, a noticeable delta grew between the actual cost of power available in the wholesale market and the fixed costs committed to across the system. The Global Adjustment (GA) charge was created to cover that price gap.^{III}

Between 2008 and 2016, the commodity charge portion of electricity bills grew by more than 70 per cent.^{iv} In 2009, the GA made up just over 2 cents of the kWh charge on a consumer's bill, but by 2019 it was responsible for more than 10 cents of the kWh charge.^v It is important to note that non-competitive procurements make up a significant component of GA costs during this same period. For example, when broken down by fuel type, the two largest portions of the GA are the costs associated with the province's private and public nuclear power plants due to their high cost to build and operate.vi By comparison, one of the lowest cost elements of the GA is the competitively bid thermal Non-Utility Generator contracts which were first procured in the 1990s.vii Therefore, the key to rising costs was not the use of long-term contracts, but rather the use of non-competitive procurement processes.

Importantly, the use of long-term contracts to ensure timely investment in needed supply is also a foundational tool within all comparable jurisdictions - even within jurisdictions with wholesale electricity markets like New York, New England, Texas, California, or Alberta. Contracts work to ensure investments in new and existing generation supply by enabling financing of projects or hedges to commodity prices (applicable to consumers and generators). The use of contracts is necessary to build the correlated investments in infrastructure to fuel the generators. Without the assurance of longterm contracts, utilities would not risk spending hundreds of millions of dollars to build new gas storage and transmission facilities. The use of contracts for electricity supply infrastructure is no different than the use of contracts for many other infrastructure projects such as transportation, health care, or pipeline projects.

As shown in the table below, two-thirds of all new generation projects for 2013 in the U.S. were reported to be under long-term contracts and just over 31% were reported to be under some form of financial assistance to ensure development of new generation supply. During this time, only 2.4% of all new generation projects in the U.S. were developed without some form of contracts or other secure financial assistance.^{viii} The key to providing reliable electricity supply in these jurisdictions has been the use of long-term contracts.

Purchased Power Agreements			Ownership		Market Sales	Тс	otal		
Megawatts of Capacity									
Biomass/ Biogas	435.7	4.5%	187.4	4.0%	1.4	624.5	4.2%		
Coal	925.0	9.5%	618.0	13.3%	0	1,543.0	10.5%		
Fuel Cell	15.0	0.2%	13.8	0.3%	0	28.8%	0.2%		
Geo Ther- mal	108.0	1.1%	0	0.0%	0	108.0	0.7%		
Hydropower	120.1	1.2%	63.0	1.4%	131.8	314.9	2.1%		
Landfill Gas	134.8	1.4%	13.4	0.3%	3.6	151.8	1.0%		
Natural Gas	3473.5	35.7%	3468.6	74.5%	181.0	7,123.1	48.3%		
Oil	0	0.0%	54.2	1.2%	0	54.2	0.4%		
Solar	3277.6	33.7%	209.4	4.5%	10.2	3,497.2	23.7%		
Wind	1243.0	12.8%	29.5	0.6%	0	1,272.5	8.6%		
Flywheel	0	0.0%	0	0.0%	20.0	20.0	0.1%		
Total	9,732.7	100.0%	4,657.3	100.0%	348.0	14,738.0	100.0%		
% of Total 66%			31.6%		2.4%				

Table 1 : Summary of Financial Arragements for New Capacity in 2013 by Megawatts

Clearly, it was not the use of long-term contracts, but the factors noted above that led to rapidly rising electricity prices in the early 2010s. From 2008 to 2016, the price of the average residential monthly bill increased by 71 per cent.^{ix} Electricity bills were rising 2.5 times faster than household disposable income and growing at a rate nearly 5 times faster than the economy.^x By 2016, Ottawa homeowners were paying \$492 more per year for electricity than fellow Canadians in major cities of other provinces. In Toronto they were paying \$720 more on average.^{xi}

The current Progressive Conservative government was elected in 2018 on a platform that included a promise not to sign any new power contracts in hopes of reducing power rates. As that government passes the halfway mark of their existing mandate, they have managed to keep that promise. However, that promise was made under a past context where, as one political staffer put it during the consultations for this paper, maintaining the status quo and not adding a single new cost to the system was the goal.^{xii} Over time, that goal must change to ensure enough supply is procured to keep up with demand.

