

Electrical Deregulation in Alberta: Has it Made Sense?

May 24, 2012

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Leth Iron

- ✦ established in 1898
- ✦ jobbing iron foundry
- ✦ 4th generation family
- ✦ 180 employees
- ✦ serving agriculture, rail, automotive, oil and gas, etc
- ✦ up to \$250,000 electricity



Before Deregulation

- ✦ Integrated System
- ✦ Not government financed
- ✦ Regulation of private companies (Ed. Power, Atco, Transalta)
- ✦ One of the lowest costs in N.A.
- ✦ No customer choice
- ✦ Simple. Effective. Fair. Safe.



Why Deregulation

- ✦ Wind Power
- ✦ Industrial Generation
- ✦ Gas Fired Generation
- ✦ Regulatory costs and battles
- ✦ Ideology (airline industry etc)
- ✦ BUT IT WAS NOT BROKEN



Other jurisdictions were considering the move to more responsive, efficient, flexible electrical systems – and Alberta risked falling behind. Alberta risked the erosion of its low-cost power advantage compared to other markets. Albertans faced a potential reduction in their ability to compete effectively for investment and jobs.

The need for a new approach was apparent. The challenge in this process was how to preserve and enhance the strengths of Alberta's existing electric industry while building an improved system for the future.

power of competition
Alberta Resource Development
May 1999



The Alberta government has introduced legislation to move forward with the restructuring of the province's electric utility industry. This restructuring brings competition to the industry's generation and retail services markets in place of regulation. Unleashing these competitive forces increases incentives for efficiency, eliminates future regulatory burden, promotes customer oriented service, **puts downward pressure on electricity prices and enhances the Alberta Advantage**

Backgrounder on the Electric Utilities Amendment Act, 1998
June 1998



We did come up with a valuation that there should be somewhere between 2 billion and 4 billion in residual value.

Minister Steve West, 2000

The \$1.1 billion auction total reflects the fair market value. "Some critics have suggested the power auction could have raised as much as \$4 billion. If the auction had raised that much, consumers would have had to pay more in electricity rates to allow the bidders to recover their investments," added Cardinal.

There is no roadmap for this process.

Minister Mike Cardinal, October 11, 2000



After Deregulation

- ✦ Generation & retail deregulated
- ✦ Transmission and Distribution regulated
- ✦ Costs much higher
- ✦ Complex (difficult to understand)
- ✦ NOT lowest cost solutions
- ✦ NOT much choice



A Vision for Alberta's Electric Industry

Dramatic changes are occurring world-wide in the way power is generated and sold. To ensure that Alberta is ideally positioned to take full advantage of new technologies and innovations, the Government of Alberta is taking a leadership role in restructuring the province's electric industry.

Restructuring and deregulation began in Alberta in the mid-1990s. The transition to a competitive marketplace takes time and requires a clear vision of the end goals. This document looks ahead to the year 2005. It helps to define the Government's vision of a competitive marketplace and the benefits to Albertans.

In mid-1999, the Department of Resource Development, the Alberta Energy and Utilities Board and independent agencies (i.e., the Power Pool of Alberta and the Transmission Administrator) met to discuss their vision for the industry. They identified a number of goals that capture the effective and efficient operation of the competitive marketplace. This document captures the vision from the perspective of the Department and independent agencies, and defines the expected benefits for Albertans.

A snapshot of the year 2005

- a competitive, efficient and innovative electricity marketplace
- new generators and many new service providers
- informed consumers choosing from competitive, attractive options
- continued downward pressure on rates
- incentives for conservation and the wise use of energy
- smart technologies and green power options that contribute to environmental goals

For more information, contact:

A variety of materials are available that explain in more detail the future marketplace and operation of agencies in the industry. Consumer-oriented information is also available through the Alberta Department of Resource Development.

Electricity Branch

Alberta Department of Resource Development
5th Floor, Petroleum Plaza, North Tower
9945 - 108 Street
Edmonton, Alberta T5K 2G6

Phone (780) 427-8177

Fax (780) 427-8065

Email electricity@resdev.gov.ab.ca

For toll-free access from anywhere in Alberta, dial 310-0000

To place a call using your TDD equipment for the deaf and hearing impaired, call 427-9999 in Edmonton. Outside Edmonton, call 1-800-232-7215

Additional information is available on the Internet at <http://www.resdev.gov.ab.ca/electric/index.htm>

Alberta Energy and Utilities Board

Phone (780) 427-4901 Edmonton
<http://www.eub.gov.ab.ca>

Power Pool of Alberta

Phone (403) 543-0380 Calgary
<http://www.powerpool.ab.ca>

Transmission Administrator

ESBI Alberta Ltd.
Phone (403) 232-0944 Calgary
<http://www.eal.ab.ca>



Fall 1999, ISBN 0-7785-0755-6

A Vision for Alberta's Electric Industry



Agencies involved in the transition to a competitive marketplace define their vision and expected benefits for Albertans.

