

ONTARIO ENERGY ASSOCIATION

ENERGY PLATFORM

To shape our energy future for a stronger Ontario.



Ontario Energy Association

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SUMMARY



The Ontario Energy Association (OEA) aspires to be the most credible and trusted voice of the energy sector. We earn our reputation by being an integral and influential part of energy policy development and decision making in Ontario. We represent Ontario's energy leaders including over 150 corporate members that span the full diversity of the energy industry.

The OEA takes a grassroots approach to policy development by combining thorough evidence based research with executive interviews and member polling. This unique approach ensures our policies are not only grounded in rigorous research, but represent the views of the majority of our members. This sound policy foundation allows us to advocate directly with government decision makers to tackle issues of strategic importance to our members.

Together, we are working to build a stronger energy future for Ontario.

CONTEXT

THE STORY...

The purpose of this document is to provide elected officials from all three provincial political parties and other key decision makers, such as political and campaign staff, with clear and precise recommendations on how to shape the future of energy policy in Ontario. The document provides five key energy policy recommendations. When considering the recommendations, due consideration should be given to impacts on consumer rates. Energy policy is critically important to the prosperity and well-being of the people of Ontario. As such, these policy and regulatory recommendations are critical to ensuring the Ontario energy industry remains competitive, efficient, and effective.

EXECUTIVE SUMMARY

1 ENERGY POLICY DECISIONS SHOULD BE TRANSPARENT AND BASED ON EVIDENCE AND CONSULTATIONS

a. All energy policy decisions should be transparent and reference publicly available facts and information that lead to the decision as much as possible. They should be preceded by fulsome public consultations, especially in the case of longer-term decisions, such as the setting of objectives or designing of plans.

b. Government should procure the services of a group of advisors to assist in considering the reliability, affordability and sustainability impacts of significant energy policy decisions that will affect the sector over the long-term.

2 GOVERNMENT SHOULD DRAMATICALLY REDUCE ITS POWERS TO INTERVENE IN ENERGY DECISION MAKING

a. Government should eliminate many of the directive powers currently in the *Electricity Act* and *Ontario Energy Board Act*.

b. Where government sets objectives or targets, or otherwise makes plans, it should, as much as possible, allow stakeholders to find creative solutions to achieving objectives, rather than dictating methods, technologies or winners.

3

ENERGY SECTOR INSTITUTIONS SHOULD HAVE CLEAR AND EXPLICIT ROLES AND RESPONSIBILITIES, WITH INDEPENDENCE OF DECISION MAKING AND REGULAR ACCOUNTABILITY FOR THEIR ACTIONS

a. All Board members of energy sector institutions should be appointed to fixed terms after approval by a committee of the legislature which reviews their qualifications for the office. They should be eligible for subsequent terms of office after review by a committee of the legislature.

b. All energy sector institutions should publicly and annually report on their efficiency in managing their responsibilities, on the costs they have imposed on the sector during the prior year, and on the ratepayer costs for which they are responsible.

4 ENERGY POLICIES SHOULD BE STABLE, REVIEWED ON A FIXED SCHEDULE, AND PRIOR INVESTMENTS SHOULD RECEIVE THE FULL SUPPORT OF THE GOVERNMENT FOR THEIR PLANNED LIVES

a. Energy policy should be stable between periodic reviews, which should be on a fixed schedule.

b. Given the size and expense of energy sector investments, in both human and economic terms, efficient use of existing capital assets should be a high priority.

c. New policy initiatives should not undermine existing investment in energy assets, as the obvious and the invisible costs of stranded assets can overwhelm the benefit of proposed investments.

5 GOVERNMENT SHOULD WORK WITH THE ENERGY SECTOR TO DEVELOP AND IMPLEMENT NEW STRATEGIES FOR THE SITING AND PERMITTING OF CRITICAL INFRASTRUCTURE ACROSS THE PROVINCE

a. The Ontario Energy Board should be given authority for combined processes for energy regulation / licensing, and environmental assessment.

b. Government and the energy industry should jointly review the permitting and approvals required for energy projects to find efficiencies and opportunities for streamlining.