Summer Capacity Surplus/Deficit

2,000

1,000

-1,000

-2,000

-3,000

-4,000

0

Capacity Surplus/Deficit Summer (MW)

with continued availability of existing resources

- Energy Efficiency Case Proposed Pickering Extension
- Reference Case Proposed Pickering Extension
- Energy Efficiency Case
- Reference Case

In its reference case, the Independent Electricity System Operator (IESO) projects annual net energy demand to rise from 144 TWh in 2020 to 170 TWh in 2040, an increase of 18 per cent,^{xiii} at the same time Bruce NGS and Darlington NGS are undergoing refurbishments and contracts for gas-fired and renewable generation are set to expire. From the mid-2020s through to the late 2030s, Ontario projects to require approximately 3,000 MW of new supply on balance.^{xiv} Critically, that reference case assumes that all existing generating assets will continue to be a part of the Ontario market and be available to supply electricity, even if their contracts are set to expire during that time. Therefore, Ontario will not only need all of its existing supply, but it will also need to bring on new supply to the grid.

As a potential consequence, Ontario will require even more additional supply to be procured if any generation assets are retired at the end of their current contracts. That new supply could come in many less traditional forms including additional energy imports, further conservation measures, distributed energy resources, and demand response. However, even with those additional forms of supply, it is a relative certainty that new generating assets will need to be built and most existing generating assets will need new contracts to make investments to maintain needed operations.

When considering the mechanism that should be used to issue these new contracts, an option called Capacity Auctions is often raised. In this system, resources competitively bid against each other for shorter term commitments (i.e., per season and no longer than 12 months). If successful, they will receive the Capacity Auction clearing price. Those who can provide capacity at the cheapest cost in combination with the most reliability should generally prevail within Capacity Auctions. However, as their short-term capacity commitment expires, they must compete again in subsequent Capacity Auctions for additional capacity commitments and commensurate payments based on future Capacity Auction clearing prices.

In evaluating the potential use of Capacity Auctions or any other procurement process, it is crucial to compare these options against the contracting needs to secure both new builds and extend existing assets. First, building a new electricity generating asset takes time, financing, and requires potentially controversial municipal approvals. Normally, generators seek to recover their costs over a longer time horizon commensurate with the life of the developed asset. Therefore, when deciding which procurement process mechanism to use moving forward, the government and the IESO must balance the attractiveness of flexibility and shorter-term capacity commitments with affordability concerns of consumers, and ultimately the efficacy of ensuring needed new build projects can be delivered in accordance with the timing of Ontario's future supply needs. If the period of return is too short, new build projects will either not participate in Capacity Auctions or will bid at high prices that nullify the benefit of a more flexible system.

For existing generation assets, the situation is slightly different, but the cost recovery considerations are the same. Maintenance and operation requirements may increase over time for aging infrastructure, and financing pressures will exist in line with new builds if significant refurbishment or repowering work is needed. It is critical to make timely decisions about existing generation's role in meeting future system needs, specifically which procurement process mechanism will be appropriate to ensure future operations of existing assets. If a contract expires for an existing generation facility and this generator does not believe a new commitment is imminent, the facility could fall dormant and may even be decommissioned, causing unnecessary and avoidable delays if a new contract is eventually signed. Therefore, the province will need to decide its framework to procure needed supply resources, be transparent about this framework and approach, and start executing it in the very near future if it wishes to procure some existing and new capacity before the mid to late 2020s.

Ultimately, there is growing acknowledgement that Capacity Auctions as proposed in Ontario will likely not be able to procure enough supply to meet all of Ontario's future needs on their own. For example, in a recent presentation to stakeholders on September 28, 2020, the IESO stated that procurement of supply through Request for Proposals (RFP) processes are a viable approach alongside Capacity Auctions, where RFPs result in execution of contracts.^{xv} In this presentation the IESO stated that, in order to meet mid-term needs, "...capacity auctions or targeted RFPs are proposed to re-acquire existing resources of a minimum size that have material costs to re-invest and extend their capability."xvi The goal of this engagement was to determine a framework to use multiple procurement processes to ensure Ontario's future supply needs will be cost-effectively met. As of now, it appears that Capacity Auctions and longterm contracts could work alongside each other as specific procurement process mechanisms within a to be developed framework.

