

Competitive power market is good for Albertans

Calgary Herald

January 18, 2012

By Evan Bahry

Alberta's power producers recognize that our competitive electricity market is complicated and the benefits are not widely understood. In light of the recent Calgary Herald series on our industry, that may be an understatement.

From our perspective, the competitive market has worked for Albertans. Over the past decade, Alberta's net generation capacity has increased by 40 per cent, while wholesale power prices have increased by less than 10 per cent. For context, crude oil prices have increased from \$26 a barrel in 2001 to now over \$100 a barrel, and the average Calgary house price has increased 126 per cent.

To get a sense of just how much supply we've added, SaskPower has a total of 3,500 megawatts to serve their entire province. In Alberta, more than 5,400 megawatts of new supply was added in the past decade alone.

In regulated markets, when you add this much supply, rates rise as the utilities are entitled to recover all of their costs, plus make a regulated profit. In our open market, there is no guarantee that investors will recover their costs or make a profit.

Also, in regulated markets, rates tend to rise during recessions as the economy contracts. That's because falling demand means there is less consumption to pay for those fixed utility costs. In open markets, as demand falls, prices fall.

In a paper we commissioned last year that examined rates to all Canadians, the authors concluded, "From 2009-2010, rates to end users rose across Canada, but fell in Alberta thanks to a market design which more clearly aligns prices with supply, demand and fuel market dynamics . . . when compared fairly, Alberta's prices are competitive across Canada. This assumption still holds when the cost of announced transmission infrastructure investments is considered through 2015."

For further context, 2011 wholesale power prices of \$77 per megawatt-hour are lower than what it costs to build new greenfield coal or wind power plants. A wholesale power market is very competitive when the average prices are below the replacement cost of key generation technologies.

From Alberta's competitive wholesale market comes competitive residential products. Calgary's Enmax, for example, has been offering contracts to residential customers at

eight cents per kilowatt-hour, which is pretty much equal to 2011 wholesale market prices. Other retailers offer additional choices, such as spot price flow-through or green power.

The regulated rate option is not intended to be a low-cost option. It is intended to forecast a price for the next month, and, as such, sellers must set a price based on their expectations of weather, demand growth and supply availability. The regulated rate option will rise and fall as these variables change. For 2011, the regulated rate option averaged 9.6 cents per kilowatt-hour, compared to the contract price of eight cents that was, and continues to be, available. For more information on these options, see www.ucahelps.gov.ca.

This winter, we recognize that the regulated rate option rates have never been higher, and that the customers quoted in the Herald series are frustrated with those rising rates.

So where do we as a province go from here? Customers on the regulated rate option are upset with their rates. And wholesale prices are too low to recover costs for new greenfield coal and wind generation and are just enough to spur gas-fired generation.

Do we accept that some elements of our market work, specifically the wholesale market's ability to add supply quickly and to put downward pressure on prices?

Do we identify areas in Alberta's electricity market that can be improved, such as the residential market?

And how do we move forward? The Independent Power Producers Society of Alberta supports finding ways to improve Alberta's electricity market by engaging with Albertans.

We hope that any dialogue about our open power market is well informed, recognizing what our current wholesale market has accomplished in the form of price competition and the ability to attract significant generation built at investor risk.

Evan Bahry is executive director of the Independent Power Producers Society of Alberta, which was founded in 1993 and is a trade association representing all of Alberta's major power producers.

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