RECOMENDATIONS

1 ENERGY POLICY DECISIONS SHOULD BE TRANSPARENT AND BASED ON EVIDENCE AND CONSULTATIONS

Energy policy is critically important to the prosperity and well-being of the people of Ontario. Quite often it is also controversial, as many stakeholders have different points of view on what should be done to address a given problem or opportunity. Those interested in policy decisions should have the fullest possible opportunity to address them and the best available expertise should be brought to bear on the problems and

a. All energy policy decisions should be based on and reference publicly available facts and information, and they should be preceded by fulsome public consultations, especially in the case of longer-term decisions, such as the setting of objectives or designing of plans.

In 2006, the government released its first Supply Mix Directive for electricity, meant to capture the government's long-term objectives for the sector and give direction for energy planning. Prior to making this decision, the government called on the Ontario Power Authority ("OPA") to provide advice on proposed targets.

The OPA undertook wide-ranging consultations with stakeholders and retained the services of a variety of expert consultants to provide technical advice and information relevant to

the decisions being made. The advice of the OPA, and all of the background information and reports, were made public in December 2005. In the six months between the release of this advice and the government's decision in June 2006, interested stakeholders had the opportunity to comment on and respond to the advice and technical information provided by the OPA.

Unfortunately, this type of stakeholder engagement has historically been the exception and not the rule. Over past decades many major policy decisions by governments of all political stripes have been preceded by limited stakeholder input via closed meetings and online submissions. All technical advisor reports commissioned should always be made publicly available with an opportunity for stakeholders to review and comment on the facts, assumptions, and projections which underpin the government's policy decisions.

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b. Government should procure the services of a group of advisors to assist in considering the reliability, affordability and sustainability impacts of significant energy policy decisions that will affect the sector over the long-term.

The Drummond Report advocated that a body of economic experts be retained to assist the government in making transformational budget decisions by providing advice on the economic impact of various options.¹

For energy policies three objectives are critical: reliability, affordability and sustainability.

When the government is required to make critical decisions in energy policy – such as long-term plans, major procurements, etc. – it should make use of a panel of expert advisors, similar to that

suggested in the Drummond Report, who can provide unbiased, fact-based advice directly to the government.

Reports from such an advisory committee should be made public to allow all stakeholders to review and comment on the advice provided.

Another step the government could take to improve the energy policy environment would be to require an existing body/agency, such as the Ministry of Energy, to be a public access point for all information about energy in Ontario, including data on production, delivery, and consumption of energy in all its forms.

¹ Report of the Commission on the Reform of Ontario's Public Services, February 2012, page 141.

Currently, there is no central resource for information about energy in Ontario. Certain information on primary energy resources – such as petroleum, natural gas, hydropower, etc. – is available from Statistics Canada or the Ontario Energy Board. Energy consumption information can be found through Statistics Canada, the Ontario Energy Board, the Indepen-

dent Electricity System Operator and the Ontario Ministry of Energy. Each source offers a limited set of incomplete information, often on only a subset of energy types in use in Ontario. This scattering of information sources makes it difficult to pursue truly fact-based energy policies.

An example of an excellent source of information is the United States Energy Information Administration (EIA), which is a division of the US Department of Energy. The EIA provides comprehensive information about energy production, delivery, and consumption in all its forms, all across the United States. Having a reliable and comprehensive source of information greatly facilitates policy discussion.

2 GOVERNMENT SHOULD DRAMATICALLY REDUCE ITS POWERS TO INTERVENE IN ENERGY DECISION-MAKING

Today, elected representatives are the ultimate decision-makers about public policy issues. The OEA agrees that significant energy decisions should be made by government. These include policies that set the direction for the energy sector as a whole, for example, or those that represent a long-term commitment by the people of Ontario to financially support a major project such as a large electricity generation plant.

In contrast, many other energy policy questions are short-term in nature and need to be reviewed frequently, therefore requiring almost constant attention; or they are limited in scope; or are concerned with specific details that are of interest to very limited groups of stakeholders. In these instances, it is wise for government to limit its involvement in the minutiae of energy policy to better focus on issues that are of broader importance to Ontarians.

Every government decision results in responsibility for the government – responsibility for the future outcomes of that decision, and for the costs that might arise from it. In open and competitive markets, energy providers

and energy consumers make decisions every day that determine the demand, supply and prices of energy. More broadly, these individual choices shape the energy system as a whole, bit-by-bit, constantly altering the nature of the energy landscape at the margin.