Based on the projected supply needs for Ontario, new generation will likely need to be built and existing assets will need to be re-contracted. Even though the current government promised a moratorium on new contracts, supply needs will force them to change that goal. The new goal must instead be to procure needed supply in a reliable and affordable way. To that end, future supply needs have now been established through the IESO's Annual Planning Outlook, meaning the Ontario government must turn its attention to how to create a system that establishes workable and effective electricity procurement processes. The new procurement process should aim to introduce competition and improve the design of contracts to balance the government's need for reliability and affordability with the private sectors' need for certainty and ability to make sound investments. If done properly, the government can secure power at reasonable rates, including under longterm contracts, effectively nullifying any concerns about repeating the events of the past.



Recommendations For The Path Forward

When putting forward recommendations for the future state of procurement processes to contract for generation supply in Ontario and the design of contracts, the recommendations themselves can be broken into the following thematic categories: refining the design and use of contracts, better power system planning, oversight, and the path forward for existing assets and new build projects. The recommendations below have been sorted accordingly.

Refining the Design and Use of Contracts



No matter which jurisdiction is evaluated, there is one common denominator: they all utilize long-term contracts as part of the generation procurement processes. These contracts can be done in a costeffective and efficient manner by ensuring there is competitive tension, be it through multiple buyside counterparties or through different pricing mechanisms to ensure consumer protection from high prices. It is vital that the emphasis on competition actually translate into competitive outcomes, not just a competitive process. Given that the province itself owns the largest power generation entity within its borders, it cannot establish a competitive procurement mechanism that can be superseded by its own generation company.

In addition to evaluating the practices in other jurisdictions similar to Ontario for answers, Ontario can look inwards to the competitively procured gas-fired generation projects in the 2000s and early 2010s. These thermal contracts prove that Ontario, with an emphasis on competition, can utilize long-term contracts in a cost-effective manner. The contract prices for these gas-fired generation projects have proven to be cost-effective for consumers, and were in-line with the price of power in the 2000s and early 2010s. Achieving this balance is important as cost-effective long-term contracts can attract private investment, do so faster than government-led builds, and protect consumers from cost overruns in the build process. Any alternative, such as shortterm contracts in a capacity auction, may drive costs up to reflect higher risks and may cause investors to abandon Ontario altogether, leaving it overpaying or unable to procure needed supply. Ontario needs to fix its procurement processes to accommodate multiple types of procurement, including long-term contracts. Ontario cannot afford to repeat the procurements issues of the past, but consumers would be even worse off if the province mistakenly abandoned the practice of long-term contracting altogether.

Recommendation #1: The Ontario government should ensure that any future generation procurement processes continue to utilize long-term contracts and the benefits that come with them.

Better Power System Planning



If the decision makers of the late 2000s were basing their procurement processes and resulting contracts on power system needs, they would have prioritized a procurement process that allowed for sufficient levels of competition between generators. Similarly, they would have prioritized more restrictions over the amount of generation projects procured and the contract prices they were procured at. Instead, they created an inflexible system that produced an oversupply that cost too much, thus failing to protect consumers. Therefore, to ensure the mistakes of the past are not repeated, the province should clearly endorse power system planning processes that puts system needs and the protection of consumer interests front and centre. In turn, this will provide generators, other resources, and investors with greater transparency and clarity on the future supply needs of Ontario's power system.

When it comes to system needs, including localized system needs, this means prioritizing the supply needs of the system. If quick reacting peaking power is needed, projects should be strongly considered based on their supply attributes and performance. If low emitting energy is needed, renewables can be prioritized. Similarly, innovation can be embraced and fostered if the needs of the system are clearly articulated as the market can then respond to these demands knowing they are responding to a rational and logical actor.

