

Ms. Bonnie Lysyk
Auditor General of Ontario
20 Dundas Street West, Suite 1530
Toronto, ON M5G 2C2

December 22, 2015

Dear Ms. Lysyk,

I am writing on behalf of the Ontario Energy Association to express my concern with certain aspects of the value-for-money audit you conducted on electricity power system planning as part of your 2015 annual report (section 3.05). I am particularly concerned by your comments on the electricity commodity cost and the way you represented both the relationship between the global adjustment and the hourly Ontario energy price (market price) and the components of the global adjustment.

NATURE OF THE GLOBAL ADJUSTMENT

In your report you claimed that the global adjustment was among the two cost drivers having “the most significant effect on electricity rates” (p. 217). This ignores the fact that the global adjustment is a fundamental component of electricity generation costs and implies that the global adjustment can, on its own, serve as a cost driver of electricity prices. It is wrong to characterise the global adjustment as an independent “add-on” to the market price, for without the global adjustment to fund the capital costs of electricity generation there would be no electricity output, and therefore no market price to speak of.

COST OF THE GLOBAL ADJUSTMENT

You also noted that cumulative global adjustment costs from 2006 to 2014 totalled \$37 billion. Separately, you observed that a number of the contracts charged through to the global adjustment were procured at a higher cost than might otherwise have been the case. However, the report did not make clear that the total sum of the supposed overpayments was far less than the cumulative \$37 billion global adjustment cost.

IMPACT

As you are probably aware, following the release of your report a number of media outlets – and likely much of the public – drew the erroneous conclusion that a) the global adjustment, having been portrayed as additional to the market price of electricity, was therefore necessarily an overpayment, and that b) the entire \$37 billion global adjustment cost was an overpayment.



Ontario's energy sector is a complex one, and certain concepts like the global adjustment are often a source of confusion for the public. I regret that in this respect your report, rather than enlightening Ontarians, will instead serve to perpetuate inaccurate understandings of how Ontario's electricity generation infrastructure is built and paid for. As an officer of the legislature with a mandate to inform the public, I believe that you have a responsibility to publicly correct the record when faced with such numerous and blatantly erroneous public interpretations of your report.

Your report highlighted a number of important areas where Ontario's energy systems could be improved, and as a sector we constantly strive to provide better service to our customers. However, improvements are most productive when our customers – Ontario's energy consumers – have a full and accurate understanding of how and why certain costs are incurred, and what they receive for those costs. Misinformation should not be one of the outcomes of the public audit process, and I would therefore respectfully encourage you to set the record straight on this important issue.

If you have questions or would like any clarification please feel free to contact me or Tina Arvanitis, the OEA's Vice President, Government Relations & Communications at 647.920.3269 or tina@energyontario.ca

All the best,

A handwritten signature in black ink, appearing to read "B. Huggard", is written over a light blue horizontal line.

Bob Huggard
President & CEO
Ontario Energy Association

cc: Hon. Bob Chiarelli, Minister of Energy