By making decisions, providers, deliverers and consumers of energy take responsibility for their own commitments – thus alleviating the burden on the government.

When government steps in and makes policy, decisions are taken out of the hands of stakeholders, and the consequences of those decisions are determined from above. Stakeholders may find themselves responsible for costs that they never would have accepted on their own, or realizing benefits that may always have been out of their reach. In either case, however, government has made that decision on behalf of producers and consumers.

In some cases, open markets are not possible – for example in electricity or natural gas distribution, where fixed networks of wires or pipes are needed and it only makes sense to have one network in any given place – in which

case a system of economic regulation has been developed. A whole structure of regulatory rules and procedures has grown up to ensure that regulated monopolies are just and reasonable to both providers and consumers.

These rules and procedures are often highly technical and detailed themselves, and depend on the considerable expertise of the regulatory organizations and all of the participants in regulatory processes.

Regulators ensure that monopoly providers of utility services can only impose rates on consumers that are high enough to earn a fair return.

a. Government should eliminate many of the directive powers currently in the *Electricity Act* and *Ontario Energy Board Act*.

Section 25.30 of the *Electricity Act* reserves for the government the power to set goals for electricity supply and conservation, and in particular with respect to certain electricity sources such as renewable energy, nuclear and coal. This power is broad in scope and direction and is consistent with the government's ultimate authority to set policy on behalf of Ontarians.

However, s. 25.32(4.1 to 4.7) gives the government further powers to order the Ontario Power Authority to make specific decisions to purchase certain energy products and allows the government to pick the procurement method, the price offered, the longevity

of contracts, and many other detailed features of the arrangements. In short, the government is substituting its own decision-making for that of any other stakeholder or arrangement, whether a market, a regulated price, or even the technical expertise of an agency.

There are dozens of similar directive powers included in the *Electricity Act* and *Ontario Energy Board Act*, all of which the government should reconsider carefully to determine which should be repealed.

b. Where government sets objectives or targets, or otherwise makes plans, it should as much as possible allow stakeholders to find creative solutions to achieving objectives, rather than dictating methods, technologies or winners.

Technology changes constantly, as do prices of different energy products and commodities. Often, changes beyond the very short term cannot be predicted accurately, and there is a range of views even amongst experts and direct stakeholders about what is likely to happen.

Sometimes the creation of new business opportunities drives people to develop new products and services that better satisfy demands or needs than ever before, or in other cases the change in a commodity price drives the market to switch to alternative technologies or standards that may have been in place for some time.

Technological neutrality has long been a guiding principle for the appropriate regulation of technologically advanced industries.

The **OEA** strongly urges the government to adopt this legislative approach and avoid making policies that depend on specific technology choices or market predictions.

For example, electricity systems sometimes require storage capacity in order to run optimally. Historically, storage technologies included pumped hydro facilities and thermal storage of various kinds, such as tanks for steam or hot water. In this context, a goal or requirement for “storage” could be directed to the market, without being specific, except insofar as the amount, timing or duration is concerned. This would allow a variety of potential participants to come up with solutions based on many different technologies.

Over time, depending on developments in underlying technologies and commodity prices, there might be many different solutions adopted, based on local or temporary circumstances.

3

ENERGY SECTOR INSTITUTIONS SHOULD HAVE CLEAR AND EXPLICIT ROLES AND RESPONSIBILITIES, WITH INDEPENDENCE OF DECISION-MAKING AND REGULAR ACCOUNTABILITY FOR THEIR ACTIONS

The Ontario Energy Board, the Independent Electricity System Operator, the Ontario Power Authority and a number of other institutions are responsible for various aspects of energy policy and system management.

These types of institutions represent the public's investment in deep knowledge about energy issues, and in the regulation or management of various aspects of the sector. They are staffed by professionals and are managed by publicly appointed board members, who are tasked with various mandates by the governing legislation of each institution.

Nevertheless, the government currently has directive powers over these agencies which allow the government to simply order the agencies to take certain actions, rather than making full use of their expertise and knowledge.

Ensuring that these institutions run **as efficiently and effectively as possible** should be a high priority for the government.