When the system is operating reliably at a reasonably expected cost, consumers are generally happy. Therefore, the standard priorities of ensuring affordability and reliability should be prioritized. Prior to the Fair Hydro Plan electricity rates were the number one issue for many voters in Ontario but, after the 25 per cent reduction in bills, energy policy has registered as low as 1 per cent when prospective Ontario voters were asked about issues that concerned them in a May 2019 poll.^{xvii} This is due in no small part to the reliability of Ontario's grid and its ability to meet demand, which should not be taken for granted in future planning.

It is crucial to ensure that both system needs and consumer concerns are prioritized in a careful balance. An electricity grid that perfectly matches supply and demand may check every box on system needs but could be entirely unaffordable for the average Ontarian. Contrarily, an affordable electricity bill may come at the expense of deferring needed investments in transmission maintenance or future procurement processes for generation. If one of the two priorities are ignored it will create an unreliable grid or an unaffordable one, both having serious political and economic consequences. Recommendation #2: The Ontario government should ensure that all future power system planning decisions prioritize the needs of the electricity grid (i.e., supply needs including capacity and energy needs, locational geographic needs) and consumer concerns (i.e., affordability, reliability).

Ensuring that future electricity decisions prioritize the needs of the power system and consumers is an important framework to uphold. However, it is crucial to measure the actual decisions against that framework. To date, the current government's vision for the electricity sector is still unclear. Some of their electoral platform promises have been completed while others are arguably incomplete. On top of that, the government has cancelled renewable generation contracts, repeatedly asked the sector for cost recovery ideas, endorsed life extension of the Pickering NGS, overhauled the Ontario Energy Board (OEB), made changes to time-of-use residential pricing, moved residential subsidy programs to the tax base, cancelled conservation programs, paused industrial electricity subsidies, and weathered a global pandemic. A lot has happened since the previous government was last in power.

Despite these happenings, the current government has yet to truly reveal its long-term vision for the province's electricity system. Given the substantial change in direction and the crucial decisions upcoming regarding future supply and demand, there is no better time for the province to illustrate its vision by creating a new Long-Term Energy Plan (LTEP). Though the LTEP was last published in 2017, the Liberal government had also published LTEPs in 2013 and 2010.xvii If the Progressive Conservatives want to truly prioritize system needs and consumer interests, they can do so by putting forward a long-term plan that can go unedited through the 2022 election and beyond. This type of clarity would be important for prospective investors, consumers, generators, other resource providers, and the government agencies (i.e., IESO and OEB) to ensure they clearly understand the priorities of the government are the priorities of consumers and the electricity system itself.

Recommendation #3: Given shifts in the province's approach to electricity policy and the impact of the COVID-19 pandemic, the Ontario government should release a new LTEP to inform both industry and consumers about power system needs, a procurement process framework, roles and responsibilities of its agencies (i.e., IESO and OEB), and publicize the framework by which power system planning decisions will be made.

Evaluating Oversight

As set out in this paper, past procurement issues can be avoided by better planning and increased competition in procurement processes, while still making good use of the benefits of long-term contracts. In the event the current government's wariness of long-term contracts leads it to evaluate existing oversight mechanisms of the procurements processes with a view to modifying or adding to those mechanisms, it should ensure any such changes adhere to the following principles:

First, any new oversight should be limited to the upfront procurement process and not interfere with contracts after they are signed. By focusing on up-front oversight over procurement plans, the government can ensure the process in place protects consumers and prioritizes system need while still being respectful of generators' need for longer term certainty.

Second, the oversight entity must commit, preferably through legislated deadlines, to an efficient process that does not unnecessarily delay the IESO in completing its work. In this vein, the new process should not prevent the IESO from completing its work while any new oversight entity develops the expertise

needed and/or consults with stakeholders on the best possible oversight process.

Third, all new oversight actions must be rooted in evidence and be transparent in nature, with approval or rejections based in clearly articulated evaluation principles and metrics.

Fourth, oversight should not restrict IESO's flexibility to learn from other jurisdictions and develop innovative means of meeting Ontario's power system demands.

Fifth, the entity must be directed to be as costeffective as possible to ensure this process is not an additional financial burden for generators to invest in Ontario.