Alberta
RESOURCE DEVELOPMENT



Consumers Are Benefiting

- Strong competition among retailers for customers continues to put downward pressure on rates. Consumers are finding that they can get better rates from competing retailers than they would have received in a regulated system.
- Consumers understand how the marketplace works. They are well informed about the choices and opportunities available to them.
- Home, farm and small business consumers who initially chose to stay with their existing supplier on a regulated rate in order to become familiar with the new marketplace have now chosen a retailer. There is little or no interest by consumers in a regulated rate as lower, stable rates are now offered by the marketplace.
- Large industrial and commercial consumers are benefiting from new market opportunities: they can now make their own retail supply arrangements and they can build an energy supply portfolio from competitive offerings.
- There is a new era of choice and services for consumers. Electricity marketers are providing valuable services in ways not conceived of before restructuring. These advances have been made possible through new technologies. Technology is an "enabler" in the industry, as the market has been freed up to encourage innovation.
- Advances in telecommunications and other areas have positively affected the electricity market. For example, public data networks, smart technologies for controlling power, convergence of many utilities (e.g. one-bill service), and other advances have been developed.
- Consumers are effectively managing their own energy costs. They have a heightened awareness of conservation and many consumers are selecting "green power" suppliers.
- Investments in new generation are in sync with the needs of a growing population and thriving industry.

The Marketplace Is Competitive and Healthy

- By the year 2005, there are many market players, including retailers and generators. A level playing field exists for all market competitors. Systems are in place to handle the entrance of new players.
- There is a thriving market of direct sales between buyers and sellers, as well as a competitive Pool spot market for wholesale power.
- The long-term power supply arrangements applied to previously regulated generation fit well within the overall competitive system. The objectives of mitigating market power and ensuring that Albertans continue to benefit from the low-cost power built under regulation have been met through these arrangements. Utilities have not found themselves with unrecoverable costs. A secondary market for trading these arrangements may have developed.
- All markets are functioning well and new ones are developing in areas such as emissions trading. Buyers and sellers are confident enough to make financial commitments in day-ahead, week-ahead and year-ahead deals.
- The Pool price reflects the commodity market and there is liquidity in the market.
- Correct market signals are being given for a competitive environment.
- Businesses in the industry are viable and shareholders are happy. Companies are increasing their earnings and businesses are growing and expanding into other regions.

Industry Support Systems Are Streamlined and Effective

- Roles, relationships and responsibilities of various agencies supporting the industry and the competitive marketplace are clear and common standards have been developed.
- The transmission system is well-managed for the benefit of consumers and industry. There is good, open access with British Columbia and Saskatchewan, including good interfaces. There is reliability and security of supply.
- System support services were well-provided during the transition and risk management factors were incorporated into transition systems. Unnecessary transmission investment was avoided.
- The Market Surveillance Administrator is effective and vigilant. As the market evolves, the necessity for the role has diminished as there are few, if any, concerns about anti-competitive behaviour.
- The streamlined regulatory system enables industry to be effective and innovative. Industry stakeholders are working together to resolve issues. There have been few, if any, hearings. Regulatory costs have been significantly reduced.

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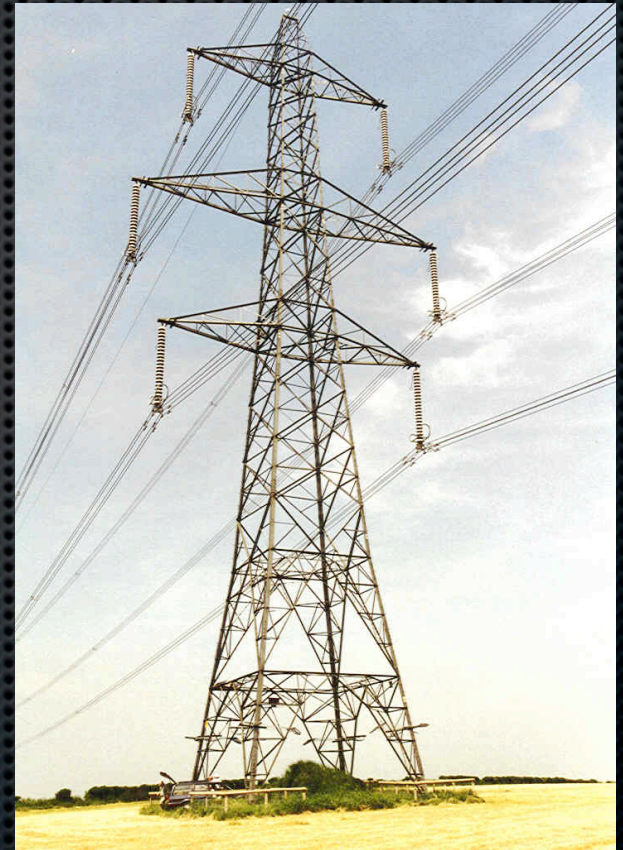
Generation

- Still very few players
- Market power exists and is exercised (Enron, Transalta)
- Bad place to invest
- PPA's expiring soon ... what then
- Forward Price is 6.8¢ to 7.4¢
- Nat gas FP is \$3.20 to \$4.10