This means both that government should no longer have such extensive directive powers over them, as discussed above, and that the governance of the agencies themselves should be strengthened.

a. All Board members of energy sector institutions should be appointed to fixed terms, after approval by a committee of the legislature which reviews their qualifications for the office, and should be eligible for subsequent terms of office after review by a committee of the legislature.

In performing their legislated mandate, all energy sector institutions must make decisions of considerable importance, whether because of the sums of money involved, the impact on Ontario communities, or the workers and livelihoods they affect. Qualifications for board positions should be impeccable and public review should ensure that only strong candidates are put forward for the positions.

In taking on responsibility and making decisions, board members will inevitably learn more about the sector, which is valuable in the decision-making process. Assuming they carried out their duties well during their first term, board

members should typically be asked to stay on for subsequent terms so that their acquired knowledge can be put to good use. However, all institutions should be renewed regularly, so two terms should be the limit for service by any board member.

In order to ensure that the work of institutions is not disrupted, terms for board members should be fixed with the replacement of board members on a staggered basis.

b. All energy sector institutions should publicly and annually report on their efficiency in managing their responsibilities, on the costs they have imposed on the sector during the prior year, and on the ratepayer costs for which they are responsible.

All energy sector institutions provide annual reports which detail information on their activities each year and on their operating costs. It is also important, however, to closely examine the performance of each institution against its mandated responsibilities, and more broadly against the continuous development and improvement of the performance of the energy sector as a whole.

A particular focus should be to examine and report on the burdens imposed by the institution on the energy sector and consumers, through its regulatory and other activities. These costs should be regularly measured against the benefits that are achieved by the activities and opportunities for improvements explored.

If possible, opportunities to reduce costs across and among institutions should be explored, for example by reducing overlap and duplication between institutions, or consolidating institutions where warranted.

4 ENERGY POLICIES SHOULD BE STABLE, REVIEWED ON A FIXED SCHEDULE, AND PRIOR INVESTMENTS SHOULD RECEIVE THE FULL SUPPORT OF THE GOVERNMENT FOR THEIR PLANNED LIVES

The province's many energy systems work best when they are operating in a stable and predictable environment. Nevertheless, they must contend with constant changes in technology, markets, investments and consumer demands. Energy companies meet these pressures and still ensure that Ontario has one of the best, most reliable energy systems in the world. However, government policy can have a profound impact on the energy landscape by overturning key assumptions with a single decision. This ability of government can create considerable uncertainty and cost where none need exist.

- a. Energy policy should be stable between periodic reviews, which should be on a fixed schedule.

Government can and does set long-term goals and objectives for energy in Ontario.

This decision making should take place on a regular, predictable schedule, and in the context of transparent and evidence-based processes, as described above.

To the greatest extent possible, policy change should be minimized between such reviews. Policy making and consultation processes are costly for all stakeholders, requiring considerable resources and attention, which could otherwise be spent on the energy system itself.

Constant policy making also reduces the predictability of the sector, hindering investment decisions by stakeholders and increasing the likelihood that shaping policy itself becomes an objective for participants, rather than good operation of the energy sector.

b. Given the size and expense of energy sector investments, in both human and economic terms, efficient use of existing capital assets should be a high priority for policy.

Pipelines, transmission lines, power plants, refineries and storage facilities are all major investments that shape the energy landscape of the province.

Energy policy should be structured around making the best use of these existing investments, both for their useful lives, and as potential locations for reinvestment.

Often, communities have been developed around major energy facilities, and the surrounding population has a greater understanding of their real benefits and costs.

This can make them attractive locations for additional energy investments, without the need for the intensive community education about energy that is often required in new locations.

- C. New policy initiatives should not undermine existing investment in energy assets, as the obvious and the invisible costs of stranded assets can overwhelm the benefit of proposed investments.

Technology is constantly improving, and commodity prices are constantly changing. This can create the appearance that it is advisable for government to mandate “upgrades” to energy systems to reflect new and better possibilities.

However, investments are typically made on the assumption that reasonable returns will be earned during the useful life of the facility in question. If that facility is prematurely taken out of service, or if policy decisions change the energy landscape to the extent that the facility is no longer generating reasonable returns, then energy stakeholders are likely to seek redress, in one form or another.