Sixth, any new oversight mechanisms and/or entity should be developed in open consultation with industry and the public so that it is transparent and built on the knowledge of those most experienced with Ontario's power grid and related challenges.

Recommendation #4: The Ontario government should ensure that any changes to oversight of IESO's processes are focused upfront on the procurement process itself, that they do not limit the IESO's ability to continue its work unimpeded or to respond to changing circumstances, and that any new processes are expeditious, cost-effective, evidence-based, transparent, and maintain certainty for generators.

The Path Forward for Competition

If an asset has significant life left, the parties could enter negotiation on a new long-term contract. If an asset does not have significant life left or, for other reasons such as future sale of the asset and the land it is on, the generator is looking for a shorter-term contract, the Capacity Auction could be utilized.

Capacity Auctions on a short-term voluntary basis would allow the IESO to procure rapidly for its immediate needs. For example, there could be an increased spike in demand in certain geographic areas due to changing demographic patterns or a new local employer. New technologies could emerge or become more refined and the government may want to integrate them into the system for peaking or baseload purposes. A long-term contract could fall through, or a new generator may be on track to miss its operational deadlines, creating a short-term need for additional capacity supply. In all these situations, the speed and flexibility of a short-term capacity auction is extremely helpful.

Existing assets could respond to Capacity Auctions when it suits them best and even make a premium for filling an immediate need. Critically, generators would not be forced to participate in a capacity auction in order to potentially re-contract with the IESO but doing so could be more beneficial for both parties. Essentially, a case-by-case determination could be used to get the best possible outcome.

Recommendation #5: The Ontario government should ensure IESO Capacity Auctions are clearly defined as an optional procurement mechanism to focus on short-term procurements. Capacity Auctions would not replace long-term contracts for new or existing assets where such contracts are desirable for the generator and the IESO.

Finally, it is worth considering a potential future where large industrial and commercial companies or LDCs procure supply from generators themselves for their own localized needs to which this supply could also meet broader power system needs.

Though many LDCs do not yet have the expertise to properly negotiate and procure energy and capacity supply from generators, they can develop this skill over time as has been seen in other jurisdictions. Secondly, this is consistent with the way natural gas distributors operate in Ontario as they both must guarantee sufficient pipeline capacity and supply of natural gas to customers.^{xix} Contracts for larger facilities, like Ontario's nuclear generation, would remain with the IESO or rate-regulated by the OEB, but smaller localized contracts could result from procurement processes administered by the LDCs or the IESO.^{xx} By doing this, the province could introduce more competition into the system with multiple potential bidders for procurement contracts instead of the IESO being the sole actor.

That said, adding generation procurement to the list of tasks LDCs must complete would be onerous for many of the province's smaller companies. The larger players, like Toronto Hydro or Hydro One, would likely be able to handle this challenge more easily given their size and expertise. Therefore, this evolution is likely to begin with the province's largest LDCs or wait until consolidation of these entities progresses further so that a critical mass of expertise and ability can be created. For any commercial or industrial businesses procuring their own energy for personal use, the government would not need to be deeply involved in those agreements since they do not impact consumer electricity bills.

Recommendation #6: The Ontario government should consult with relevant stakeholders to determine how a contract price review of procurement contracts could lend itself to a future system where generators have the option to be directly contracted by LDCs or larger commercial and industrial customers and whether that would help address the lack of competition in procurement processes or whether other mechanisms should be explored.



Conclusion

By focusing on the six practical and achievable recommendations listed above, the Ontario government can ensure it builds an electricity system that: benefits from the proper use of longterm contracts, creates a better power system plan, and charts a path forward for the continuation of existing assets and attracts investment for new builds. Together, these actions will help ensure an affordable and reliable electricity systems for years to come.

However, key to this bright electricity future is the continued utilization of long-term contracting. These contracts ensure that private sector generators have enough certainty to invest in Ontario while governments can transfer risk away from themselves while securing a long-term power supply to power Ontario's homes and businesses. The use of longterm contracts has been a political sticking point but, through the six recommendations listed, Ontario can combine the benefits of contracting with a procurement process that better meets the needs of all stakeholders. In doing so, the Ontario government can ensure that it creates better electricity policy and, ultimately, a better electricity system.

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