Wires

- ✦ Major capital investments
 - ✦ poorly used (wind)
- ✦ Huge cost increases
 - ✦ may triple in next 10 years
 - ✦ up more than 20% in 2012
- ✦ Government meddling
- ✦ High rates of return at 8.75%



Other Costs

- Surcharges
- Rebates
- MCAF
- Fixed costs are huge
- Complex. CONFUSING.
- I still receive calls from friends and strangers seeking advice



Retail



Direct Energy™



- Retail Market Review Committee (RMRC) announced on March 22, 2012
- Very few players still
- market penetration is still less than 30%
- government still wants to force customers to select retailers



University of
Lethbridge



 **SACPA**
Southern Alberta Council
on Public Affairs



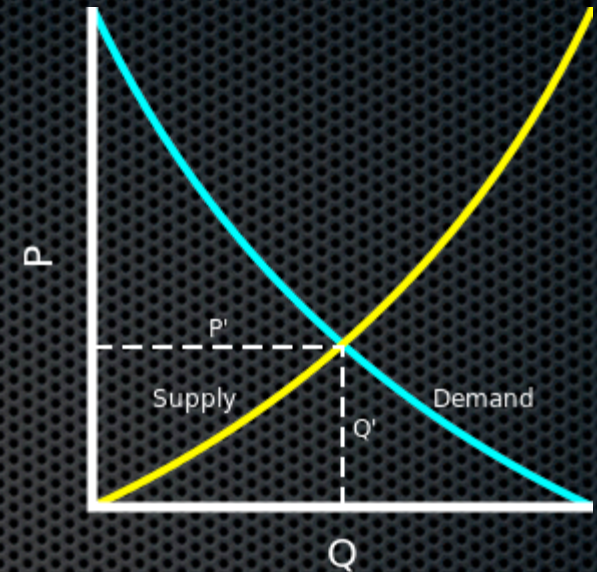
Impact

- ✦ from under 5¢ to 12¢ in 10 years
 - ✦ huge wires increases coming
- ✦ concerns about brownouts
- ✦ transfer of wealth
- ✦ lack of investment in generation
- ✦ industries moving off the grid



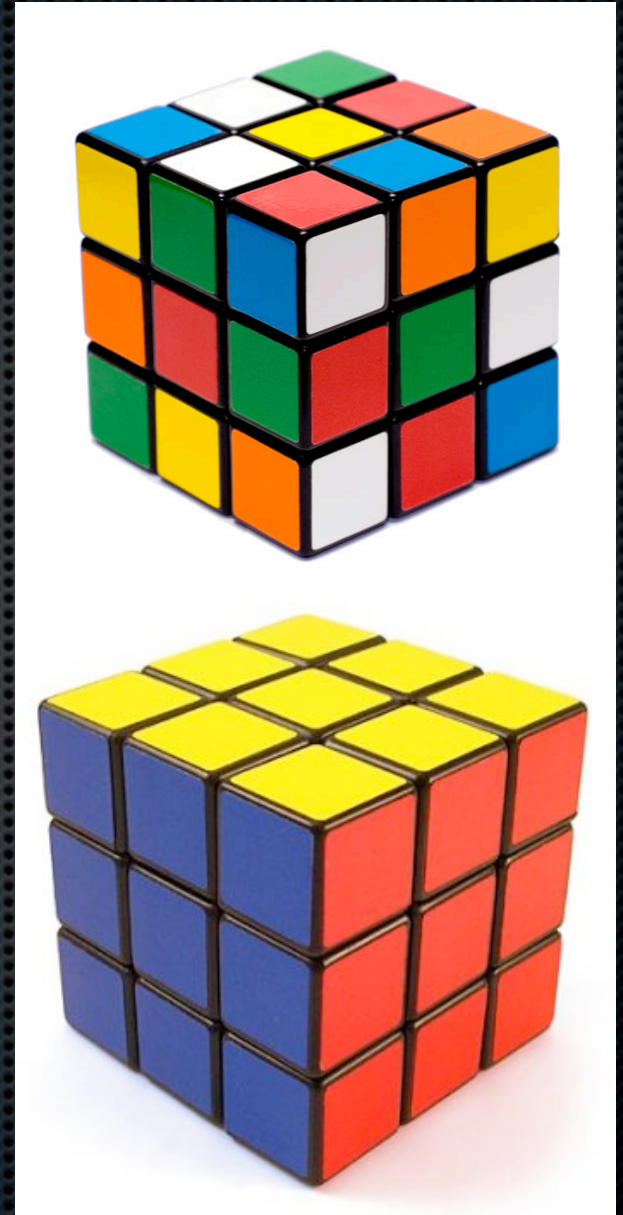
Future

- inadequate generation supply
- skyrocketing transmission costs
- prices far exceed gas generation costs
- poor retail competition
- few improvements after 12 years
- industrials leaving the grid



Solutions

- customers drive the process
 - not government
 - not energy sector
- target low **overall** costs
- stage transmission development
 - open to bidders
 - realistic rate of return
 - think outside the box!



Thank You