In some cases this might mean direct financial compensation, while in others the effect may be more indirect, with investors requiring higher returns on future investments because of the lack of reliable returns on previous investments.

This same concern with stranding of assets applies to other contexts as well. For example, the development of more energy efficient appliances and machines may suggest that it would be good “conservation” practice to replace older equipment with newer models, and perhaps to even provide incentives to do so.

However, if equipment is taken out of service before the end of its useful life, then there is an economic loss associated with that remaining time that was not used up. Often, conservation programs are built on the assumption that demand reductions will help to avoid spending on new energy production facilities.

5 GOVERNMENT SHOULD WORK WITH THE ENERGY SECTOR TO DEVELOP AND IMPLEMENT NEW STRATEGIES FOR THE SITING AND PERMITTING OF CRITICAL INFRASTRUCTURE ACROSS THE PROVINCE

Maintaining and improving our energy systems – and expanding them where and when necessary – often requires the balancing of competing interests and making hard choices about the location of infrastructure. Maintaining, extending or building new infrastructure often requires consideration of economic, environmental, aesthetic and social costs. However, decisions must ultimately be made and should be completed as efficiently as possible.

a. The Ontario Energy Board should be given authority for combined processes for energy regulation/licensing, and environmental assessment.

Many energy projects in Ontario require an environmental assessment, licensing or regulation by the Ontario Energy Board, and a variety of permits and approvals from other agencies, sometimes including both the federal and municipal levels of government.

Some arrangements have been made to try to reduce overlap and duplication, particularly between the federal and Ontario governments, which is welcome, but more should be done.

The National Energy Board has authority for environmental assessments for the projects it regulates across Canada. This combines two processes that are currently separate in Ontario.

Consideration should be given to adding environmental assessment to the authority of the Ontario Energy Board so processes in Ontario could be similarly combined.

b. Government and the energy industry should jointly review all of the permitting and approvals required for energy projects to find efficiencies and opportunities for streamlining.

Strike a **Minister's Advisory Panel**, consisting of industry and government representatives, to conduct a **comprehensive** review of all permits and approvals required for energy projects of different types.

Government representatives should include one senior official from the Ministry of Energy, Ministry of the Environment and the Ministry of Natural Resources, with support from the relevant institutions as appropriate – Ontario Energy Board, Independent Electricity System Operator, Ontario Power Authority.

The objective should be to determine if all current requirements are necessary for every type of project, which could be combined, and which government entity should be responsible for which permits and approvals.

Given the significant amount of activity over the past several years in the development and construction of new energy facilities, such a review would draw upon substantial recent experience.

In order to make this exercise practical and useful, it should have a fixed and limited schedule, such as six months for review and development of a report to government, and six months for government consideration and response to recommendations.

SUMMARY

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ENERGY POLICY DECISIONS SHOULD BE TRANSPARENT AND BASED ON EVIDENCE AND CONSULTATIONS

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GOVERNMENT SHOULD DRAMATICALLY REDUCE ITS POWERS TO INTERVENE IN ENERGY DECISION MAKING

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ENERGY SECTOR INSTITUTIONS SHOULD HAVE CLEAR AND EXPLICIT ROLES AND RESPONSIBILITIES, WITH INDEPENDENCE OF DECISION MAKING AND REGULAR ACCOUNTABILITY FOR THEIR ACTIONS

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ENERGY POLICIES SHOULD BE STABLE, REVIEWED ON A FIXED SCHEDULE, AND PRIOR INVESTMENTS SHOULD RECEIVE THE FULL SUPPORT OF THE GOVERNMENT FOR THEIR PLANNED LIVES

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GOVERNMENT SHOULD WORK WITH THE ENERGY SECTOR TO DEVELOP AND IMPLEMENT NEW STRATEGIES FOR THE SITING AND PERMITTING OF CRITICAL INFRASTRUCTURE ACROSS THE PROVINCE

energyontario.ca

CONTACT

Head Office

121 Richmond Street West

Suite 202

Toronto, Ontario

M5H 2K1

416.961.2339

oea@energyontario.ca



Ontario Energy Association

Let's unravel complex energy challenges, together.