



By Don Horne

ELECTRICITY PRICE FREEZE FIRST STEP IN SAVING ONTARIO'S INDUSTRIAL SECTOR

The recent move by Ontario's provincial government to stabilize electricity prices for large industrial consumers is a step in the right direction, but much more needs to be done.

Adam White, the President of the Association of Major Power Consumers in Ontario (AMPCO), sees the price freeze as providing a much-needed "period of calm" for the province's industrial sector.

"We are gratified that they heard us, as we have seen electricity prices jump 60 per cent since 2001," says Mr. White. "It is something they could do now and do quickly."

The existing price cap was due to expire on April 30, and expectations were that the cap would rise 8 per cent. For the average large industrial consumer, the savings will translate into anywhere from \$1.5 million to \$2 million a year.

"We are happy. We need this extended period of calm for three years."

The spiraling demand for more power has estimates pegged at a minimum of 25,000 megawatts of new supply over the next 15 years.

For AMPCO, the rising electricity prices were having a very real, detrimental effect on its members.

"We lost two members in the past year, chemical companies that were in the business of creating bleaching agents for the pulp and paper industry," says Mr. White. "Eighty (80) per cent of their cost is electricity, so they were the 'canary in the coal mine' for the entire industry."

One of the companies, ERCO Worldwide, is a leading provider of chlorine dioxide technology and one of the world's top suppliers of sodium chlorate, used primarily for the manufacture of chlorine dioxide, which is a preferred bleaching agent in the pulp and paper industry.

The subsidy on electricity prices for



Large pulp and paper companies like this one in Espanola, Ontario require large amounts of electricity.

will affect some 55,000 major consumers. For such large companies such as Inco, the electricity bill can be as much as \$300 million a year.

Beginning in May, the revenue limit on OPG's unregulated facilities (small hydroelectric stations and coal-fired power plants) will drop to 4.6 cents per kilowatt hour from 4.7 cents. The average wholesale price of electricity in the province has been 7.55 cents a kilowatt hour.

According to Statistics Canada, Ontario lost more than 52,000 good-paying industrial jobs in 2005, many of them in the auto, chemical and pulp and paper industries.

Mr. White points out the unseen effects of high electricity rates on new

investment and new industry that go elsewhere to set up shop.

"The investment decisions that are being made that never reach the public eye, those companies who decide to locate where rates are lower," he says. "From anecdotal experience, we are finding that large companies are making investment decisions to locate outside of Ontario. They need to know that they will have a payback 20, 40 or even 50 years down the road, without having to worry about electricity costs driving them out."

The government is able to offer a rebate on about a third of power produced by Ontario Power Generation

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price freeze

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(OPG) by limiting the provincially owned utility's profits. It will cost OPG about \$300 million a year. OPG produces 70 per cent of the electricity in the province, which is a source of irritation to large consumers.

"We can't stay where we are; we are starved for competition," says Mr. White. "We are at a place where it's not competitive, it isn't regulated and there is no price certainty. At a conference in Washington, D.C., I was asked, 'Haven't you been watching what's been happening in California (where that state unsuccessfully experimented with deregulation)?' It sure looked like we've been repeating those mistakes."

But for the moment, the three-year price freeze is welcome news to AMPCO and its members.

"Electricity is such a vital part of Ontario's economic life; we need to know that it will always be there and at an affordable price," says Mr. White.

THE CALIFORNIA MODEL

John Bryson, California deregulation's chief architect and president of Southern California Edison (SoCalEd), one of California's two largest utilities (with Pacific Gas and Electric — PG&E), has admitted he was wildly wrong and his plan destabilized a huge energy delivery system that had delivered cheap and reliable electricity for nearly a century.

In 1996-1997, utilities spent more than \$7.7 million lobbying the California Legislature and promoting deregulation.

This catastrophic, immensely complex failure was predicted all along by energy analysts and consumer advocates who bitterly opposed deregulation, because the electric power industry is a

natural monopoly that is too large to sustain true competition.

After adoption in 1996, opponents collected 700,000 signatures to place on the 1998 General Election a ballot measure to repeal deregulation. Big energy outspent consumer advocates \$40 million to \$1 million, and repeal was defeated by voters 73-27 per cent.

The driving force behind

"Electricity is such a vital part of Ontario's economic life; we need to know that it will always be there and at an affordable price,"

— Adam White



California's deregulation was an elaborate scheme to deliver up to \$28.5 billion in ratepayer and taxpayer money to the parent companies of SoCalEd (Mission Energy) and PG&E (National Energy Group) in "stranded costs", bailouts for failed nuclear power investments. California did not anticipate that deregulation's bailouts wouldn't be spent to build energy infrastructure in the state, but would be used to make huge investments in power supply networks in the Northeast and speculative ventures in Asia.

An even bigger mistake was in the name of "free market competition", California's deregulation bill suggested utilities sell their power plants and

become pure distribution companies that would battle one another for business. Transmission systems would remain regulated monopolies; generating facilities would be bought by entrepreneurial power producers. With key functions of the electricity industry separated, the "magic of the marketplace" was supposed to drive prices down and service up.

The key to the utilities' deregulation scheme was the assumption that wholesale electric prices would stay low through competition and California's dominance in the energy marketplace. To secure passage of deregulation, SoCalEd and PG&E successfully advocated adoption of deregulation's cap on consumer prices.

Utilities then sold half their power plants, and now, some 30 per cent of California's power supply is at the mercy of a handful of out-of-state energy speculators, most notably Duke Power of North Carolina, and Dynegy, Reliant and Enron, of Texas. California utilities failed to negotiate long-term supply contracts. The Federal Energy Regulatory Commission refused to cap wholesale prices. These companies and their legions of business school graduates figured out that deregulation of power previously provided cheaply and reliably, could be sold at vastly increased prices by fluctuating the quantity of power sold based not on available supply, but on the desire of independent producers to make more money by selling less power at higher prices. The scheme worked. In one year, Enron increased

AMPCO'S BEGINNINGS

The beginnings of AMPCO can be traced back to the Niagara Peninsula where three important industries — chemicals, pulp and paper, and abrasives — were located in the early 1960s. To deal with rapidly escalating electricity rates seven companies formed a loose coalition which was called the Niagara Basic Power Users' Association.

The situation continued to develop in the early 1970s when industry found itself caught in a backdrop of global inflation, a recession and an energy crisis. In response to this, Ontario Hydro proposed record rate increases of over 30 per cent and looked at doubling rates by the end of the decade. This was the

spur that drove the Niagara power users group to expand province-wide in 1974 to become the Association of Direct Customers of Ontario. A year later, the 30 founding companies — employing over 140,000 people at 200 locations — formed the Association of Major Power Consumers in Ontario (AMPCO).

Today, AMPCO represents some 60 companies at 115 locations across the province employing over 100,000 people directly and another 300,000 people indirectly, consuming approximately 20 per cent of the provincial electricity output costing more than \$1 billion. These companies represent a cross section of industry, including: steel, mining, cement, forestry products, petrochemical, refining, and general manufacturing.